



**BOSTON PIZZA ROYALTIES INCOME FUND**

**ANNUAL INFORMATION FORM**

**For the year ended December 31, 2015**

**February 9, 2016**

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## GLOSSARY

In this Annual Information Form, the following terms have the meanings ascribed to them in this Glossary, and terms defined elsewhere in this Annual Information Form have the meanings ascribed to them in this Annual Information Form.

**“2014/2015 NCIB”** means the normal course issuer bid through the facilities of the TSX and other Canadian marketplaces that commenced on September 25, 2014 and expired on September 24, 2015, which permitted the Fund to repurchase for cancellation up to 1,385,023 Units.

**“2015/2016 NCIB”** means the normal course issuer bid through the facilities of the TSX and other Canadian marketplaces that commenced on December 29, 2015 and will expire on December 28, 2016, which permits the Fund to repurchase for cancellation up to 500,000 Units.

**“Additional Entitlements”** means, collectively, the Class B Additional Entitlements and the Class 2 Additional Entitlements, and at any time after Exchange Rights have been exercised in respect of the Class 3 GP Units, Class 4 GP Units or Class 5 GP Units, the Class 3 Additional Entitlements, Class 4 Additional Entitlements or Class 5 Additional Entitlements, respectively.

**“Additional Restaurants”** means, at any time, Boston Pizza Restaurants which are not included in the Royalty Pool at such time.

**“Adjustment Date”** means January 1 of each calendar year.

**“Administration Agreement”** means the amended and restated administration agreement dated September 22, 2008 among the Fund, the Trust, Holdings LP, Holdings GP and Royalties LP, pursuant to which Royalties LP has agreed to provide or arrange for the provision of services required for the administration of the Fund, the Trust, Holdings LP and Holdings GP.

**“affiliate”** has the meaning set out in Ontario Securities Commission Rule 45-501.

**“Bank”** means the Canadian chartered bank providing the Credit Facilities to Holdings LP and Royalties LP and providing the Line of Credit to BPI.

**“Boston Pizza”** means the business of BPI, BP Canada LP, their affiliated entities and franchisees.

**“Boston Pizza Restaurants”** refers to the casual dining pizza and pasta restaurants operated by BPI and BP Canada LP, their affiliated entities, related parties or franchisees in Canada.

**“BP Canada Exchange Agreement”** means the exchange agreement dated May 6, 2015 among the Fund, BPI, the Trust, Holdings LP and BP Canada LP providing for, among other things, the Exchange Rights in respect of the Class 2 GP Units, Class 3 GP Units, Class 4 GP Units and Class 5 GP Units. See “The Exchange Rights”.

**“BP Canada GP Units”** means, collectively, the Class 2 GP Units, Class 3 GP Units, Class 4 GP Units, Class 5 GP Units and Class 6 GP Units of BP Canada LP.

**“BP Canada Limited Partnership Agreement”** means the limited partnership agreement dated April 2, 2015 between BPI and Holdings LP by which BP Canada LP is governed.

**“BP Canada LP”** means Boston Pizza Canada Limited Partnership, a limited partnership formed under the laws of the Province of British Columbia pursuant to the BP Canada Limited Partnership Agreement.

**“BP Canada LP Securities”** means, collectively, the BP Canada LP Units and BP Canada GP Units in the capital of BP Canada LP.

**“BP Canada LP Units”** means collectively the Class 1 LP Units, Class 2 LP Units, Class 3 LP Units, Class 4 LP Units and Class 5 LP Units.

**“BP Licensed Marks Sublicense Agreement”** means the BP licensed marks sublicense agreement dated April 6, 2015 between BPI and BP Canada LP pursuant to which BPI sublicensed the BP Rights to BP Canada LP. See “BP Licensed Marks Sublicense Agreement”.

**“BP Loan”** means the Fund’s loan to BPI in the aggregate amount of \$24.0 million.

**“BP Rights”** means:

- (i) all rights held by Royalties LP in Canada and licensed to BPI pursuant to the License and Royalty Agreement, including all Canadian trade-mark registrations and pending Canadian trade-mark applications, in and to the following trade-marks:

BP & Design (Canadian registration no. TMA171,429)

BP & Design (Canadian application no. 326,439-01)

BP & Design (Canadian registration no. TMA181,249)

BP BOSTON PIZZA DELIVERY & Design (Canadian registration no. TMA804,670)

BP BOSTON PIZZA LIVRAISON & Design (Canadian registration no. TMA778,093)

BPC BRAND PROFITABILITY SERVICE & Shield and Banner Design (Canadian registration no. TMA695,413)

BPFL (Canadian application no. 1,554,935)

BP FONDATION BOSTON PIZZA & Design (Canadian registration no. TMA734,023)

BP FOOD LEAGUE & Design (Canadian application no. 1,554,940)

BP KIDS Roundel Design (Canadian registration no. TMA818,934)

BP KIDS Roundel & Word Design (Canadian registration no. TMA818,932)

BP’s BISTRO (Canadian registration no. TMA362,359)

BP’s LOUNGE (Canadian registration no. TMA293,639)

BP and X Design (Canadian application no. 1,678,456)

BOSTON CREAM PIESCRAPER (Canadian registration no. TMA906,883)

BOSTON PIZZA (Canadian registration no. TMA171,428)

BOSTON PIZZA (Canadian application no. 326,438-01)

BOSTON PIZZA COLLEGE (Canadian registration no. TMA653,655)

BOSTON PIZZA EXCHANGE (Canadian application no. 1,678,455)

BOSTON PIZZA FOOD LEAGUE (Canadian application no. 1,554,939)

BOSTON PIZZA FOUNDATION (Canadian registration no. TMA732,332)

BOSTON PIZZA FOUNDATION & Design (Canadian registration no. TMA732,334)

BOSTON PIZZA QUICK EXPRESS (Canadian registration no. TMA429,024)

BOSTON PIZZA RESTAURANT & SPORTS BAR (Canadian registration no. TMA629,841)

BOSTON'S THE GOURMET PIZZA (Canadian registration no. TMA410,558)  
BRAND PROFITABILITY SERVICE & Banner Design (Canadian registration no. TMA695,411)  
COLLÉGE BOSTON PIZZA (Canadian registration no. TMA916,567)  
ENFANTS BP Roundel Design (Canadian registration no. TMA818,933)  
ENFANTS BP Roundel & Word Design (Canadian registration no. TMA818,931)  
FONDATION BOSTON PIZZA (Canadian registration no. TMA734,027)  
MYBP (Canadian application no. 1,678,306)  
SERVICE PROFITABILITY Brand, Shield & Banner Design (Canadian registration no. TMA906,286)  
SERVICE RENTABILITÉ Marque, Shield & Banner Design (Canadian registration no. TMA906,285)

- (ii) all rights held by Royalties LP in Canada and licensed to BPI pursuant to the License and Royalty Agreement in and to any unregistered trademarks used in the business of BPI which contain the word "Boston" or "Boston's" or the letters "BP" or the BP design; and
- (iii) all rights held by Royalties LP in Canada and licensed to BPI pursuant to the License and Royalty Agreement in any trade names confusingly similar to any of the foregoing trademarks.

"**BPI**" means Boston Pizza International Inc., a company existing under the CBCA.

"**CBCA**" means the Canada Business Corporations Act.

"**CDS**" means CDS Clearing and Depository Services Inc.

"**CFADS**" means cash flow available for debt service and is the aggregate of EBITDA,

plus:

- proceeds received from sale of Units, net of transaction costs;

less:

- unfunded capital expenditures;
- cash taxes; and
- dividends paid.

"**Class 1 LP Units**" means the Class 1 limited partnership units of BP Canada LP held by Holdings LP or a permitted transferee.

"**Class 2 Additional Entitlements**" means the right to acquire additional Units that BPI receives in return for adding net additional Distribution Income to the Royalty Pool in respect of the 1.5% increased Franchise Sales Participation on Adjustment Dates occurring from and after January 1, 2016.

"**Class 2 Determined Amount**" means the amount, calculated as at the end of each Fiscal Year, in respect of the Adjustment Date in the next following Fiscal Year determined in the manner described under "Annual Adjustment to Royalty Pool – Calculation of Annual Adjustments".



**“Class 2 Distribution Limit”** means at any time the number, calculated in accordance with the BP Canada Limited Partnership Agreement, used to determine the amount of any distributions to be made on the Class 2 GP Units at that time. See “Annual Adjustment to Royalty Pool”.

**“Class 2 Exchange Limit”** means at any time the Class 2 Exchange Limit immediately before that time,

- (i) plus, where that time is an Adjustment Date,
  - (a) 80% of the estimated Class 2 Determined Amount for that date divided by the Current Market Price of a Unit on that date; and
  - (b) the amount, whether positive or negative, equal to (1) the Class 2 Determined Amount on the immediately preceding Adjustment Date, if any, divided by the Current Market Price of a Unit on that preceding date, less (2) the amount determined under (a) on that preceding date,
- (ii) less the number of Class 2 GP Units exchanged on that date, if any, multiplied by the Class 2 Exchange Multiplier on that date.

**“Class 2 Exchange Multiplier”** means at any time the Class 2 Exchange Limit on such date divided by the number of Class 2 GP Units outstanding on that date.

**“Class 2 GP Units”** means the Class 2 general partnership units of BP Canada LP held by BPI or any Related Party.

**“Class 2 LP Units”** means the Class 2 limited partnership units of BP Canada LP held by Holdings LP or a permitted transferee.

**“Class 3 Additional Entitlements”** means the right to acquire additional Units that BPI receives in return for adding net additional Distribution Income to the Royalty Pool in respect of the 0.5% increased Franchise Sales Participation for Adjustment Dates occurring after the Class 3 GP Units are initially exchanged.

**“Class 3 Determined Amount”** means the amount, calculated as at the end of each Fiscal Year, in respect of the Adjustment Date in the next following Fiscal Year determined in the manner described under “Annual Adjustment to Royalty Pool – Calculation of Annual Adjustments”.

**“Class 3 Distribution Limit”** means at any time the number, calculated in accordance with the BP Canada Limited Partnership Agreement, used to determine the amount of any distributions to be made on the Class 3 GP Units at that time. See “Annual Adjustment to Royalty Pool”.

**“Class 3 Exchange Limit”** means, on the date it is determined that the Class 3 GP Units may be exchanged for Units, the Class 3 Initial Exchange Limit and at any time thereafter means the Class 3 Exchange Limit immediately before that time:

- (i) plus, on the first Adjustment Date following date on which it is determined that the Class 3 GP Units may be exchanged for Units, the amount whether positive or negative equal to (1) the amount determined by calculating the Class 3 Initial Exchange Limit with reference to 100% of audited Franchise Sales in respect of the Class 3 Reference Period rather than 80% of estimated Franchise Sales in respect of the Class 3 Reference Period less (2) the Class 3 Initial Exchange Limit;
- (ii) plus, on any other Adjustment Date following the date of the initial exchange of Class 3 GP Units:
  - (a) 80% of the estimated Class 3 Determined Amount at that time divided by the Current Market Price of a Unit on that date; and

- (b) the amount whether positive or negative equal to (1) the Class 3 Determined Amount on the immediately preceding Adjustment Date, if any, divided by the Current Market Price of a Unit on such immediately preceding Adjustment Date less (2) the amount determined under (a) of this definition on such immediately preceding Adjustment Date; and
- (iii) less, on any date on which Class 3 GP Units are exchanged for Units or a combination of cash and Units pursuant to the BP Canada Exchange Agreement, the number of Class 3 GP Units exchanged on that date multiplied by the Class 3 Exchange Multiplier on such date.

**“Class 3 Exchange Multiplier”** means at any time the Class 3 Exchange Limit on such date divided by the number of Class 3 GP Units outstanding on that date.

**“Class 3 GP Units”** means the Class 3 general partnership units of BP Canada LP held by BPI or any Related Party.

**“Class 3 Initial Exchange Limit”** means the amount determined by the following formula:

$$\frac{0.925 \times A \times (1 - B)}{C}$$

Where:

- A is 0.5% of the aggregate of (i) the total audited Franchise Sales in respect of the Class 3 Reference Period for Boston Pizza Restaurants that were in the Royalty Pool throughout the entirety of the Class 3 Reference Period, and (ii) 80% of estimated Franchise Sales in respect of the Class 3 Reference Period for Boston Pizza Restaurants that were added to the Royalty Pool after the beginning of such period for the first calendar year after which those Boston Pizza Restaurants were added to the Royalty Pool;
- B is the sum of the Fund’s (i) net corporate income tax rate, and (ii) provincial SIFT Tax rate, in each case, expressed as a decimal, for the most recently completed Fiscal Year; and
- C is Distributable Cash for the most recently completed Fiscal Year divided by the weighted average number of issued and outstanding Units during the most recently completed Fiscal Year.

**“Class 3 LP Units”** means the Class 3 limited partnership units of BP Canada LP that may be issued in the future to Holdings LP or a permitted transferee in exchange for Class 3 GP Units from BPI or any Related Party pursuant to the BP Canada Exchange Agreement.

**“Class 3 Reference Period”** means the most recent 12 month period that was used in determining that the Class 3 Exchange Condition has been satisfied.

**“Class 4 Additional Entitlements”** means the right to acquire additional Units that BPI receives in return for adding net additional Distribution Income to the Royalty Pool in respect of the 0.5% increased Franchise Sales Participation for Adjustment Dates occurring after the Class 4 GP Units are initially exchanged.

**“Class 4 Determined Amount”** means the amount, calculated as at the end of each Fiscal Year, in respect of the Adjustment Date in the next following Fiscal Year determined in the manner described under “Annual Adjustment to Royalty Pool – Calculation of Annual Adjustments”.

**“Class 4 Distribution Limit”** means at any time the number, calculated in accordance with the BP Canada Limited Partnership Agreement, used to determine the amount of any distributions to be made on the Class 4 GP Units at that time. See “Annual Adjustment to Royalty Pool”.

**“Class 4 Exchange Limit”** means, on the date it is determined that the Class 4 GP Units may be exchanged for Units, the Class 4 Initial Exchange Limit and at any time thereafter means the Class 4 Exchange Limit immediately before that time:

- (i) plus, on the first Adjustment Date following the date on which it is determined that the Class 4 GP Units may be exchanged for Units, the amount whether positive or negative equal to (1) the amount determined by calculating the Class 4 Initial Exchange Limit with reference to 100% of audited Franchise Sales in respect of the Class 4 Reference Period rather than 80% of estimated Franchise Sales in respect of the Class 4 Reference Period less (2) the Class 4 Initial Exchange Limit;
- (ii) plus, on any other Adjustment Date following the date of the initial exchange of Class 4 GP Units:
  - (a) 80% of the estimated Class 4 Determined Amount at that time divided by the Current Market Price of a Unit on that date; and
  - (b) the amount whether positive or negative equal to (1) the Class 4 Determined Amount on the immediately preceding Adjustment Date, if any, divided by the Current Market Price of a Unit on such immediately preceding Adjustment Date less (2) the amount determined under (a) of this definition on such immediately preceding Adjustment Date; and
- (iii) less, on any date on which Class 4 GP Units are exchanged for Units or a combination of cash and Units pursuant to the BP Canada Exchange Agreement, the number of Class 4 GP Units exchanged on that date multiplied by the Class 4 Exchange Multiplier on such date.

**“Class 4 Exchange Multiplier”** means at any time the Class 4 Exchange Limit on such date divided by the number of Class 4 GP Units outstanding on that date.

**“Class 4 GP Units”** means the Class 4 general partnership units of BP Canada LP held by BPI or any Related Party.

**“Class 4 Initial Exchange Limit”** means the amount determined by the following formula:

$$\frac{0.925 \times A \times (1 - B)}{C}$$

Where:

- A is 0.5% of the aggregate of (i) the total audited Franchise Sales in respect of the Class 4 Reference Period for Boston Pizza Restaurants that were in the Royalty Pool throughout the entirety of the Class 4 Reference Period, and (ii) 80% of estimated Franchise Sales in respect of the Class 4 Reference Period for Boston Pizza Restaurants that were added to the Royalty Pool after the beginning of such period for the first calendar year after which those Boston Pizza Restaurants were added to the Royalty Pool;
- B is the sum of the Fund’s (i) net corporate income tax rate, and (ii) provincial SIFT Tax rate, in each case, expressed as a decimal, for the most recently completed Fiscal Year; and

C is Distributable Cash for the most recently completed Fiscal Year divided by the weighted average number of issued and outstanding Units during the most recently completed Fiscal Year.

**“Class 4 LP Units”** means the Class 4 limited partnership units of BP Canada LP that may be issued in the future to Holdings LP or a permitted transferee in exchange for Class 4 GP Units from BPI or any Related Party pursuant to the BP Canada Exchange Agreement.

**“Class 4 Reference Period”** means the most recent 12 month period that was used in determining that the Class 4 Exchange Condition has been satisfied.

**“Class 5 Additional Entitlements”** means the right to acquire additional Units that BPI receives in return for adding net additional Distribution Income to the Royalty Pool in respect of the 0.5% increased Franchise Sales Participation for Adjustment Dates occurring after the Class 5 GP Units are initially exchanged.

**“Class 5 Determined Amount”** means the amount, calculated as at the end of each Fiscal Year, in respect of the Adjustment Date in the next following Fiscal Year determined in the manner described under “Annual Adjustment to Royalty Pool – Calculation of Annual Adjustments”.

**“Class 5 Distribution Limit”** means at any time the number, calculated in accordance with the BP Canada Limited Partnership Agreement, used to determine the amount of any distributions to be made on the Class 5 GP Units at that time. See “Annual Adjustment to Royalty Pool”.

**“Class 5 Exchange Limit”** means, on the date it is determined that the Class 5 GP Units may be exchanged for Units, the Class 5 Initial Exchange Limit and at any time thereafter means the Class 5 Exchange Limit immediately before that time:

- (i) plus, on the first Adjustment Date following date on which it is determined that the Class 5 GP Units may be exchanged for Units, the amount whether positive or negative equal to (1) the amount determined by calculating the Class 5 Initial Exchange Limit with reference to 100% of audited Franchise Sales in respect of the Class 5 Reference Period rather than 80% of estimated Franchise Sales in respect of the Class 5 Reference Period less (2) the Class 5 Initial Exchange Limit;
- (ii) plus, on any other Adjustment Date following the date of the initial exchange of Class 5 GP Units:
  - (a) 80% of the estimated Class 5 Determined Amount at that time divided by the Current Market Price of a Unit on that date; and
  - (b) the amount whether positive or negative equal to (1) the Class 5 Determined Amount on the immediately preceding Adjustment Date, if any, divided by the Current Market Price of a Unit on such immediately preceding Adjustment Date less (2) the amount determined under (a) of this definition on such immediately preceding Adjustment Date; and
- (iii) less, on any date on which Class 5 GP Units are exchanged for Units or a combination of cash and Units pursuant to the BP Canada Exchange Agreement, the number of Class 5 GP Units exchanged on that date multiplied by the Class 5 Exchange Multiplier on such date.

**“Class 5 Exchange Multiplier”** means at any time the Class 5 Exchange Limit on such date divided by the number of Class 5 GP Units outstanding on that date.

**“Class 5 GP Units”** means the Class 5 general partnership units of BP Canada LP held by BPI or any Related Party.

**“Class 5 Initial Exchange Limit”** means the amount determined by the following formula:

$$\frac{0.925 \times A \times (1 - B)}{C}$$

Where:

- A is 0.5% of the aggregate of (i) the total audited Franchise Sales in respect of the Class 5 Reference Period for Boston Pizza Restaurants that were in the Royalty Pool throughout the entirety of the Class 5 Reference Period, and (ii) 80% of estimated Franchise Sales in respect of the Class 5 Reference Period for Boston Pizza Restaurants that were added to the Royalty Pool after the beginning of such period for the first calendar year after which those Boston Pizza Restaurants were added to the Royalty Pool;
- B is the sum of the Fund’s (i) net corporate income tax rate, and (ii) provincial SIFT Tax rate, in each case, expressed as a decimal, for the most recently completed Fiscal Year; and
- C is Distributable Cash for the most recently completed Fiscal Year divided by the weighted average number of issued and outstanding Units during the most recently completed Fiscal Year.

**“Class 5 LP Units”** means the Class 5 limited partnership units of BP Canada LP that may be issued in the future to Holdings LP or a permitted transferee in exchange for Class 5 GP Units from BPI or any Related Party pursuant to the BP Canada Exchange Agreement.

**“Class 5 Reference Period”** means the most recent 12 month period that was used in determining that the Class 5 Exchange Condition has been satisfied.

**“Class 6 GP Units”** means the Class 6 general partnership units of BP Canada LP held by BPI or any Related Party.

**“Class A Units”** means Class A limited partner units of Royalties LP held by Holdings LP or a permitted transferee.

**“Class B Additional Entitlements”** means the right to acquire additional Units that BPI receives in return for adding net additional Royalty to the Royalty Pool.

**“Class B Determined Amount”** means the amount, calculated as at the end of each Fiscal Year, in respect of the Adjustment Date in the next following Fiscal Year determined in the manner described under “Annual Adjustment to Royalty Pool – Calculation of Annual Adjustments”.

**“Class B Distribution Limit”** means at any time the number, calculated in accordance with the Royalties Limited Partnership Agreement, used to determine the amount of any distributions to be made on the Class B Units at that time.

**“Class B Exchange Limit”** means at any time the Class B Exchange Limit immediately before that time

- (i) plus, where that time is an Adjustment Date,
- (a) 80% of the estimated Class B Determined Amount for that date divided by the Current Market Price of a Unit on that date; and
- (b) the amount, whether positive or negative, equal to (1) the Class B Determined Amount on the immediately preceding Adjustment Date, if any, divided by the

Current Market Price of a Unit on that preceding date, less (2) the amount determined under (a) on that preceding date,

- (ii) less the number of Class B Units exchanged on that date, if any, multiplied by the Class B Exchange Multiplier on that date.

**“Class B Exchange Multiplier”** means at any time the Class B Exchange Limit on such date divided by the number of Class B Units outstanding on that date.

**“Class B Units”** means the Class B general partner units of Royalties LP held by BPI or any Related Party.

**“Class C Units”** means the Class C general partner units of Royalties LP held by BPI or Class C limited partner units of Royalties LP acquired by Holdings LP or a permitted transferee pursuant to the Royalties Exchange Agreement (see “The Exchange Rights”), as the case may be.

**“Class D Units”** means the Class D limited partner units of Royalties LP which are acquired by Holdings LP in exchange for Class B Units from BPI or any Related Party pursuant to the Royalties Exchange Agreement.

**“Credit Facilities”** means the loan provided by the Bank to Holdings LP and Royalties LP in the amount of up to \$90.3 million of credit facilities and having a five year term expiring on May 5, 2020, pursuant to the credit agreement dated May 5, 2015 among the Bank, Royalties LP, Holdings LP, Royalties GP, Holdings GP, the Fund and the Trust.

**“Current Market Price of a Unit”** means as at any date or for any period, the weighted average price per Unit 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 each period.

**“Declaration of Trust”** means the amended and restated declaration of trust dated December 7, 2010 by which the Fund is governed.

**“Distributable Cash”** means, in respect of any particular period, the Fund’s aggregate cash flow (including amounts received indirectly from the Fund on distributions made by BP Canada LP to the holder of BP Canada LP Units) for that period minus (a) BPI’s Class C Unit distribution in respect of the period, minus (b) BPI’s entitlement in respect of its Class B Units in respect of the period, minus (c) interest paid on long-term debt, minus (d) the SIFT Tax expense in respect of the period, plus (e) SIFT Tax paid during the period (the sum of (d) and (e) being SIFT Tax on Units).

**“Distribution Income”** means the distributions received by Holdings LP from BP Canada LP on the BP Canada LP Units held by Holdings LP.

**“Eastern Canada”** means that part of Canada containing the provinces of New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario and Prince Edward Island.

**“EBITDA”** means the trailing four quarter earnings before interest, taxes and depreciation and amortization, based on accounting policies consistent with those policies applied in preparation of the fiscal year-end audited financial statements.

**“Eligible Debt”** means any debt that Holdings LP has incurred and used for the specific purpose of (a) subscribing for Class 1 LP Units (which currently includes the amount drawn on Facility D (defined below) of the Credit Facilities), or (b) in the event that the Fund pays cash in lieu of issuing Units in connection with any exercise of Exchange Rights, funding the cash portion to be paid by the Fund in connection with such exercise of Exchange Rights.

**“Exchange Rights”** means the right of BPI (or a Related Party to which BPI has transferred Royalties LP Securities or BP Canada LP Securities in accordance with the Governance Agreement) in respect of:

(a) the Class B Units, to exchange one Class B Unit for the number of Units equal to the Class B Exchange Multiplier at that time; (b) Class C Units, the right to transfer Class C Units in consideration of the assumption by Holdings LP (and the concurrent release of BPI of its obligations with respect to) an amount of indebtedness under the BP Loan equal to \$10 per Class C Unit transferred; (c) the Class 2 GP Units, Class 3 GP Units, Class 4 GP Units and Class 5 GP Units, to exchange one Class 2 GP Unit, Class 3 GP Unit, Class 4 GP Unit or Class 5 GP Unit for the number of Units (or cash equivalent therefor) equal to the Class 2 Exchange Multiplier, Class 3 Exchange Multiplier, Class 4 Exchange Multiplier or Class 5 Exchange Multiplier, respectively, at that time.

**“Fiscal Year”** means January 1 to December 31 in a calendar year.

**“Franchised Boston Pizza Restaurants”** means Boston Pizza Restaurants owned and operated by the owners thereof under franchise agreements with BP Canada LP which are operated in Canada.

**“Franchise Sales”** is the basis on which Royalty and Distribution Income is payable and is Gross Sales after deducting revenue from the sale of liquor, beer and wine and approved national discounts and excluding applicable sales and similar taxes.

**“Franchise Sales Participation”** has the meaning ascribed to it under “General Development of the Business – Significant Acquisition – Transaction”.

**“Fund”** means Boston Pizza Royalties Income Fund, a limited purpose open-ended trust established under the laws of the Province of British Columbia.

**“Fund GSA (BP Canada LP)”** means the general security agreement dated April 6, 2015 granted to the Fund by BP Canada LP over certain assets of BP Canada LP to secure BP Canada LP’s obligations under the Fund Guarantee.

**“Fund GSA (BPI)”** means the general security agreement dated July 17, 2002 granted to the Fund by BPI and each of its subsidiaries that own a Boston Pizza Restaurant over certain assets of BPI and each of these subsidiaries to secure payment of the BP Loan.

**“Fund Guarantee”** means the guarantee dated April 6, 2015 granted by BP Canada LP in favour of the Fund pursuant to which BP Canada LP has guaranteed all debts, liabilities and obligations, present or future, of BPI in respect of the BP Loan.

**“Governance Agreement”** means the amended and restated governance agreement dated May 6, 2015 among the Fund, the Trust, BP Canada LP, BPI, Royalties LP, Royalties GP, Holdings LP, Holdings GP, James Treiving Holdings Ltd., George C. Melville Holdings Ltd. and T & M Management Services Ltd. providing for, among other things, the governance of Royalties GP.

**“Gross Sales”** is (i) revenue of the corporate Boston Pizza Restaurants in Canada owned by BPI and (ii) revenue reported to BP Canada LP by Franchised Boston Pizza Restaurants in Canada, without audit or other form of independent assurance in the case of both (i) and (ii).

**“Holdings GP”** means Boston Pizza Holdings GP Inc., a company incorporated under the laws of the Province of British Columbia.

**“Holdings Limited Partnership Agreement”** means the limited partnership agreement dated September 17, 2008 between the Trust and Holdings GP by which Holdings LP is governed.

**“Holdings LP”** means Boston Pizza Holdings Limited Partnership, a limited partnership formed under the laws of the Province of British Columbia pursuant to the Holdings Limited Partnership Agreement.

**“Holdings LP Swap Agreement”** means the International Swap Dealers Association Master Agreement dated May 6, 2015 entered into by Holdings LP and the Bank.

**“Holdings LP Units”** means the limited partner units of Holdings LP.

**“License”** means the exclusive and unlimited license to use the BP Rights in Canada for a period of 99 years from July 17, 2002 granted by Royalties LP to BPI pursuant to the License and Royalty Agreement.

**“License and Royalty Agreement”** means the license and royalty agreement dated July 17, 2002, as amended as of May 9, 2005, between Royalties LP and BPI pursuant to which Royalties LP has granted the License to BPI and BPI has agreed to pay the Royalty.

**“Line of Credit”** means the \$7.5 million operating line of credit facility provided by the Bank to BPI.

**“LP Units”** means the ordinary limited partner units of Royalties LP.

**“Management”** means senior management of BPI.

**“Net New Restaurants”** has the meaning ascribed to it under “General Development of the Business – Three Year History”.

**“Non-resident”** means a non-resident of Canada within the meaning of the Tax Act.

**“Normalized EBITDA”**, for any period, means BPI’s EBITDA (based on the applicable Exchange Statements) adjusted (a) by adding back any royalties paid by BPI to Royalties LP and any management fees paid by BPI to its direct or indirect parent, (b) by deducting or removing any distributions or dividends paid by Royalties LP to BPI and (c) by adding or deducting, as the case may be, the fair value gain or loss on financial assets (and for greater certainty, the distributions on Class 1 LP Units, Class 2 LP Units and, if applicable, any of the Class 3 LP Units, Class 4 LP Units or Class 5 LP Units held by Holdings LP will not be deducted from BPI’s EBITDA).

**“Related Parties”** means, collectively, James Treliving and George C. Melville (the holders of the beneficial interest in BPI) and Management (from time to time), or any corporation or other entity in which they or any of their associates (or other family members) has a direct or indirect equity interest of 50% or greater, or an associate or affiliate of any of them.

**“Royalties Exchange Agreement”** means the amended and restated exchange agreement dated September 22, 2008 among the Fund, BPI, Royalties GP, the Trust and Holdings LP providing for, among other things, the Exchange Rights in respect of the Class B Units and Class C Units. See “The Exchange Rights”.

**“Royalties GP”** means Boston Pizza GP Inc., a company incorporated under the CBCA.

**“Royalties GP Units”** means the ordinary general partner units of Royalties LP.

**“Royalties Limited Partnership Agreement”** means the amended and restated limited partnership agreement dated January 2, 2011 among Royalties GP, Holdings LP and BPI by which Royalties LP is governed.

**“Royalties LP”** means Boston Pizza Royalties Limited Partnership, a limited partnership formed under the laws of the Province of British Columbia pursuant to the Royalties Limited Partnership Agreement.

**“Royalties LP GSA (BP Canada LP)”** means the general security agreement dated April 6, 2015 granted to Royalties LP by BP Canada LP over certain assets of BP Canada LP to secure BP Canada LP’s obligations under the Royalties LP Guarantee.

**“Royalties LP GSA (BPI)”** means the general security agreement dated July 17, 2002 granted to Royalties LP by BPI and each of its subsidiaries that owns a Boston Pizza Restaurant over certain assets



of BPI and each of these subsidiaries, to secure payment of the Royalty and all of the obligations of BPI under the License and Royalty Agreement.

**“Royalties LP Guarantee”** means the guarantee dated April 6, 2015 granted by BP Canada LP in favour of Royalties LP pursuant to which BP Canada LP has guaranteed all debts, liabilities and obligations, present or future, of BPI under the License and Royalty Agreement (including payment of the Royalty).

**“Royalties LP Securities”** means, collectively, the LP Units, Royalties GP Units, Class A Units, Class B Units, Class C Units and Class D Units in the capital of Royalties LP.

**“Royalties LP Swap Agreement”** means the International Swap Dealers Association Master Agreement dated December 1, 2009 entered into by Royalties LP and the Bank, as amended by an Amendment Agreement dated May 6, 2015.

**“Royalty”** means the royalty and other amounts payable by BPI under the License and Royalty Agreement for the License to use the BP Rights in Canada for 99 years, commencing on July 17, 2002.

**“Royalty Pool”** means, in any period, all Boston Pizza Restaurants whose Franchise Sales form the basis on which the Royalty is payable by BPI to Royalties LP, and Distribution Income is payable by BP Canada LP to Holdings LP, as described under “License and Royalty – The Royalty”, and “Description of BP Canada LP – Available Cash / Distributions”.

**“same store sales growth”** or **“SSSG”** means the growth in annual Gross Sales of a particular Boston Pizza Restaurant as compared to annual Gross Sales for the same period in the previous year, where the restaurant was open for a full 12 months in each year.

**“Securities Act”** means the *Securities Act* (British Columbia).

**“Series 1 Trust Notes”** means the non-interest bearing Series 1 unsecured subordinated demand notes of the Trust.

**“Series 2 Trust Notes”** means the interest bearing Series 2 unsecured subordinated notes of the Trust.

**“Series 3 Trust Notes”** means the interest bearing Series 3 unsecured subordinated notes of the Trust.

**“SIFT Tax”** means the specified investment flow-through tax enacted by the Federal Government of Canada in 2007, which is an entity level tax that Canadian publicly listed income trusts are required to pay.

**“Special Voting Unit”** means a special voting unit of the Fund to be issued to the holders of securities exchangeable into Units, and which will entitle the holder to vote at any meeting of Voting Unitholders.

**“Subscription Receipt Agreement”** has the meaning ascribed to it under “General Development of the Business – Significant Acquisition – Transaction”.

**“Subscription Receipts”** has the meaning ascribed to it under “General Development of the Business – Significant Acquisition – Transaction”.

**“subsidiary”** has the meaning set out in the Securities Act and includes a partnership or other entity.

**“Tax Act”** means the *Income Tax Act* (Canada) and regulations thereunder, as amended from time to time.

**“TDS”** means total debt service requirements and is the aggregate of:

- total interest expense on funded debt;
- scheduled principal repayments; and

- any capital lease payments,

which are scheduled to be paid during the period of the test.

“**Transaction**” has the meaning ascribed to it under “Overview”.

“**Transferred Assets**” means all franchise agreements between BPI and owners of Franchised Boston Pizza Restaurants, the various food, beverage and supply contracts between BPI and suppliers to Boston Pizza Restaurants, and the right to be the exclusive franchisor of Boston Pizza Restaurants and to enter into new franchise agreements and supplier contracts.

“**Trust**” means Boston Pizza Holdings Trust, a limited purpose trust established under the laws of British Columbia.

“**Trust Notes**” means the Series 1 Trust Notes, Series 2 Trust Notes and Series 3 Trust Notes, collectively.

“**Trust Units**” means the units of the Trust.

“**Trustees**” means, at the relevant time, the trustees of the Fund.

“**TSX**” means the Toronto Stock Exchange.

“**Underwriters**” means TD Securities Inc., BMO Nesbitt Burns Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., Scotia Capital Inc., Laurentian Bank Securities Inc., National Bank Financial Inc. and Canaccord Genuity Corp.

“**Unit**” means a trust unit of the Fund, each such unit representing an equal undivided beneficial interest therein.

“**Unitholders**” means, at the relevant time, the holders of the Units.

“**Voting Units**” means collectively the Units and Special Voting Units.

“**Voting Unitholders**” means the holders from time to time of Units and Special Voting Units.

“**Voting Unitholders’ Special Resolution**” means a resolution passed by a majority of more than 66<sup>2</sup>/<sub>3</sub>% of the votes cast, either in person or by proxy, at a meeting of Voting Unitholders, called for the purpose of approving such resolution, or approved in writing by the holders of more than 66<sup>2</sup>/<sub>3</sub>% of the votes cast by Voting Unitholders entitled to vote on such resolution.

“**Western Canada**” means that part of Canada containing the provinces of Alberta, British Columbia, Manitoba and Saskatchewan and the territories of Nunavut, Northwest Territories and Yukon.

## INTERPRETATION

The information in this Annual Information Form is dated as of February 9, 2016 unless otherwise indicated. All dollar amounts are stated in Canadian currency.

## OVERVIEW

The Fund is a limited purpose open-ended trust established in July 2002, and the Units trade on the TSX under the symbol BPF.UN. The Fund was originally created to acquire, indirectly through Royalties LP, the BP Rights from BPI. On May 6, 2015, the Fund, indirectly through Holdings LP, completed an investment in BP Canada LP to effectively increase the Fund’s interest in Franchise Sales of Boston Pizza Restaurants in the Royalty Pool by 1.5%, from 4.0% to 5.5% less the *pro rata* portion payable to BPI in respect of its

retained interest in the Fund (the “**Transaction**”). See “General Development of the Business – Significant Acquisition – Transaction”.

The Fund has the following three principal sources of revenue:

#### Royalty Income

Royalties LP licenses the BP Rights to BPI in return for BPI paying Royalties LP the Royalty, which is equal to 4% of Franchise Sales of those Boston Pizza Restaurants included in the Royalty Pool. See “License and Royalty”.

#### Distribution Income

As part of the Transaction, Holdings LP acquired Class 1 LP Units and Class 2 LP Units of BP Canada LP, and BPI acquired, among other units, Class 2 GP Units of BP Canada LP, which are exchangeable into Units. The Class 1 LP Units and Class 2 LP Units entitle Holdings LP to receive Distribution Income from BP Canada LP equal in aggregate to 1.5% of Franchise Sales, less the *pro rata* portion payable to BPI in respect of its retained interest in the Fund. Specifically, the Class 1 LP Units entitle Holdings LP to receive a priority distribution equal to the amount of interest that Holdings LP pays on amounts drawn on Facility D (defined below) plus 0.05% of that amount, with the balance of 1.5% of Franchise Sales being distributed *pro rata* to Holdings LP and BPI on the Class 2 LP Units and Class 2 GP Units, respectively. See “Description of BP Canada LP”.

#### Interest Income

As part of the Fund’s initial public offering on July 17, 2002, the Fund acquired from a Canadian chartered bank the BP Loan, which was the \$24.0 million loan that BPI borrowed from that bank. The BP Loan will become due and payable on July 17, 2042. BPI is required to pay the Fund interest on the BP Loan at the end of each month in arrears at the rate of 7.5% per annum. See “Description of the Fund – BP Loan”.

## **CORPORATE STRUCTURE**

### **Boston Pizza Royalties Income Fund**

The Fund is a limited purpose open-ended trust established under the laws of the Province of British Columbia by the Declaration of Trust. The Fund’s head office is located at 100 – 10760 Shellbridge Way, Richmond, British Columbia, Canada, V6X 3H1 and its registered office is located at Suite 1200 Waterfront Centre, 200 Burrard Street, Vancouver, British Columbia, Canada, V7X 1T2. The Fund was established to, and on July 17, 2002 did, acquire the BP Loan, and indirectly through Royalties LP the BP Rights.

The Fund is administered by Royalties LP pursuant to the Administration Agreement. See “Management – Administration Agreement”.

The Fund owns 100% of the issued and outstanding Trust Units, 100% of the Series 1 Trust Notes and indirectly through the Trust and by indirect ownership of Holdings LP through the Trust and Holdings GP, 100% of: (i) the Class 1 LP Units and Class 2 LP Units of BP Canada LP; and (ii) the LP Units, Class A Units and Class D Units of Royalties LP. The Fund owns 100% of the issued and outstanding common shares of Holdings GP. The Fund also owns 80% of the issued and outstanding common shares of Royalties GP.

The Units are listed for trading on the TSX under the symbol BPF.UN.

### **Boston Pizza Holdings Trust**

The Trust is a limited purpose trust established under the laws of the Province of British Columbia pursuant to a declaration of trust between the Fund and William C. Brown made July 8, 2002, as amended and

restated on September 22, 2008. The Trust is the sole limited partner of Holdings LP, owning 100% of the Holdings LP Units and 100% of the non-interest bearing promissory notes issued from time to time by Holdings LP, and, with Holdings GP and indirectly through Holdings LP, owns 100% of: (i) the Class 1 LP Units and Class 2 LP Units of BP Canada LP; and (ii) the LP Units, the Class A Units and the Class D Units of Royalties LP. The declaration of trust for the Trust contemplates that the Trust will make monthly distributions of distributable cash to the holders of Trust Units. The Trustees may pay or cause to be paid out of the Trust assets, reasonable fees, costs and expenses incurred in connection with the administration and management of the Trust.

#### **Boston Pizza Holdings GP Inc.**

Holdings GP is a company incorporated under the laws of the province of British Columbia. Holdings GP owns 100% of the general partner units of Holdings LP and is the sole general partner of Holdings LP.

#### **Boston Pizza Holdings Limited Partnership**

Holdings LP is a limited partnership formed under the laws of the Province of British Columbia pursuant to the Holdings Limited Partnership Agreement. The Trust is the sole limited partner of Holdings LP. Holdings GP is the sole general partner of Holdings LP. Holdings LP owns 100% of: (i) the Class 1 LP Units and Class 2 LP Units of BP Canada LP; and (ii) the LP Units, Class A Units and Class D Units of Royalties LP. The Holdings Limited Partnership Agreement requires Holdings LP to pay monthly distributions to its partners of available cash first to the holders of the general partner units of Holdings LP in an amount equal to 0.01% of available cash up to a maximum of \$100.00, and second all remaining available cash to the holders of Holdings LP Units.

#### **Boston Pizza GP Inc.**

Royalties GP is a corporation incorporated under the CBCA. Royalties GP owns 99% of the Royalties GP Units and is the managing general partner of Royalties LP. Pursuant to the Governance Agreement, the Fund is entitled to elect three of the five directors of Royalties GP and BPI is entitled to elect two of the five directors of Royalties GP. See "Management – Governance Agreement".

#### **Boston Pizza Royalties Limited Partnership**

Royalties LP is a limited partnership formed under the laws of the Province of British Columbia pursuant to the Royalties Limited Partnership Agreement. Holdings LP is the sole limited partner of Royalties LP. Royalties GP is the managing general partner and BPI is the general partner of Royalties LP.

Royalties LP is the owner of the BP Rights. Royalties LP licenses the BP Rights to BPI, who in turn sublicenses the BP Rights to BP Canada LP, for use in the business of franchising Boston Pizza Restaurants. The License is granted pursuant to the License and Royalty Agreement and BPI pays the Royalty to Royalties LP equal to 4% of Franchise Sales. See "License and Royalty".

#### **Boston Pizza International Inc.**

BPI is a corporation amalgamated under the CBCA. Prior to the Transaction, BPI carried on business as the franchisor of the Boston Pizza concept in Canada only, and, through various affiliated entities, in select markets in the United States and Mexico. BPI licenses the BP Rights from Royalties LP under the License and Royalty Agreement, and in turn sublicenses the BP Rights to BP Canada LP under the BP Licensed Marks Sublicense Agreement. In connection with the Transaction, BP Canada LP acquired the Transferred Assets from BPI and became the exclusive franchisor of Boston Pizza Restaurants. See "General Development of the Business – Significant Acquisition – Transaction".

BPI owns: (i) 100% of the Class B Units, 100% of the Class C Units and 1% of the GP Units of Royalties LP; and (ii) 100% of the Class 2 GP Units, Class 3 GP Units, Class 4 GP Units, Class 5 GP Units and Class 6 GP Units of BP Canada LP. The Class B Units of Royalties LP and the Class 2 GP Units of

BP Canada LP are exchangeable for Units of the Fund. As of February 9, 2016, BPI's Class B Units and Class 2 GP Units collectively represent an approximate indirect 14.4% interest in the Fund. BPI also holds 100% of the Special Voting Units of the Fund which entitle BPI to one vote for each Unit of the Fund that BPI would be entitled to receive if it exchanged all of its Class B Units of Royalties LP and Class 2 GP Units of BP Canada LP for Units of the Fund. As of February 9, 2016, BPI was entitled to 3,425,105 votes, representing approximately 14.4% of the aggregate votes held by Voting Unitholders. See "Description of the Fund – Units and Special Voting Units". The number of Units of the Fund that BPI is entitled to receive upon the exchange of its Class B Units of Royalties LP and Class 2 GP Units of BP Canada LP, and the number of votes that BPI is entitled to in respect of its Special Voting Units is adjusted annually to reflect any Additional Restaurants that are added to the Royalty Pool. See "Annual Adjustment to Royalty Pool".

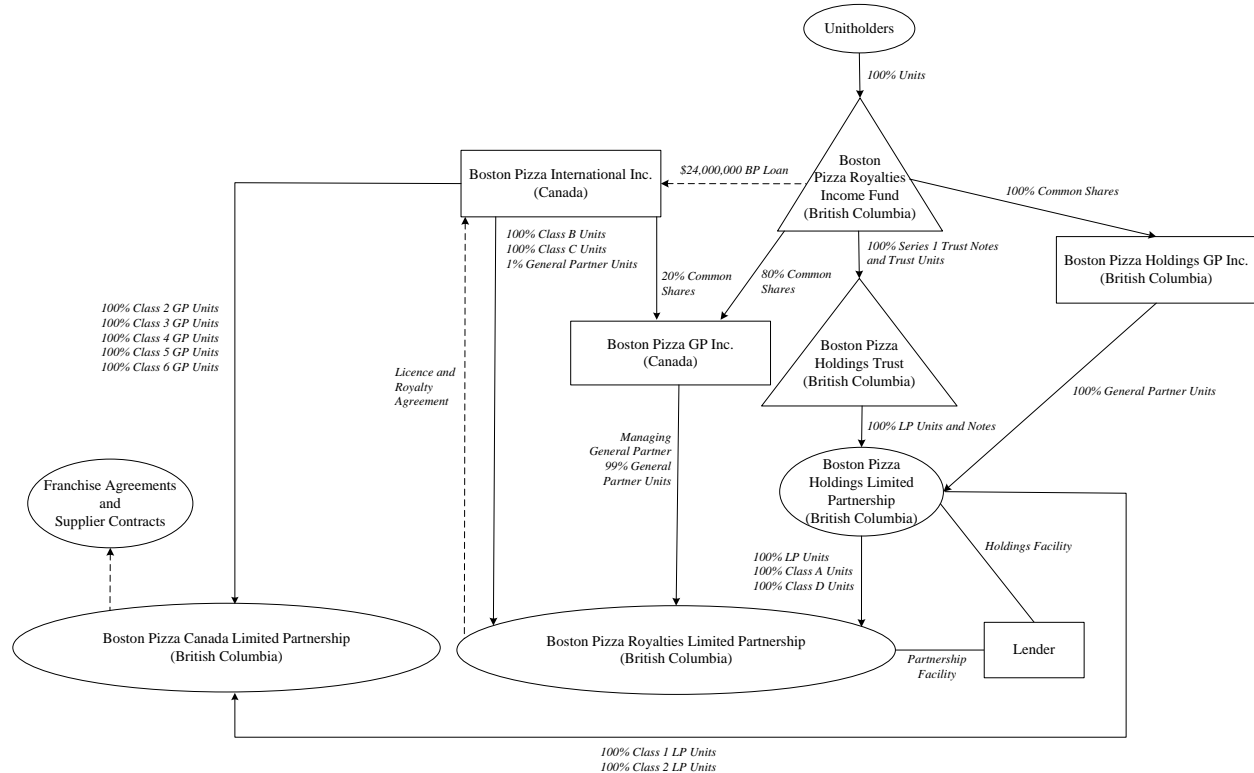
The Fund does not have any direct or indirect ownership interest in BPI.

### Boston Pizza Canada Limited Partnership

BP Canada LP is a limited partnership formed under the laws of the Province of British Columbia that is operated and controlled by BPI pursuant to the BP Canada Limited Partnership Agreement. Holdings LP is the sole limited partner of BP Canada LP and BPI is the sole general partner of BP Canada LP. As part of the Transaction, BP Canada LP acquired the Transferred Assets from BPI and became the exclusive franchisor of Boston Pizza Restaurants. BP Canada LP sublicenses the BP Rights from BPI under the BP Canada Limited Partnership Agreement for use in the business of franchising Boston Pizza Restaurants. See "Description of BP Canada LP".

### Intercorporate Relationships

The following chart illustrates the primary structural and contractual relations between the Unitholders, the Fund, the Trust, Holdings LP, Holdings GP, Royalties GP, Royalties LP, BPI and BP Canada LP.



## GENERAL DEVELOPMENT OF THE BUSINESS

### Three Year History

As noted above, the three principal sources of revenue for the Fund are: (i) Royalties LP receiving the Royalty from BPI equal to 4% of Franchise Sales of those Boston Pizza Restaurants included in the Royalty Pool; (ii) Holdings LP receiving Distribution Income from BP Canada LP equal to 1.5% of Franchise Sales of those Boston Pizza Restaurants included in the Royalty Pool, less the *pro rata* portion payable to BPI in respect of its retained interest in the Fund; and (iii) the Fund receiving interest from BPI on the BP Loan. The Royalty and Distribution Income received by Royalties LP and Holdings LP, respectively are based upon Franchise Sales from a fixed Royalty Pool.

On the Adjustment Date of each year, an adjustment is made to add to the Royalty Pool new Boston Pizza Restaurants that opened and to remove from the Royalty Pool any Boston Pizza Restaurants that permanently closed since the last Adjustment Date (the “**Net New Restaurants**”). In return for adding net additional Royalty and Distribution Income from Net New Restaurants, BPI receives Class B Additional Entitlements and Class 2 Additional Entitlements, respectively (and in the future if BPI has exercised exchange rights prior to any Adjustment Date in respect of Class 3 GP Units, Class 4 GP Units or Class 5 GP Units, then from and after that Adjustment Date BPI will also receive Class 3 Additional Entitlements, Class 4 Additional Entitlements and Class 5 Additional Entitlements, respectively). The calculation of Additional Entitlements is designed to be accretive to Unitholders as the expected increase in net Franchise Sales from the Net New Restaurants added to the Royalty Pool is valued at a 7.5% discount. The Additional Entitlements are calculated at 92.5% of the estimated Royalty and Distribution Income expected to be received by the Fund in respect of the Net New Restaurants, multiplied by one minus the effective tax rate estimated to be paid by the Fund, divided by the yield of the Fund, divided by the weighted average Unit price over a specified period. BPI receives 80% of the Additional Entitlements initially, with the balance received when the actual full year performance of the Net New Restaurants and the actual effective tax rate paid by the Fund are known with certainty (such balance of Units in respect of the increased Royalty, the “**Class B Holdback**”, and in respect of the increased Distribution Income, currently the “**Class 2 Holdback**” (and after any Adjustment Date after BPI has exercised exchange rights in respect of Class 3 GP Units, Class 4 GP Units or Class 5 GP Units, also the “**Class 3 Holdback**”, “**Class 4 Holdback**” and “**Class 5 Holdback**”, respectively), and collectively, the “**Holdback**”). BPI receives 100% of distributions from the Additional Entitlements throughout the year. Once the Net New Restaurants have been part of the Royalty Pool for a full year, an audit of the Franchise Sales of these restaurants is performed, and the actual effective tax rate paid by the Fund is determined. At such time an adjustment is made to reconcile distributions paid to BPI and the Additional Entitlements received by BPI.

Over the last three financial years the Royalty Pool has increased from 348 restaurants on January 1, 2013, to 358 restaurants on January 1, 2014, to 366 restaurants on January 1, 2015, and to 372 restaurants on January 1, 2016. Subsequent to January 1, 2016, one Boston Pizza Restaurant permanently closed.

The historical adjustments to the Royalty Pool for the last three years and the Additional Entitlements BPI received therefor are set forth below. All historical adjustments for the years 2013, 2014 and 2015 relate solely to Class B Additional Entitlements since: (i) BP Canada LP did not exist on the Adjustment Date for the years 2013, 2014 or 2015; and (ii) the Class 2 GP Units of BP Canada LP held by BPI were not exchangeable into Units until completion of the Transaction on May 6, 2015. Commencing with the adjustment to the Royalty Pool that occurred on the Adjustment Date of January 1, 2016, the Additional Entitlements received by BPI are comprised of both Class B Additional Entitlements and Class 2 Additional Entitlements (See “General Development of the Business – Recent Developments”):

- On January 1, 2013, five Net New Restaurants (seven newly opened restaurants less two permanently closed restaurants) were added to the Royalty Pool. In return for the additional Royalty revenue provided by these five Net New Restaurants, BPI initially received 155,559 Class B Additional Entitlements. An adjustment to the Class B Additional Entitlements was made based on

the full year performance of these stores and the actual effective tax rate paid by the Fund for 2013, as a result of which BPI received an additional 86,336 Class B Additional Entitlements.

- On January 1, 2014, 10 Net New Restaurants (12 newly opened restaurants less two permanently closed restaurants) were added to the Royalty Pool. In return for the additional Royalty revenue, provided by these 10 Net New Restaurants, BPI initially received 355,750 Class B Additional Entitlements. An adjustment to the Class B Additional Entitlements was made based on the full year performance of these stores and the actual effective tax rate paid by the Fund for 2014, as a result of which BPI received an additional 72,627 Class B Additional Entitlements.
- On January 1, 2015, eight Net New Restaurants (14 newly opened restaurants less six permanently closed restaurants) were added to the Royalty Pool. In return for the additional Royalty revenue, provided by these eight Net New Restaurants, BPI initially received 298,818 Class B Additional Entitlements. An adjustment to the Class B Additional Entitlements was made based on the full year performance of these stores and the actual effective tax rate paid by the Fund for 2015, as a result of which BPI received an additional 96,325 Class B Additional Entitlements. See “General Development of the Business – Recent Developments”.

### Recent Developments

- January 1, 2016 Roll-in of New Boston Pizza Restaurants: On January 1, 2016, six Net New Restaurants (12 Boston Pizza Restaurants that opened less six restaurants that permanently closed across Canada during the 2015 Fiscal Year) were added to the Royalty Pool. The estimated annual Franchise Sales for the 12 new Boston Pizza Restaurants that opened in the 2015 Fiscal Year less the Franchise Sales from the six permanent closures was \$14.5 million. The calculation for the number of Additional Entitlements received by BPI is designed to be accretive to existing Unitholders as the additional Royalty and Distribution Income from the Net New Restaurants is valued at a 7.5% discount. The estimated Royalty and Distribution Income expected to be received by the Fund in the 2016 Fiscal Year from these six Net New Restaurants, was 5.5% of \$14.5 million, or \$0.8 million. The pre-tax amount for the purposes of calculating the Additional Entitlements, therefore, was approximately \$0.7 million or 92.5% of \$0.8 million. The estimated effective tax rate that the Fund will pay in the 2016 Fiscal Year is 24.0%. Accordingly, the after-tax Royalty and Distribution Income for the purposes of calculating the Additional Entitlements was approximately \$0.6 million ( $\$0.7 \text{ million} \times (1 - 0.24)$ ). In return for adding the Royalty and Distribution Income from the six Net New Restaurants added to the Royalty Pool, BPI received 349,023 Additional Entitlements (representing 80% of the total Additional Entitlements), comprised of 253,835 Class B Additional Entitlements and 95,188 Class 2 Additional Entitlements, and the Holdback is 87,256 Additional Entitlements (representing 20% of the total Additional Entitlements), comprised of 63,459 Class B Holdback and 23,797 Class 2 Holdback. The Holdback (as adjusted) will be received by BPI when both the actual full year performance of the Net New Restaurants and the actual effective tax rate paid by the Fund for the 2016 Fiscal Year are known with certainty. The 349,023 Additional Entitlements represents 1.5% of Fund Units on a fully diluted basis. The full 436,279 Additional Entitlements (being the 349,023 Additional Entitlements received by BPI plus the 87,256 Holdback) represents 1.8% of the Fund Units on a fully diluted basis. BPI receives an increase in monthly distributions based on 100% of the Additional Entitlements, subject to a reconciliation of the distributions paid to BPI in respect of these Additional Entitlements that will occur once the actual performance of these six Net New Restaurants and the actual effective tax rate paid by the Fund for the 2016 Fiscal Year are known with certainty.
- 2016 Audit of 2015 Roll-in of New Boston Pizza Restaurants: In early 2016, an audit of the Franchise Sales of the 14 new Boston Pizza Restaurants that were added to the Royalty Pool on January 1, 2015 was performed and the actual effective tax rate paid by the Fund for the 2015 Fiscal Year was determined. The purpose of this was to compare the actual Franchise Sales from these 14 new Boston Pizza Restaurants to the estimated amount of Franchise Sales expected to be generated by these 14 new Boston Pizza Restaurants during the 2015 Fiscal Year and to compare the actual effective tax rate paid by the Fund for the 2015 Fiscal Year to the estimated effective tax rate the

Fund expected to pay for the 2015 Fiscal Year. The original Franchise Sales expected to be generated from these 14 new Boston Pizza Restaurants less the Franchise Sales from the six permanent closures that occurred in 2014 was \$16.7 million, and the actual Franchise Sales generated from these eight Net New Restaurants was \$0.2 million greater. The original effective tax rate the Fund expected to pay for 2015 was 26.0% and the actual effective tax rate paid by the Fund for 2015 was 22.6%. As a result, Royalties LP paid BPI a nominal amount in January 2016 to reconcile the difference paid on the full number of Additional Entitlements and the effective tax rate. BPI received only 80% of the Additional Entitlements at the Adjustment Date in 2015. Following the audit, BPI received 96,325 Additional Entitlements. All adjustments made in respect of the Adjustment Date in 2015 relate solely to Class B Additional Entitlements since: (i) BP Canada LP did not exist on the Adjustment Date in 2015; and (ii) the Class 2 GP Units of BP Canada LP held by BPI were not exchangeable into Units until completion of the Transaction on May 6, 2015.

- 2014/2015 NCIB: On September 22, 2014, the Fund received TSX approval of the 2014/2015 NCIB. The 2014/2015 NCIB expired on September 24, 2015. The Fund acquired 188,300 Units under the 2014/2015 NCIB at an average price of \$19.86 per Unit. All Units acquired under the 2014/2015 NCIB were cancelled.
- 2015/2016 NCIB: On December 22, 2015, the Fund received TSX approval of the 2015/2016 NCIB. Concurrently with the establishment of the 2015/2016 NCIB, the Fund established an automatic securities purchase plan with its broker to allow for the repurchase of Units under the 2015/2016 NCIB at any time, including when it ordinarily would not be active in the market due to its own internal trading blackout periods, insider trading rules or otherwise. The plan will terminate on the earliest of: (a) the date on which the purchase limits specified in the plan have been attained, (b) the date on which the 2015/2016 NCIB automatically terminates in accordance with the plan, (c) the Fund terminates the plan in accordance with the terms of the plan, in which case the Fund will issue a press release announcing such termination, and (d) December 28, 2016. All purchases will be made on the open market through the facilities of the TSX in accordance with the requirements of the TSX or other Canadian marketplaces by registered investment dealers. As of February 9, 2016, the Fund had purchased 148,500 Units under the 2015/2016 NCIB at an average price of \$16.56 per Unit. Unitholders may obtain, without charge, a copy of the Notice of Intention to Make a Normal Course Issuer Bid that the Fund filed with the TSX by contacting the Senior Vice President of Investor Relations for the Fund.

### Significant Acquisition – The Transaction

On May 6, 2015, the Fund and BPI completed the Transaction, the effect of which was to effectively increase the Fund's interest in Franchise Sales of Boston Pizza Restaurants in the Royalty Pool (the "**Franchise Sales Participation**") by 1.5%, from 4.0% to 5.5%, less the *pro rata* portion payable to BPI in respect of its retained interest in the Fund. BPI also has the right to further increase the Fund's Franchise Sales Participation by up to an additional 1.5% of Franchise Sales (in 0.5% increments) upon meeting certain financial thresholds designed to ensure that the additional Franchise Sales Participation is accretive to the Fund and that BPI retains the financial capacity to satisfy its obligations to the Fund. See "The Exchange Rights – Class 2 GP Units, Class 3 GP Units, Class 4 GP Units and Class 5 GP Units". The Transaction was undertaken pursuant to an investment agreement dated March 23, 2015 entered into among the Fund, Holdings LP and BPI (the "**Investment Agreement**"), which was the master agreement that governed the Transaction and which set forth the following series of steps involved in the Transaction:

1. On April 2, 2015, BPI (as general partner) and Holdings LP (as limited partner) entered into the BP Canada Limited Partnership Agreement and formed BP Canada LP, with BPI subscribing for one Class 6 GP Unit of BP Canada LP and Holdings LP subscribing for one Class 1 LP Unit of BP Canada LP;
2. On April 6, 2015, BPI and BP Canada LP entered into a transfer agreement (the "**Transfer Agreement**") pursuant to which BPI transferred: (i) all of the franchise agreements and other related and ancillary agreements between BPI and the owners of Franchised Boston Pizza Restaurants; (ii) the various food, beverage and supply contracts entered into by BPI in connection with the



Boston Pizza business; and (iii) the right to be the franchisor of the Boston Pizza brand in Canada, to BP Canada LP in exchange for 100,000,000 Class 2 GP Units, 100,000,000 Class 3 GP Units, 100,000,000 Class 4 GP Units, 100,000,000 Class 5 GP Units, and 999 Class 6 GP Units, of BP Canada LP. In connection therewith, BP Canada LP became the exclusive franchisor of Boston Pizza Restaurants in Canada;

3. On April 7, 2015, the Fund, Computershare Trust Company and the Underwriters entered into a subscription receipt agreement (the “**Subscription Receipt Agreement**”), pursuant to which the Fund issued, on April 16, 2015, 5,047,613 subscription receipts (the “**Subscription Receipts**”) at a subscription price of \$22.10 each, for net proceeds (after offering and transaction costs) of \$105.3 million;
4. On May 5, 2015, an annual and special meeting of Unitholders was held and eligible Unitholders voted to approve the Transaction;
5. On May 5, 2015, the Fund and its subsidiaries entered into the Credit Facilities, and on May 6, 2015, Holdings LP drew down \$33.3 million from Facility D (defined below);
6. On May 6, 2015, Holdings LP subscribed for 999 Class 1 LP Units and 5,047,613 Class 2 LP Units of BP Canada LP for an aggregate subscription price of \$138.7 million, comprised of: (i) an aggregate subscription price for the 999 Class 1 LP Units of \$33.3 million funded by Holdings LP drawing down Facility D, and (ii) an aggregate subscription price for the 5,047,613 Class 2 LP Units of \$105.3 million funded by the net proceeds from the Subscription Receipt offering;
7. On May 6, 2015, each Subscription Receipt was converted into one Unit and 10.2 cents was paid to each holder of a Subscription Receipt, being the amount that the Subscription Receipt holder would have received as distributions on a Unit since April 16, 2015, had the holder held the Unit instead of a Subscription Receipt;
8. On May 6, 2015, the Fund, certain of its subsidiaries, BPI and BP Canada LP entered into the BP Canada Exchange Agreement pursuant to which the Fund agreed to issue Units or pay a combination of cash and Units to BPI in exchange for Class 2 GP Units, Class 3 GP Units, Class 4 GP Units, and Class 5 GP Units held by BPI. As at May 6, 2015, the 100,000,000 Class 2 GP Units were exchangeable for 752,387 Units. Currently, the 100,000,000 Class 2 GP Units are exchangeable for 847,575 Units. The 100,000,000 Class 3 GP Units, the 100,000,000 Class 4 GP Units, and the 100,000,000 Class 5 GP Units of BP Canada LP held by BPI are currently not exchangeable into Units; and
9. On June 1, 2015 and on September 11, 2015, BP Canada LP returned \$126 million and \$12.7 million, respectively, of capital to BPI, being the aggregate subscription price paid by Holdings LP for 1,000 Class 1 LP Units and 5,047,613 Class 2 LP Units.

See “Intercorporate Relationships” for a diagram depicting the Fund’s current structure. The Fund filed a Business Acquisition Report in respect of the Transaction on July 20, 2015, a copy of which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

For a more detailed description of the Transaction, please refer to the Fund’s Information Circular dated March 27, 2015 and the Final Short Form Prospectus dated April 7, 2015, copies of which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **DESCRIPTION OF THE BUSINESS**

### **Boston Pizza Royalties Income Fund**

The Fund is a limited purpose trust and as such the business of the Fund is limited to, among other things, investing in Trust Units and Trust Notes, holding the BP Loan, making distributions to Unitholders and

matters incidental thereto. See “Description of the Fund – Activities of the Fund” and “Description of Fund – BP Loan”.

The Fund’s distribution policy is to distribute the total amount of cash received by the Fund from the Trust on the Trust Units and the Trust Notes and from BPI on the BP Loan, less the sum of: (a) administrative expenses and other obligations of the Fund; (b) amounts which may be paid by the Fund in connection with any cash redemptions of Units; (c) any interest expense incurred by the Fund; and (d) reasonable reserves established by the Trustees in their sole discretion in order to maximize returns to Unitholders.

### **Boston Pizza Royalties Limited Partnership**

The business of Royalties LP is to take actions consistent with the License and Royalty Agreement to exploit, to the fullest extent possible, the use of the BP Rights by BPI, the collection of the Royalty payable to Royalties LP under the License and Royalty Agreement, and the administration of the Fund, the Trust, Holdings LP and Holdings GP pursuant to the Administration Agreement. See “License and Royalty”, “Description of Royalties LP” and “Management - Administration Agreement”.

### **Boston Pizza International Inc. and Boston Pizza Canada Limited Partnership**

BPI is a privately controlled company and prior to the Transaction carried on business as the franchisor of Boston Pizza Restaurants in Canada only, and, through various affiliated entities, in select markets in the United States and Mexico. As part of the Transaction, BP Canada LP, a British Columbia limited partnership controlled and operated by BPI, acquired the Transferred Assets from BPI and became the exclusive franchisor of Boston Pizza Restaurants in Canada. BPI is the sole general partner of BP Canada LP and is solely responsible for administering, managing, controlling and operating the business of BP Canada LP.

The business of BP Canada LP and BPI, and the manner in which BPI operates BP Canada LP’s business is relevant to the Fund and its Unitholders since:

- (a) BPI is the exclusive licensor of the BP Rights under the License and Royalty Agreement, and BPI has sublicensed the BP Rights to BP Canada LP under the BP Licensed Marks Sublicense Agreement; and
- (b) Holdings LP is a limited partner of BP Canada LP and is entitled to receive Distribution Income from BP Canada LP on the Class 1 LP Units and Class 2 LP Units of BP Canada LP.

A key attribute of the Fund’s structure is the fact that it is a “top-line” fund. The Royalty and Distribution Income of the Fund are based on top-line revenue of Boston Pizza Restaurants in the Royalty Pool and are not determined by the profitability of either BPI, BP Canada LP or the Boston Pizza Restaurants in the Royalty Pool. Given this structure, the success of the Fund depends primarily on the ability of BPI and BP Canada LP to maintain and increase Franchise Sales from the Boston Pizza Restaurants in the Royalty Pool.

### *Industry Overview*

Restaurants Canada estimates that Canada’s commercial foodservice industry grew by 4.2% in 2015 and forecasts that it will grow by a further 3.5% in 2016.<sup>1</sup> Restaurants Canada also predicts that commercial foodservice sales in Canada will increase at an annual average rate of 3.7% per year between 2015 and 2019, with full-service restaurant sales increasing at an annual average rate of 3.7% per year and quick service restaurant sales increasing at an annual average rate of 4.1% per year for that same period.<sup>2</sup> Profitability in Canada’s commercial foodservice industry in 2012 was 4.2% of operating revenue.<sup>3</sup> In recent

<sup>1</sup> Restaurants Canada’s Quarterly Forecast – January 28, 2016 periodical.

<sup>2</sup> Restaurants Canada’s Restaurant Industry Forecast: 2015 - 2019 periodical.

<sup>3</sup> Restaurants Canada’s Foodservice Facts 2015 periodical.

years profitability has decreased from a high of 5.8% in 2001 due to the rising food, labour, and rental and leasing expenses<sup>3</sup>. According to Restaurants Canada, in 2014, the percentage of total restaurant traffic going to chain restaurants was 76.9%, an increase of 1.7%<sup>3</sup> (the most recent years for which data is available from Restaurants Canada). In 2014, chain restaurants generated 64.1% of spending even though they account for only 40% of foodservice establishments<sup>3</sup>.

The Canadian foodservice industry is comprised of two main sectors: commercial foodservice operators, whose primary business is food and beverage service; and non-commercial foodservice operators, such as hotels, retail outlets, movie theatres and schools, whose primary business is something other than food and beverage service, but includes some component of commercial foodservice. Commercial foodservice operators generally fall within one of the following categories: restaurants, social and contract caterers and bars.

There are four major restaurant segments within commercial foodservice: quick service, family / midscale dining, casual dining and fine dining, with the latter three falling within the definition of “full service restaurants”. The table below summarizes the characteristics of the various segments:

Restaurant Segment	Average Cheque Amount Per Person in 2014 <sup>3</sup>	Characteristics	Examples
Quick Service	\$5.46	<ul style="list-style-type: none"> <li>• Counter service</li> <li>• Usually specializes in one type of food</li> <li>• Emphasis on take-out and delivery</li> <li>• Some drive-through service</li> </ul>	<ul style="list-style-type: none"> <li>• A&amp;W</li> <li>• KFC</li> <li>• McDonald's</li> <li>• Tim Horton's</li> </ul>
Family / Midscale Dining	\$11.95	<ul style="list-style-type: none"> <li>• Table or self-service</li> <li>• Usually specializes in one type of food</li> <li>• May be take-out service</li> </ul>	<ul style="list-style-type: none"> <li>• Denny's</li> <li>• Pizza Hut</li> <li>• Swiss Chalet</li> </ul>
Casual Dining	\$16.59	<ul style="list-style-type: none"> <li>• Full table service</li> <li>• Themed atmosphere</li> <li>• Generally limited take-out</li> </ul>	<ul style="list-style-type: none"> <li>• Boston Pizza</li> <li>• Earl's</li> <li>• East Side Mario's</li> <li>• Kelsey's</li> <li>• Montana's</li> <li>• The Keg</li> <li>• Original Joe's</li> </ul>
Fine Dining	\$42.29	<ul style="list-style-type: none"> <li>• Extensive table service</li> <li>• Formal table settings</li> </ul>	<ul style="list-style-type: none"> <li>• Morton's</li> <li>• Various independents</li> </ul>

#### *Trends in the Foodservice Industry*

- **On and Off Premises Trends:** Restaurants Canada reports that nearly 80% of full-service restaurant meals are eaten on-premises and almost 65.5% of quick-service restaurant meals are eaten off-premises.<sup>3</sup> On an aggregated basis, 56.6% of meals are eaten off-premises and 43.4% are consumed on-premises.<sup>3</sup>
- **Demographics Favouring Full Service Restaurants:** Growth in the foodservice industry has been driven by demographic changes, as aging and increasingly affluent consumers spend more on

foodservice, and a younger generation increasingly views foodservice not as a luxury but integral to their everyday lifestyle.

- Significant Market Share of Chain Restaurants: According to the latest Restaurants Canada figures,<sup>3</sup> in 2014 chain restaurants in Canada represented 64.1% of the revenues generated in the commercial foodservice industry and 76.9% of the traffic in the commercial foodservice industry.<sup>3</sup> The continued significant market share of chain restaurants is, in part, a result of the brand strength that many of the chain restaurants have developed through their use of marketing programs, resulting in increased traffic and market share.

#### *Overview of the Business of BPI and BP Canada LP*

From its first restaurant in Edmonton in 1964, Boston Pizza has grown to become Canada's number one casual dining brand. With 372 restaurants stretching from Victoria to St. John's, Boston Pizza has more locations and serves more customers annually than any other casual dining concept in Canada.

BPI is a franchise-driven restaurant company and operates only three Boston Pizza Restaurants as corporate restaurants. These corporate restaurants also serve as franchisee training centres and allow BP Canada LP to test-market new menu items and programs before launching them throughout BP Canada LP's franchise system. BPI's strategic focus on the development of successful franchise operations has underpinned the success of the Boston Pizza franchise system over the past 50 years.

BP Canada LP franchises the "Boston Pizza", "Boston Pizza Fast Casual" and the "Boston Pizza Quick Express" concepts. Boston Pizza is a full service restaurant and sports bar concept competing in the casual dining segment of the restaurant industry. Boston Pizza Fast Casual and Boston Pizza Quick Express locations serve a limited menu and are targeted to "captured traffic" locations such as arenas, food courts, governmental institutions and airports. As of February 9, 2016, there are two Boston Pizza Quick Express locations and no Boston Pizza Fast Casual locations.

#### *The Boston Pizza Concept*

Two Distinct Dining Experiences – The Boston Pizza Restaurant provides for "two experiences under one roof", with a full service, family friendly casual dining restaurant and a separate sports bar. The restaurant décor is lively, colourful and eclectic. The bar area is an adult-oriented design with big screen TVs. Most restaurants also have an outdoor patio to accommodate guests during the warmer months. A typical restaurant is 5,000 to 6,300 square feet and has seating for 160 to 270 guests in total.

Ability to Target Distinct Business Segments – The Boston Pizza concept offers the flexibility to target four distinct business segments, or "dayparts". Lunch and dinner are standards for the casual dining segment, but Boston Pizza has a competitive advantage in the late night daypart due to its sports bar development. Boston Pizza Restaurants also have a more developed take-out and delivery business by virtue of their pizza menu focus. Take-out and delivery sales averaged 15.8% of total sales across the chain in 2015.

Boston Pizza Target Market – For over 50 years, the Boston Pizza brand has benefited from its unique "two experiences under one roof" restaurant design to simultaneously and successfully appeal to different target groups, participating in a multitude of varying occasions. Families and other casual dining customers are attracted to Boston Pizza's variety based menu, welcoming environment, friendly service and moderate pricing in the dining room. This demographic is the primary target representing approximately 65% of the total business, split between families with young children and families with teenagers. The secondary target skews to adults, primarily male, between the legal drinking age and 40 who play and watch sports. They are attracted to the lively atmosphere, sociability, full menu and shared passion for sports in the sports bar. When short on time and looking for convenient and variety based food service, Boston Pizza satisfies this need for both target markets with take-out and delivery.

### *BPI's Board of Directors and Senior Management*

BPI has a highly skilled and experienced Board of Directors and senior management team that oversees the strategic direction and operations of BPI. The Board of Directors of BPI is comprised of Co-Owners and Co-Chairmen Walter James (Jim) Treliving and George C. Melville. The senior management team of BPI consists of 16 senior officers lead by President and Chief Executive Officer, Mark G. Pacinda. The names and positions of the directors and senior officers of BPI are as follows:

<b><u>Name</u></b>	<b><u>Position</u></b>
Walter James (Jim) Treliving	Director, Chairman & Owner
George C. Melville	Director, Chairman, Owner & Secretary
Mark G. Pacinda	President and Chief Executive Officer
Wes Bews	Chief Financial Officer
Alan Howie	Executive Vice President, Operations and Development
Steve Silverstone	Executive Vice President, Marketing
Jordan Holm	Senior Vice President, Investor Relations & Corporate Communications
Helen Langford	Senior Vice President, Food Services
Joanne Forrester	Regional Vice President, Western Canada
Paul Pascal	Regional Vice President, Eastern Canada
Daniel Harvey	Regional Vice President, Quebec Canada
Jonathan K.M. Jeske	General Counsel
Ian Thomas	Vice President, Finance
Caroline Schein	Vice President, People and Operations Development
Alexander Green	Vice President, Marketing
Donna Finelli	Vice President, Marketing
Cavin Green	Vice President, Business Technology
Cheryl Treliving	Executive Director, Boston Pizza Foundation

Below is a biographical summary of certain of BPI's Board of Directors and Senior Management:

WALTER JAMES (JIM) TRELIVING, CHAIRMAN & OWNER: Mr. Walter James (Jim) Treliving is a director, officer and co-owner (through his holding company) of BPI. Together with his business partner, Mr. George C. Melville, Mr. Treliving sets the corporate strategy for BPI and the Boston Pizza brand. After serving with the Royal Canadian Mounted Police, Mr. Treliving purchased his first Boston Pizza franchise in Penticton, British Columbia in 1968. Mr. Melville and Mr. Treliving became business partners in 1973 and originally established a total of 18 Boston Pizza outlets. In 1983, Mr. Treliving and Mr. Melville acquired ownership of the franchise rights to the Boston Pizza concept and established BPI. Mr. Treliving has been a Chairman of BPI since 2004 and previously held other senior roles in BPI including President and Chief Executive Officer. Over the years, Mr. Treliving, Mr. Melville and BPI have been awarded with several prestigious awards including Canada's 50 Best Managed Companies Platinum Club, Canada's 10 Most Admired Corporate Cultures, the Henry Singer Award from the Canadian Institute of Retailing and Services, the Canadian Franchise Association's Lifetime Achievement Award, the Fraser Institute's T. Patrick Boyle Founder's Award and, most recently, the Business Laureates of British Columbia Hall of Fame announced Mr. Treliving and Mr. Melville as inductees for 2014. Mr. Treliving is a dedicated philanthropist. He has been a director of the Boston Pizza Foundation since its inception in 1990 and has helped raise and donate over \$20 million to Canadian charities over that time. Initially established to aid underprivileged youth and their families, the Boston Pizza Foundation recently created Boston Pizza Foundation Future Prospects to

support many local, national and international charities, among which include, Big Brothers Big Sisters, Kids Help Phone, JDRF, Rick Hansen Foundation and Live Different. Mr. Treliving also serves on a number of other volunteer boards including the Jays Care Foundation, the David Foster Foundation and the Richmond Hospital Foundation. In 2014, Mr. Treliving was named as chairman of the Hockey Canada Foundation. In addition, Mr. Treliving stars as one of the five Dragons on the CBC's reality TV show, Dragons' Den, where aspiring entrepreneurs hope to secure a financial investment from the Dragons to start their own business.

**GEORGE C. MELVILLE, CHAIRMAN, OWNER & SECRETARY:** Mr. George C. Melville is a director, officer and co-owner (through his holding company) of BPI. Together with his business partner, Mr. Walter James (Jim) Treliving, Mr. Melville sets the corporate strategy for BPI and the Boston Pizza brand. Mr. Melville earned his Chartered Accountant designation in 1968 and was appointed Manager of Peat Marwick Mitchell & Co., Penticton, British Columbia branch in 1970. Mr. Melville and Mr. Treliving became business partners in 1973 and originally established a total of 18 Boston Pizza outlets. In 1983, Mr. Melville and Mr. Treliving acquired ownership of the franchise rights to the Boston Pizza concept and established BPI. Mr. Melville has been a Chairman of BPI since 2004 and previously held other senior roles with BPI including President, Chief Financial Officer and Chief Executive Officer. Mr. Melville also served as Chief Executive Officer and a Director of Royalties GP between 2008 and 2011. Over the years, Mr. Melville, Mr. Treliving and BPI have been awarded with several prestigious awards including Canada's 50 Best Managed Companies Platinum Club, Canada's 10 Most Admired Corporate Cultures, the Henry Singer Award from the Canadian Institute of Retailing and Services, the Canadian Franchise Association's Lifetime Achievement Award, the Fraser Institute's T. Patrick Boyle Founder's Award and, most recently, the Business Laureates of British Columbia Hall of Fame announced Mr. Melville and Mr. Treliving as inductees for 2014. Mr. Melville is a dedicated philanthropist. He has been a director of the Boston Pizza Foundation since its inception in 1990 and has helped raise and donate over \$20 million to Canadian charities over that time. Initially established to aid underprivileged youth and their families, the Boston Pizza Foundation recently created Boston Pizza Foundation Future Prospects to support many local, national and international charities, among which include, Big Brothers Big Sisters, Kids Help Phone, JDRF, Rick Hansen Foundation and Live Different. Mr. Melville also serves on a number of other volunteer boards including Kwantlen Polytechnic University, the Southern Interior Innovation Fund, the Premier's Economic Council, and the Fraser Institute. In June 2013, Mr. Melville received an honorary Doctor of Laws degree from Kwantlen Polytechnic University in recognition of his outstanding professional achievements. Then, in May 2014, Mr. Melville was appointed the Chancellor of Kwantlen Polytechnic University. Also in 2014, Mr. Melville was named the event chairman for the 11th annual Hockey Canada Foundation Celebrity Classic.

**MARK G. PACINDA, PRESIDENT AND CHIEF EXECUTIVE OFFICER:** As President and Chief Executive Officer, Mr. Mark G. Pacinda oversees all aspects of BPI, including marketing, development, operations, strategic planning and finance. Mr. Pacinda joined BPI in December 1997 as Executive Vice-President and became President in January 2004 and Chief Executive Officer in July 2011. Prior to joining BPI, Mr. Pacinda was the Vice-President and General Manager for Arby's Canada from 1994 to 1997. Prior to working for Arby's Canada, Mr. Pacinda held various senior management positions with Pepsi Co. Inc. including Regional Vice-President and Chief Financial Officer of KFC from 1986 to 1994. Mr. Pacinda also serves as the Treasurer of Restaurants Canada and a member of Restaurant's Canada executive committee, both positions he has held from 2008 to the present.

**WES BEWS, CHIEF FINANCIAL OFFICER:** As Chief Financial Officer, Mr. Wes Bews oversees the finance, accounting, information technology, risk management, legal and investor relations departments. Mr. Bews joined T & M Management Services Ltd., a parent company of BPI, as Vice-President of Finance in January of 2008. Since January 2010 he has held the position of Vice-President of Finance of BPI, in December 2010 was appointed Chief Financial Officer of Royalties GP and in July 2011 was appointed Chief Financial Officer of BPI. Prior to that, Mr. Bews served as the Corporate Controller for CHC Helicopter Corporation from December 2006 to October 2007 and for Premium Brands Income Fund from January 1999 to December 2006. Mr. Bews has been a member of the Institute of Chartered Accounts of British Columbia since obtaining his C.A. designation in 1996.

**ALAN HOWIE, EXECUTIVE VICE PRESIDENT, OPERATIONS AND DEVELOPMENT:** As Executive Vice President, Operations and Development, Mr. Alan Howie is responsible for the ongoing strategic development of the

Boston Pizza brand in Canada, construction and franchising. Mr. Howie joined BPI in January 2010 as Regional Vice President, Western Canada. In October 2014 Mr. Howie was appointed Executive Vice President, Operations and Development. Prior to joining BPI, Mr. Howie held a number of positions with White Spot Restaurants, including Senior Vice President of Operations from 2000 to 2009 and Chief Financial Officer from 1994 to 1999. In addition to his operational background, Mr. Howie has been a member of the Institute of Chartered Accounts of British Columbia since obtaining his C.A. designation in 1991, having graduated from the University of British Columbia in 1988.

STEVE SILVERSTONE, EXECUTIVE VICE PRESIDENT, MARKETING: As Executive Vice President, Marketing Mr. Steve Silverstone is responsible for all marketing activities within the Boston Pizza system. Mr. Silverstone joined BPI in February 2009. Prior to joining BPI, Mr. Silverstone was the Senior Vice President, National Account Leader for Cossette Communications-Marketing from 2006 to 2009. Prior to Cossette, Mr. Silverstone worked in senior marketing as well as strategic planning roles with InBev (Labatt Breweries of Canada) from 1998 to 2006, Pepsi-Cola Canada Beverages from 1996 to 1998, and Procter & Gamble Canada from 1992 to 1996.

JORDAN HOLM, SENIOR VICE PRESIDENT, INVESTOR RELATIONS & CORPORATE COMMUNICATIONS: As Senior Vice President, Investor Relations & Corporate Communications, Mr. Jordan Holm is responsible for the public disclosure, governance and financial reporting of the Fund, human resources for BPI, special events and public relations departments of BPI, and oversees the activities of the Boston Pizza Foundation. Mr. Holm joined BPI in May 2006 as Director of Investor Relations. Since April 2006 he has held the position of Director of Investor Relations, in January 2010 he was appointed Vice President of Investor Relations and in October 2014 he was appointed Senior Vice President, Investor Relations & Corporate Communications. Prior to joining BPI, Mr. Holm was the Director of Investor Relations with Manulife Financial from 2004 to 2006. Mr. Holm holds a Master of Business Administration and is a member of the Canadian Investor Relations Institute.

HELEN LANGFORD, SENIOR VICE PRESIDENT, FOOD SERVICES: As Senior Vice President, Food Services, Ms. Helen Langford oversees the purchasing, culinary innovation and restaurant design for the Boston Pizza brand. Ms. Langford joined BPI in September 2012 as Vice President, Food Services. Since September 2012, she has held the position of Vice President, Food Services and in October 2014 she was appointed Senior Vice President, Food Services. Prior to joining BPI, Ms. Langford was the Senior Director of Product Excellence at Yum Canada, where she worked from January 2007 to September 2012. Prior to her role in culinary design for Yum Canada, Ms. Langford led the purchasing function for Yum's franchisees in Canada from September 2004 to January 2007.

All members of BPI's senior management team are employed under written employment contracts that contain, among other things, restrictions on the ability of those employees to compete against BPI and Boston Pizza Restaurants both while they are employed by BPI and for a period of time after they cease to be employed by BPI.

As at December 31, 2015, BPI had 183 employees and BP Canada LP had no employees.

#### *Franchise Support Systems*

BPI and BP Canada LP believe that their historical success, and the success of Boston Pizza going forward, begins with the success of each individual franchise. BP Canada LP's approach to restaurant development begins with the careful selection of the right market site and coupling an appropriate location with a strong franchisee. As part of their commitment to ensuring success of the Boston Pizza franchisee, BP Canada LP provides the following support services:

Franchisee Selection – BPI and BP Canada LP have developed a rigorous, systematic approach to franchisee selection. A potential franchisee must go through a series of interviews with senior managers in each of the key business operational areas: marketing, finance and operations. A series of financial and background checks are also conducted on a potential franchisee.

Real Estate – BPI’s real estate managers take a lead role in sourcing, negotiating and securing sites, as well as assembling the necessary site approval information. They provide full demographic and market analysis as well as site information. Once assembled, the site packages go through a multi-department review with senior management before final approval is given to the franchisee.

Finance – BP Canada LP administers national franchise finance programs with major Canadian lenders to provide funds for new store construction, store renovations and equipment leasing. However, neither BPI nor BP Canada LP provides these financial institutions with a guarantee of franchisees’ obligations or otherwise provide financial assistance to the franchisees. A comprehensive general insurance program has been developed with the support of insurance brokers and consultants to provide Boston Pizza franchisees with a complete and competitive program that effectively protects the interests of the franchisees, BPI and BP Canada LP. A group benefits program is administered through BPI’s Finance group providing corporate staff and the franchisee community with benefits coverage for employees and their families.

Construction and Design – BPI and BP Canada LP have developed a project management process that oversees new store design and construction with the franchisee to ensure adherence to BP Canada LP’s store design standards. The design and construction process includes the design, tender and award process, development review process, construction start-up meetings, on-site construction completion and pre-opening review, final inspection, one-year warranty inspection and final project review. The construction department also has oversight of the renovation construction process with the franchisees to ensure adherence to BP Canada LP’s current design standards. Each Boston Pizza Restaurant must renovate their restaurant on a seven-year cycle, which includes design changes to the exterior and interior, scope of work, budget preparation, drawing and tendering.

Training – New Franchisees and/or their general managers undergo seven weeks of total training. Each trainee completes an intensive five-day Business Management Foundations program and then completes six weeks of practical training at one of the corporate restaurants. BP Canada LP provides a separate three-week training course for the franchisee’s kitchen manager. In addition to the initial franchisee training program, BP Canada LP provides ongoing training programs; including in-market sessions annually, a leadership conference every two years, and ongoing on-line learning sessions.

Store Opening Support – A regional business manager is assigned to each new franchise to assist in the development of a business plan and a restaurant opening marketing support program. Two weeks prior to the store opening date, BP Canada LP supplies a four person training team that stays during training and for two weeks after opening. The training team assists the franchisee in training staff and managers on restaurant operating standards.

Ongoing Field Support – Each restaurant is assigned to a regional business manager who provides ongoing support and assessment of the financial and operations standards including local store marketing. In the first year a restaurant is open it will receive a minimum of three visits from their regional business manager: a store opening visit and two for support and planning. After the first year, each Boston Pizza Restaurant receives a minimum of two standards assessments (conducted by a third party provider), two visits with their regional business manager for support and planning, and ongoing online learning sessions. There are also a number of programs that utilize comprehensive tools and reports that help franchisees and managers budget, monitor expenses, and understand overall guest satisfaction. All programs link into an annual reward program that recognizes top performing stores that utilize and execute BP Canada LP’s programs, processes and tools.

Purchasing – BP Canada LP leverages Boston Pizza’s buying power to procure the highest quality ingredients at the best possible prices. Approximately 85% of total food purchases are covered under national buying contracts that are negotiated directly with large manufacturers. This allows Boston Pizza Restaurants to procure food, packaging and equipment at prices that are substantially lower than the market average price for like items.



Research and Development – BPI employs an executive chef and has a Menu Development Committee, who together are responsible for menu development. This group's key goal is the continuous refreshment and updating of the menu while maintaining BP Canada LP's strategic food cost target. This group also manages menu design and administration and reviews pricing decisions.

Information Technology – Franchisees use the POSitouch point of sale system for order entry, inventory, labour management and reporting. POSitouch provides detailed information on food and labour costs, and the system's architecture allows BP Canada LP to collect detailed sales information electronically. This information is stored in a data warehouse and is then used by BPI's staff to analyze menu item profitability, menu item sales volumes and to support marketing decisions. Immediate communication throughout the organization is achieved online through BPI's Intranet system, "Bostonlink", a web-based knowledge management and collaboration system which allows franchisees and corporate staff continual access to key operational information and company announcements along with access to online manuals and resource materials.

Franchise Agreement – The legal relationship between a franchisee and BP Canada LP is governed by a franchise agreement entered into between each franchisee and BP Canada LP. In BP Canada LP's standard franchise agreement, BP Canada LP licenses a franchisee the right to operate a Boston Pizza Restaurant and use the BP Rights in a specific geographical location strictly in accordance with comprehensive standards and protocols mandated in the franchise agreement. For this right, the franchisee is required to pay BP Canada LP a 7% royalty on Franchise Sales (in the case of a full service restaurant or fast casual) and a 5% royalty on Franchise Sales (in the case of a quick express restaurant), together with a marketing fee of 3% of Franchise Sales and certain other charges as specified in the franchise agreement. The initial term of a franchise agreement is typically 10 years, with a right to renew the franchise agreement for an additional term of 10 years in certain circumstances. One of BP Canada LP's competitive strengths is that the franchise agreement requires each Boston Pizza Restaurant to undergo, at the franchisee's expense, a complete store renovation every seven years and complete any equipment upgrades as required by BP Canada LP. BP Canada LP has the right to terminate a franchise agreement in a variety of circumstances, including a material breach of the franchise agreement by the franchisee or the bankruptcy or insolvency of the franchisee.

### *Competitive Strengths*

BPI and BP Canada LP believe that the success of the Boston Pizza concept and the historical increases in SSSG and Franchise Sales are driven by the following factors:

- Low Food Costs and Menu Variety - The Boston Pizza menu features pizza and pasta on an extensive menu of over 100 items. The balance of low-cost high return signature food items like pizza and pasta and high cost items such as steak, seafood or poultry affords us a lower than average overall food cost while providing our guests with tremendous menu variety. The corporate target is to maintain pizza and pasta sales at 40% to 50% of food sales in order to maintain our food cost targets, which is a key component of Boston Pizza's success.
- Broad Demographic Appeal – Boston Pizza Restaurants operate within two distinct categories of the full service restaurant segment as a casual dining restaurant and as a sports bar. This concept duality means that the typical Boston Pizza Restaurant has broader demographic appeal, primarily targeting families as restaurant customers as well as young adults with no children as sports bar customers. These two segments are typically considered to be very different markets.
- Ability to Target Multiple Dayparts – The Boston Pizza concept provides a franchisee with the flexibility necessary to target four distinct "dayparts" or segments – lunch, dinner and late night, as well as the takeout and delivery segment. Typically, other casual dining concepts are not as well developed in the late night and takeout and delivery segments.

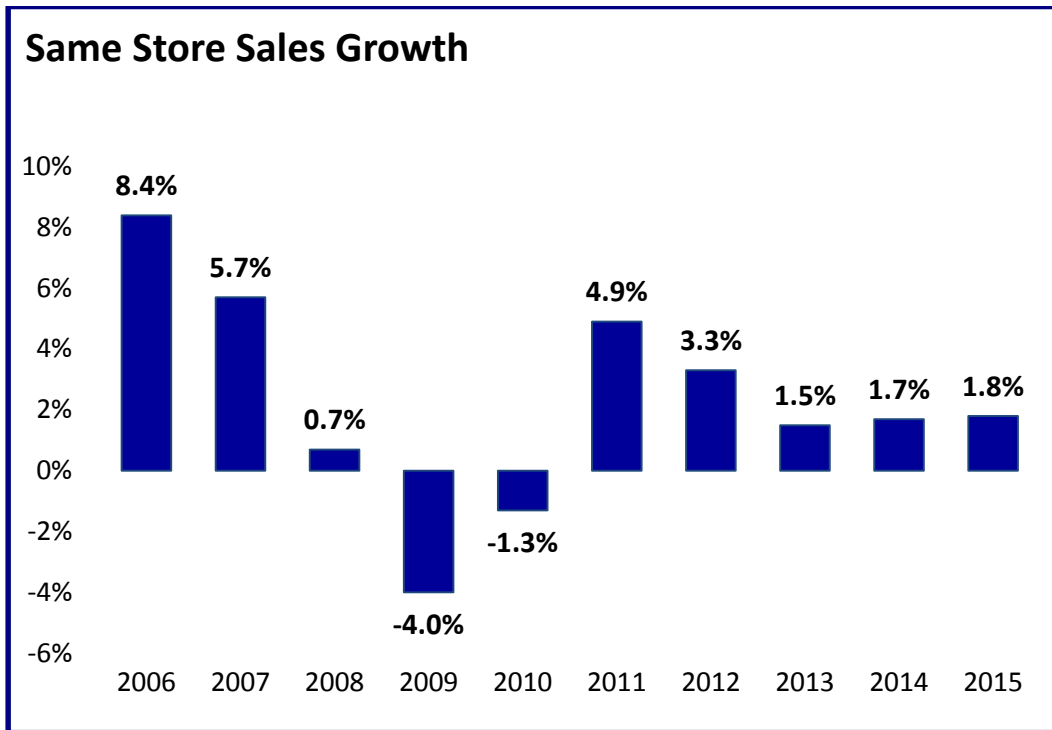
- Single Brand Focus – BPI’s and BP Canada LP’s exclusive focus on Boston Pizza has driven the continued successful evolution of the brand. This has had a significant impact in the areas of menu development, franchisee communication and relations, and marketing.
- Franchise System Focus – Unlike many competitors in the casual dining segment, BPI’s and BP Canada LP’s business is focused on franchisee operations rather than owning and operating restaurants corporately. BPI owns and operates only three Boston Pizza Restaurants (which also serve as testing facilities and training centres for franchisees). The focus of BPI’s and BP Canada LP’s operations is on the success of BP Canada LP’s franchised restaurants.
- Market Flexibility – With its menu diversity, average cheque advantage and profitability potential for a franchisee, the Boston Pizza concept has enjoyed success in a wide range of markets, including smaller markets. Some very successful franchises operate in population trade areas under 20,000 people. The profitability and universality of the Boston Pizza concept allows for expansion into markets which BPI and BP Canada LP believe would be unable to support other competing casual dining concepts.
- Average Cheque Advantage – Boston Pizza delivers a top quality eating experience with a lower average guest cheque relative to many other casual dining restaurants. This translates into a significant advantage for franchisees, BPI and BP Canada LP, both in being able to target a broader market generally and in providing an appealing “cross-over” option for customers in changing economic conditions.
- Ability to Continuously Update the Concept – BP Canada LP’s franchise agreement requires franchisees to update their restaurants at least every seven years to current standards set by BP Canada LP. This is a significant advantage in that it allows BP Canada LP to ensure that locations are maintained at the highest standards and allows for regular updating of the concept. In many cases this regular updating and renovation has been a key determinant of the continued success of specific locations.
- Award Winning National Marketing Platform – Boston Pizza is one of the few casual dining restaurant brands in Canada able to utilize the efficiencies of national marketing initiatives such as purchasing blocks of advertising on cable and national network television. This growth in marketing resources has allowed BPI and BP Canada LP to invest in an aggressive promotional calendar.
- Advantages of Scale and Scope – As well as increasing marketing impact, BPI and BP Canada LP are able to benefit from the increasing number of franchise operations to increase purchasing efficiencies and reduce unit cost overhead in providing services to franchisees.

### *Growth Strategy*

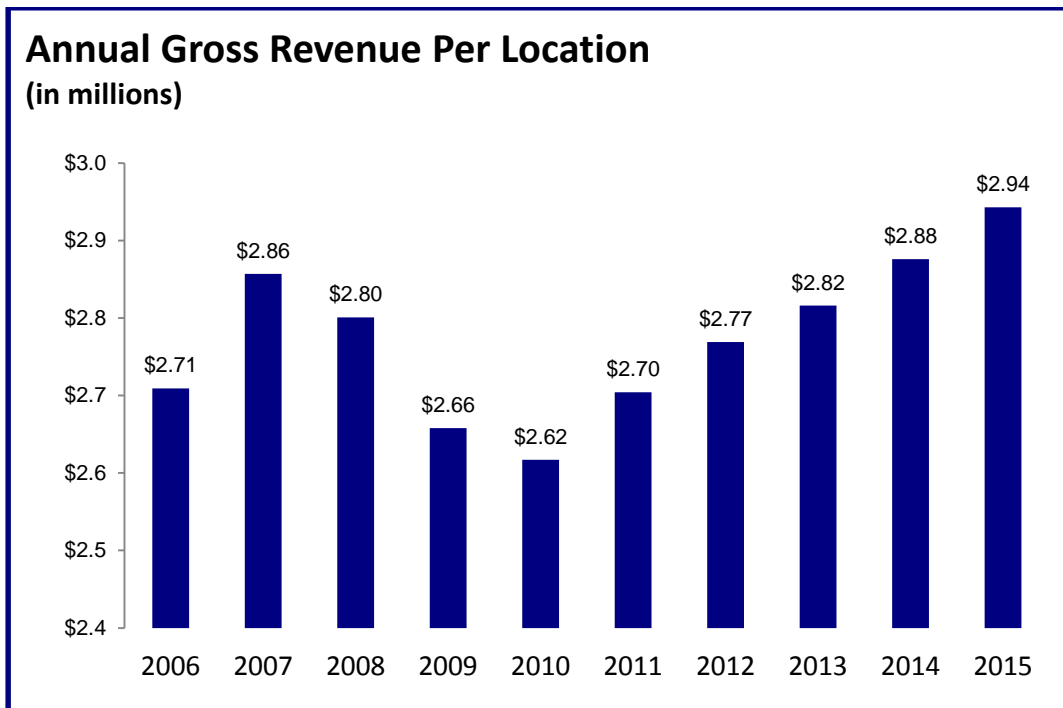
Management believes that Boston Pizza is well positioned to enhance its number one position in the casual dining market. BP Canada LP’s future growth is expected to come from a combination of same store sales growth and new restaurant growth.

- Same Store Sales Growth – BPI and BP Canada LP have demonstrated a track record of solid SSSG, averaging 2.3% over the last 10 years. BP Canada LP’s franchise agreement requires that each Boston Pizza Restaurant undergo a complete store renovation once every seven years at the franchisee’s expense, as well as any equipment upgrades required by BP Canada LP. BP Canada LP’s renovation program is a proven sales builder. Restaurants typically close for two to three weeks to complete the renovation and experience an incremental sales increase in the year following the re-opening.

The following chart shows SSSG over the last ten years ended December 31, 2015.



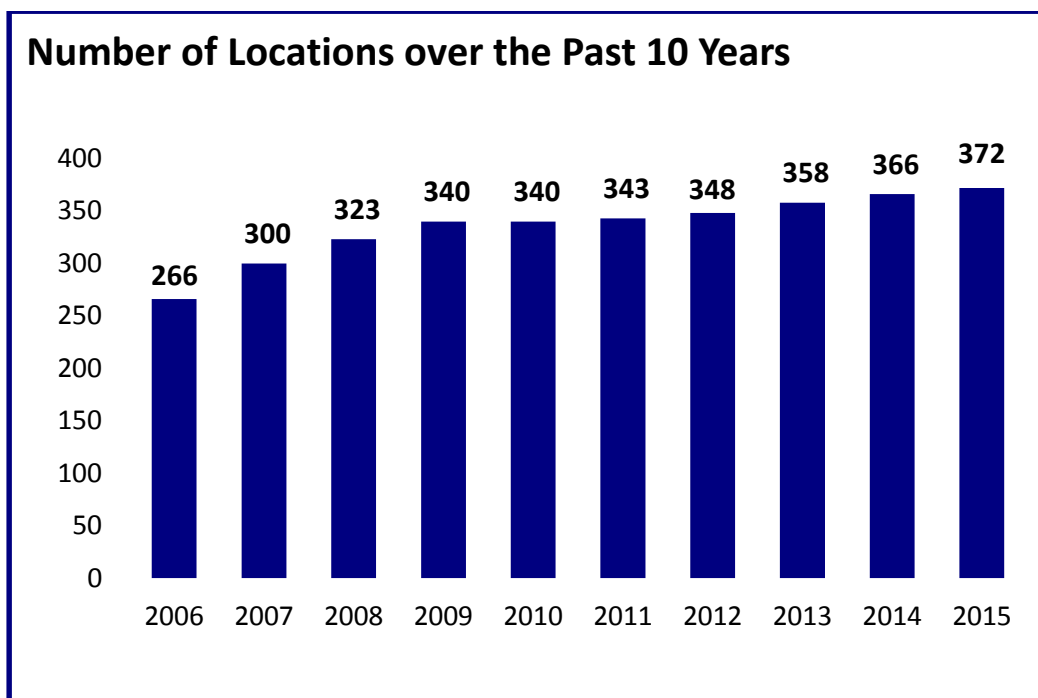
- Gross Sales per Restaurant – The following chart shows average annual Gross Sales per Boston Pizza Restaurant over the last ten years ended December 31, 2015 (excluding (i) any Boston Pizza Restaurant that was not open for a minimum of 24 months as at the end of the applicable year, (ii) Boston Pizza Quick Express locations, and (iii) Boston Pizza Fast Casual locations).



- Growth in New Restaurants – BP Canada LP currently has commitments from franchisees to develop new restaurants. Eastern Canada and Quebec are markets with significant development potential for new restaurants. BP Canada LP will also continue to infill an already well developed market in Western Canada. As at February 9, 2016, BP Canada LP has received five deposits for new restaurants in Eastern Canada, 11 deposits for new restaurants in Western Canada and four deposits for new restaurants in Québec. As at December 31, 2015, 372 Boston Pizza Restaurants were in operation. The following is a summary of existing Boston Pizza Restaurants by province:

Province	Number of Existing Restaurants (including Fast Casual and Quick Express)
Alberta	107
British Columbia	62
Manitoba	19
New Brunswick	5
Newfoundland and Labrador	2
Northwest Territories and Yukon	2
Nova Scotia	10
Ontario	115
Prince Edward Island	1
Québec	27
Saskatchewan	22
<b>TOTAL</b>	<b>372</b>

The following chart shows the total number of Boston Pizza Restaurants in existence during the last 10 years ended December 31, 2015:



## *Government Regulation*

### Local Regulation of Boston Pizza Restaurants

Boston Pizza Restaurants are subject to licensing and regulation by a number of governmental authorities, which may include liquor, health, sanitation, safety, fire, building and other agencies in the provinces or municipalities in which Boston Pizza Restaurants are located. Developing new Boston Pizza Restaurants in particular locations requires licenses and land use approval, and restaurant openings could be delayed by difficulties in obtaining such licenses and approvals or by more stringent requirements of local government bodies with respect to zoning, land use and licensing. Boston Pizza franchisees must comply with all applicable federal, provincial and local laws and regulations. Pursuant to its franchise agreements, BP Canada LP is indemnified by Boston Pizza franchisees for any liabilities or costs incurred which are attributable to the franchisee's failure to comply with such laws and regulations.

### Food Product Regulation

BPI, BP Canada LP, Boston Pizza franchisees and suppliers of food products to Boston Pizza Restaurants must comply with applicable federal and provincial regulations relating to the manufacturing, preparation and labelling of food products.

### Franchise Regulation

BP Canada LP must comply with the laws and regulations adopted in the Provinces of Alberta, Manitoba, Ontario, Prince Edward Island and New Brunswick that require certain disclosure to be made with respect to the offer and sale of franchises. These laws require that BP Canada LP furnish prospective Boston Pizza franchisees with a disclosure document containing information prescribed by these laws. British Columbia has passed similar franchise legislation, which may come into force during 2016. BP Canada LP will comply with this similar legislation in British Columbia to the extent that it comes into force.

### Employment Regulations

BPI, BP Canada LP and Boston Pizza franchisees are subject to provincial labour and employment laws that govern their relationship with employees, such as minimum wage requirements, overtime and working conditions.

### Regulations Governing Alcoholic Beverages

Alcoholic beverage control regulations require that BPI, its subsidiaries, BP Canada LP or a Boston Pizza franchisee, as the case may be, apply to a provincial or a municipal authority for a license or permit to sell alcoholic beverages on the premises and, in certain locations, to provide service of alcoholic beverages for extended hours and on Sundays. Typically, licenses must be renewed annually and may be revoked or suspended for cause at any time. Alcoholic beverage control regulations relate to numerous aspects of daily operations of a Boston Pizza Restaurant, including the minimum age of patrons and employees, hours of operation, advertising, wholesale purchasing, inventory control, and handling, storage and dispensing of alcoholic beverages.

Boston Pizza Restaurants may be subject to certain provincial statutes, which may provide a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person.

### Regulations Governing Smoking

Boston Pizza Restaurants are subject to various laws that prohibit or limit smoking on the premises and that impose fines for failure to adhere to such laws.

## *Competition*

Boston Pizza Restaurants compete with other food service operations within the same geographical area. Competitors, in the broadest perspective, include full service restaurants, quick service restaurants, coffee shops, delicatessens and supermarkets. More narrowly, Boston Pizza is competing within the casual dining category of the full service restaurant segment. The principal competitors to Boston Pizza vary from market to market and include a number of regional and national chain restaurants. These include Earl's, East Side Mario's, Jack Astor's, Kelsey's, Montana's and The Keg, as well as other smaller chains.

Boston Pizza competes with other casual dining concepts for high quality restaurant sites as well as committed, qualified individuals as franchisee candidates. In terms of customers, competition comes primarily through the quality, variety and value perception of the menu items, as well as through the perception of the quality of the dining experience. The number of locations, attractiveness of facilities, effectiveness of marketing and menu development are also important competitive factors.

## *Seasonality*

Boston Pizza Restaurants experience seasonal fluctuations in Franchise Sales, which are inherent in the full service restaurant industry in Canada. Seasonal factors such as better weather allow Boston Pizza Restaurants to open their patios and generally increase Franchise Sales in the second and third fiscal quarters compared to the first and fourth fiscal quarters. Tourism is also a seasonal factor positively impacting the same time frame.

## **BPI's Line of Credit**

BPI entered into an agreement with the Bank dated March 25, 2015 whereby the Bank agreed to provide to BPI an operating line of credit, repayable on demand, in the amount of \$7.5 million with an interest rate equal to the Bank's prime rate. This Line of Credit is used to cover BPI's day-to-day operating requirements through normal seasonal variations in the business, if needed. As of February 9, 2016, no amounts were drawn on this Line of Credit.

BPI's obligation under the Line of Credit from the Bank is secured by:

- a first charge over the Class B Units held by BPI; and
- a charge over all other assets of BPI and BPI's wholly-owned subsidiaries that is subordinate to the following:
  - the Fund GSA (BPI) granted by BPI and its wholly-owned subsidiaries to the Fund to secure BPI's obligations under the BP Loan;
  - the Royalties LP GSA (BPI) granted by BPI and its wholly-owned subsidiaries to Royalties LP to secure BPI's obligations under the License and Royalty Agreement; and
  - certain charges of another lender over specific restaurant equipment owned by BPI's wholly-owned subsidiaries.

The Fund and its subsidiaries (including Royalties LP) will continue to have a first charge over all assets of BPI other than the Class B Units held by BPI, and will have a second position charge over the Class B Units held by BPI and the other assets of BPI's wholly-owned subsidiaries (with certain exceptions). BP Canada LP has not guaranteed, nor granted any security, in respect of BPI's Line of Credit.

BPI, as part of the security granted to the Bank, has pledged a minimum number of Class B Units held by BPI, which are convertible into Units of the Fund, which would have a value, at any time, equal to at least 200% of the amount outstanding on the Line of Credit.

BPI and its wholly-owned subsidiaries have also consented under the Line of Credit that they will:

- not guarantee any debt without the prior consent of the Bank;
- not grant a security interest in their assets without the prior consent of the Bank (excluding standard permitted liens);
- not amalgamate or merge without the consent of the Bank (such consent not to be unreasonably withheld);
- not allow a change of control without the prior consent of the Bank (such consent not to be unreasonably withheld);
- not maintain the Line of Credit in an overdraft position for more than 180 consecutive days;
- at all times maintain a maximum total funded debt to EBITDA ratio of 3.00:1 (tested quarterly; EBITDA is calculated on a rolling 4 quarters basis);
- at all times maintain a ratio of CFADS to TDS of 1.25:1 (tested annually); and
- provide the Bank not less than 30 days' prior written notice of BPI exchanging any Class 3 GP Units, Class 4 GP Units or Class 5 GP Units of BP Canada LP.

In addition, BP Canada LP has agreed with the Bank not to do any of the following without the Bank's prior written consent:

- create, incur or assume any funded debt; and
- grant or permit any security interest or lien to exist over its assets other than: (i) statutory liens for amounts not yet overdue; (ii) landlord rights of distress for rent not yet overdue; (iii) security interests granted in favour of the Fund in respect of BPI's obligations under the BP Loan; and (iv) security interests granted in favour of Royalties LP in respect of BPI's obligations under the License and Royalty Agreement.

BPI's compliance with its financial covenants is calculated in accordance with the terms of BPI's agreement with the Bank.

## **LICENSE AND ROYALTY**

### **The License**

Pursuant to the License and Royalty Agreement, Royalties LP has granted to BPI the License to use the BP Rights for a period of 99 years from July 17, 2002 to December 30, 2101. As part of the Transaction, BPI has sublicensed the BP Rights to BP Canada LP pursuant to the BP Licensed Marks Sublicense Agreement. See "BP Licensed Marks Sublicense Agreement".

### **The Royalty**

As consideration for the License, BPI pays Royalties LP on a monthly basis the Royalty equal to 4% of Franchise Sales for all Boston Pizza Restaurants included in the Royalty Pool. The amount of the Royalty is determined at the end of each month and is payable on the 21<sup>st</sup> day following the end of such month.

The Royalty Pool, at any time, is comprised of the Boston Pizza Restaurants for which Franchise Sales is to be calculated and for which the Royalty is to be paid at such time. As of February 9, 2016 there are 372 Boston Pizza Restaurants in the Royalty Pool. For the purposes of determining the amount of the

Royalty payable at any time, Franchise Sales is Gross Sales after deducting revenue from the sale of liquor, beer, wine and tobacco and approved national discounts and excluding applicable sales and similar taxes.

Each time a Royalty payment is made to Royalties LP, BPI provides Royalties LP with a statement, certified as correct by the Chief Financial Officer of BPI, of the amount of the Franchise Sales for the month for which the Royalty is paid. Royalties LP is entitled to inspect the books and records of BPI at any time to review the determination of the amount of the Royalty that is payable by BPI. BPI is obligated to provide Royalties LP and the Fund, by not later than February 28 of each year, with an audited statement of the amount of Franchise Sales for the 12 months ended on December 31 of the preceding year.

BPI is also obligated to provide Royalties LP and the Fund with BPI's unaudited financial statements within 45 days of the end of each quarterly accounting period of BPI and audited annual consolidated financial statements within 90 days of the end of each fiscal year of BPI. These financial statements are required to be prepared in accordance with International Financial Reporting Standards.

### **Operating Covenants of BPI in the License and Royalty Agreement**

BPI is obligated under the License and Royalty Agreement, among other things, to:

- operate and conduct its business (including the supervision of the Boston Pizza franchisees) in at least the manner and to at least the standards that its business was conducted and operated as at July 17, 2002;
- preserve and protect the business of BPI;
- collect all fees and other amounts payable to BP Canada LP under franchise agreements with BP Canada LP by Boston Pizza franchisees;
- monitor the compliance of Boston Pizza franchisees with the trade-mark and character and quality standards set under the franchise agreements;
- enforce the observance and performance of franchise agreements by Boston Pizza franchisees in a manner that is consistent with good and prudent business practices; and
- not, without the consent of the Trustees, which will not be withheld unreasonably, amend the terms of any franchise agreement such that:
  - royalty revenues under a franchise agreement are calculated in a manner that is not consistent with the present and past practices of BPI, including, without limitation, any reduction in the percent of food sales that is payable by franchisees as a royalty;
  - franchisees are required or have the opportunity to purchase supplies or equipment from BPI or any affiliate of or related party to BPI, in connection with any change in the manner by which royalty revenues are determined; or
  - franchisees are obligated to carry on business in a manner that is not materially consistent with historical Boston Pizza practice.

### **Annual Adjustment of the Royalty**

The Royalties Limited Partnership Agreement and the License and Royalty Agreement provide for an annual adjustment to the distribution and exchange entitlements of the Class B Units based upon permanently closed Boston Pizza Restaurants and any Additional Restaurants, to reflect the additional Royalty payable by BPI to Royalties LP as a result of adding Net New Restaurants to the Royalty Pool.



See “Annual Adjustment to Royalty Pool” and “General Development of the Business – Recent Developments” for an example of the annual adjustment of the Royalty.

## **Guarantee and Security for the Royalty**

### *Guarantee*

BP Canada LP has granted Royalties LP the Royalties LP Guarantee, pursuant to which BP Canada LP has guaranteed all debts, liabilities and obligations, present or future, of BPI under the License and Royalty Agreement (including payment of the Royalty).

### *Security*

Payment of the Royalty is secured by:

- (a) a general security interest in all present and after acquired property of BPI (with certain exceptions), pursuant to the Royalties LP GSA (BPI) granted by BPI to Royalties LP; and
- (b) a general security interest in all present and after acquired property of BP Canada LP (with certain exceptions), including all amounts payable to BP Canada LP by the Boston Pizza franchisees operating Boston Pizza Restaurants in Canada, pursuant to the Royalties LP GSA (BP Canada LP) granted by BP Canada LP to Royalties LP.

Under the Royalties LP GSA (BPI) and Royalties LP GSA (BP Canada LP), Royalties LP is entitled, in the event of a default by BPI or BP Canada LP, respectively, to appoint a receiver of BPI or BP Canada LP, respectively, with the power to carry on their respective business, and, in the event of a material default by BPI, to require BPI to prepay the amount of the Royalty for 12 months. All amounts realized by the receiver, after costs, will be applied to the costs of operating the business of BPI or BP Canada LP, as the case may be, and to the payment of the Royalty to Royalties LP (in the case of BPI). BPI has obtained the Line of Credit from the Bank. BPI’s obligation under the Line of Credit is secured by a first charge over the Class B Units of Royalties LP held by BPI, and a second-ranking charge over certain other assets of BPI and its subsidiaries. As a consequence, Royalties LP’s interest in the Class B Units of Royalties LP held by BPI is subordinate to that charge. See “Description of the Business - BPI Line of Credit”.

### *Negative Covenants*

BPI has covenanted in Royalties LP GSA (BPI) in respect of the Royalty and the Fund GSA (BPI) in respect of the BP Loan, among other things, not to, and not to permit its subsidiaries that are credit parties to Royalties LP GSA (BPI) to, incur any indebtedness (with certain exceptions), grant any security interests (with certain exceptions), pay any dividends, or dispose of any interest in any subsidiary of BPI that owns a Boston Pizza Restaurant in Canada except in certain circumstances. In addition, BP Canada LP has covenanted in the Royalties LP GSA (BP Canada LP) and the Fund GSA (BP Canada LP), among other things, not to grant any security interest over its assets (with certain exceptions) or dispose of its assets except in the ordinary course of business (with certain exceptions).

### *Certain Remedies*

In the event of a default by BPI under the License and Royalty Agreement, the BP Loan, the Fund GSA (BPI) or Royalties LP GSA (BPI), including the failure to pay the Royalty or any interest payment when due, or in the event of default by BP Canada LP under the Royalties LP GSA (BP Canada LP) or Fund GSA (BP Canada LP), Royalties LP and the Fund are each entitled to a number of remedies, both at law and under the agreements. The principal remedies include the commencement of legal proceedings, assignment to Royalties LP or the Fund of amounts owing by franchisees to BP Canada LP under its franchise agreements and the appointment of a receiver to take possession of the assets of BPI or BP Canada LP over which the Fund or Royalties LP have a security interest.

In the event of the bankruptcy or insolvency of BPI, the License and Royalty Agreement provides that BPI is required to prepay the Royalty by paying Royalties LP the present value at that time, of the Royalty over the remaining term of the License and Royalty Agreement.

Until the Royalty is brought into good standing, or Royalties LP agrees to other arrangements, and subject to applicable law (including laws governing reorganizations), a receiver appointed by Royalties LP or by the court would continue to operate the business of BPI and its affiliated entities over which Royalties LP and the Fund have a security interest.

The foregoing is a summary only of the remedies available to Royalties LP in the event of a default by BPI under the License and Royalty Agreement and Royalties LP GSA (BPI), or in the event of a default by BP Canada LP under the Royalties LP GSA (BP Canada LP).

## **BP LICENSED MARKS SUBLICENSE AGREEMENT**

Pursuant to the BP Licensed Marks Sublicense Agreement, BPI provided BP Canada LP a royalty-free sublicense to use the BP Rights for the purpose of BP Canada LP acting as the exclusive franchisor of Boston Pizza Restaurants for a term ending on the earlier of the termination or expiry of the License and Royalty Agreement or the dissolution of BP Canada LP. Under the BP Licensed Marks Sublicense Agreement, BP Canada LP has agreed to fully comply with the License and Royalty Agreement, and to cooperate with BPI in BPI fulfilling its obligations under the License and Royalty Agreement. Royalties LP has consented to BP Canada LP fulfilling certain obligations of BPI under the License and Royalty Agreement and has agreed that BP Canada LP's fulfillment of those obligations will be treated as though BPI fulfilled the same.

## **DESCRIPTION OF ROYALTIES LP**

### **General**

Royalties LP is a limited partnership formed under the laws of British Columbia. The business of Royalties LP is the ownership of the BP Rights, the taking of actions consistent with the License and Royalty Agreement to exploit, to the fullest extent possible, the use of the BP Rights by BPI, and the collection of the Royalty payable to Royalties LP under the License and Royalty Agreement and the administration of the affairs of the Fund, Holdings LP, Holdings GP and the Trust. Royalties LP is governed by the Royalties Limited Partnership Agreement.

### **Partners**

The members of Royalties LP are Royalties GP, as the managing general partner holding 99% of the Royalties GP Units; BPI, as a general partner holding in aggregate 1% of the Royalties GP Units, 100% of the Class B Units and 100% of the Class C Units; and Holdings LP, as the sole limited partner holding 100% of the LP Units, Class A Units and Class D Units.

### **Royalties LP Securities**

As of February 9, 2016, there are 4,783,397 Class B Units, 2,400,000 Class C Units, 100 Royalties GP Units, 7,690,000 LP Units, 1,605,290 Class A Units, and 9,540,884 Class D Units issued and outstanding. The rights and entitlements of these units in Royalties LP with respect to voting, distributions of distributable cash, allocations of income and distributions of proceeds of liquidation of Royalties LP are described in this description of Royalties LP.

The Royalties Limited Partnership Agreement provides that, subject to the terms, conditions and restrictions contained therein, Royalties LP may issue an unlimited number of Royalties LP Securities to any person. The managing general partner (currently Royalties GP) is entitled to determine the amount of capital required to be contributed in respect of each unit, the time or times at which the contribution is to be paid to Royalties LP and to amend the certificate of limited partnership to reflect such units. The amount of

capital to be contributed in respect of any Royalties LP Security may be paid in cash, or in property, as determined by the managing general partner.

Limited partners are liable for the liabilities, debts and obligations of Royalties LP, but only to the extent of the amount contributed by them or agreed to be contributed by them to Royalties LP, provided that they take no part in the management of Royalties LP. Subject to applicable law, limited partners do not otherwise have any liability in respect of the liabilities, debts and obligations of Royalties LP. The maximum amount to be contributed to Royalties LP in respect of an LP Unit or a Class A Unit, Class B Unit or Class C Unit is the amount agreed to by Royalties LP as the value of the property contributed to Royalties LP in respect of such unit. Each holder of Royalties GP Units, as a general partner, will have unlimited liability for obligations of Royalties LP.

## **Distributions**

Royalties GP, as managing general partner, is obligated, on behalf of Royalties LP, to distribute cash as set out below. Distributions of available cash in respect of each month will be made no later than the third business day immediately prior to the end of the month following the month in which the applicable distribution period ends to Royalties GP and to those partners listed on record on the 21st day of such following month (except distributions in respect of December, for which the record date will be the last day of December). Royalties GP may, on behalf of Royalties LP, distribute additional available cash at any other time.

Available cash at any time will represent, in general, all of Royalties LP's cash at such time, less amounts which in the opinion of Royalties GP are required to be provided for at such time in respect of:

- debt service obligations, if any, and payments on account of principal of the Credit Facilities or any other debt obligations of Royalties LP;
- interest (including interest accrued or payable under the Credit Facilities) and other expense obligations of Royalties LP;
- expenses of the Fund, the Trust, Royalties GP, Holdings LP and Holdings GP to be paid by Royalties LP under the Administration Agreement;
- expenses of Royalties LP; and
- reasonable reserves considered necessary or desirable by Royalties GP.

Royalties LP is obligated to make monthly distributions to its partners of available cash first to holders of LP Units; second to holders of Class C Units; third, to holders of Class D Units; fourth, to holders of Class A Units; fifth, to holders of Class B Units; and sixth, to holders of Royalties GP Units; in the amounts prescribed by the Royalties Limited Partnership Agreement. Any amounts remaining after those distributions will be distributed to holders of Class A Units, Class B Units, Class D Units and LP Units *pro rata* with the *pro rata* entitlements determined as prescribed by the Royalties Limited Partnership Agreement.

In addition, as soon as practicable after each Adjustment Date there will be distributed to the holders of the Class B Units, in priority to all other distributions, any positive amount that would have been distributed to holders of Class B Units in the previous year if the Class B Determined Amount for that period had been based on the actual Franchise Sales of the Additional Restaurants added to Royalty Pool on the previous Adjustment Date rather than on an estimate of those revenues. In the event the holders of Class B Units should have received less distributions in the previous year than they received based on the estimated Class B Determined Amount, the holders of the Class B Units will pay to Royalties LP the negative difference between what they should have received and what they actually received.

## **Annual Adjustment to Royalty Pool**

The Royalties Limited Partnership Agreement and the License and Royalty Agreement provide for an annual adjustment to the distribution and exchange entitlements of the Class B Units based upon permanently closed Boston Pizza Restaurants and any Additional Restaurants, to reflect the additional Royalty payable by BPI to Royalties LP as a result of adding Net New Restaurants to the Royalty Pool. See "Annual Adjustment to Royalty Pool".

## **Allocation of Income and Losses**

The income or loss, if any, of Royalties LP for accounting purposes for each Fiscal Year, and the income or loss, if any, of Royalties LP as determined pursuant to the Tax Act for a particular Fiscal Year, is allocated to the holders of Class A Units, Class B Units, Class C Units, Class D Units, Royalties GP Units and LP Units in proportion to the available cash of Royalties LP distributed or loaned to such holders in respect of such Fiscal Year. The amount of income allocated to a partner may exceed or be less than the amount of cash distributed by Royalties LP to that partner. In any Fiscal Year in which no cash is distributed to the partners in respect of their units, income or loss is allocated to partners in proportion to the number of Royalties LP Securities held by each partner.

## **Liquidation Entitlement**

In the event of a dissolution of Royalties LP, Royalties GP (as managing general partner of Royalties LP) will distribute the net proceeds from the liquidation of Royalties LP (after payment of expenses and provision for indebtedness and adequate reserves) first, to holders of Class C Units; second, to holders of Class D Units; third, to the holders of Class A Units; fourth, to the holders of Class B Units; fifth, to the holders of Royalties GP Units; and sixth, to each partner that made additional contributions; in amounts prescribed in the Royalties Limited Partnership Agreement. Any amounts remaining after those distributions will be distributed to the holders of Class A Units, Class B Units, Class D Units and LP Units *pro rata*, with the *pro rata* entitlements determined as prescribed by the Royalties Limited Partnership Agreement.

## **Voting**

Except as expressly provided for in the Royalties Limited Partnership Agreement, units in Royalties LP do not carry any entitlement to vote.

## **Functions and Powers of Royalties GP and BPI**

Royalties GP (as managing general partner of Royalties LP) has the authority to manage the business and affairs of Royalties LP, to make decisions regarding the business of Royalties LP and to bind Royalties LP in respect of any such decision. Royalties GP is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of Royalties LP and to exercise the care, diligence and skill of a reasonably prudent person in comparable circumstances.

The authority and power to be vested in Royalties GP to manage the business and affairs of Royalties LP includes all authority necessary or incidental to carry out the objects, purposes and business of Royalties LP, including the ability to engage agents to assist Royalties GP to carry out its management obligations and administrative functions in respect of Royalties LP and its business. BPI, as a general partner of Royalties LP, is actively engaged in the business of Royalties LP, is responsible for assisting, and has authority to assist, Royalties GP in the management of the business and affairs of Royalties LP and performs such additional specific duties in connection with the business of Royalties LP as are delegated to BPI by Royalties GP from time to time and pursuant to the Royalties Limited Partnership Agreement. BPI provides ongoing and regular consultation and management services to Royalties LP as to the operation and management of the business of Royalties LP, in addition to the assistance provided to Royalties GP.

In particular, BPI is responsible for:

- the performance of the duties of Royalties LP pursuant to the Administration Agreement;
- the provision of accounting, book-keeping and administrative services; and
- subject to the approval of Royalties GP, allocating distributions of cash and allocations of taxable and accounting income to the partners.

The Royalties Limited Partnership Agreement provides that all material transactions and agreements involving Royalties LP (other than the agreements entered into in connection with the formation of Royalties LP) must be approved by Royalties GP's board of directors and, where those agreements involve BPI or its affiliates or associates, they must be approved by a majority of the directors who are not nominees of BPI or of an affiliate or an associate of BPI, and where those agreements involve the creation of debt obligations for which BPI is liable, they must be approved by BPI. Royalties GP and BPI are both entitled, under Royalties Limited Partnership Agreement, to reimbursement of out-of-pocket costs associated with activities undertaken on behalf of Royalties LP.

### **Limited Liability**

Royalties LP is obligated to operate in a manner so as to ensure, to the greatest extent possible, the limited liability of the limited partners. Limited partners may lose their limited liability in certain circumstances. If limited liability is lost, other than by reason of an act or omission of the relevant limited partner, Royalties GP is obligated to indemnify the limited partner against all claims suffered or incurred by such limited partner because the liability of such limited partner is not limited as intended by the Royalties Limited Partnership Agreement.

However, since Royalties GP has no significant assets or financial resources, the indemnity from Royalties GP may have nominal value.

### **Transfer of Royalties LP Securities**

Except as provided in the Governance Agreement and the Exchange Agreement, Royalties LP Securities are not transferable or assignable to any person. No assignee of Royalties LP Securities will be entitled to be admitted to Royalties LP as a partner pursuant to an assignment thereof, except with the written consent of Royalties GP and BPI (which consent Royalties GP and BPI will each be entitled to withhold in their sole discretion) on the terms and conditions of such consent and unless the assignee has delivered to Royalties GP an assignment, power of attorney and such other instruments and documents as may be required by Royalties GP in appropriate form completed and executed in a manner acceptable to Royalties GP and upon the payment of an administration fee, if any, required by Royalties GP. A transferee of a Royalties LP Security will not become a partner or be admitted to Royalties LP and will not be subject to the obligations and entitled to the rights of the transferor under the Royalties Limited Partnership Agreement until the foregoing conditions are satisfied and such transferee is recorded on Royalties LP's register of partners.

BPI has, as part of the security granted to the Bank for the Line of Credit, pledged a minimum number of Class B Units held by BPI in Royalties LP which are convertible into Units of the Fund which would have a value, at any time, equal to at least 200% of the amount outstanding on the Line of Credit. See "Description of Business – BPI's Line of Credit."

## **Governance Agreement**

The Fund, the Trust, BP Canada LP, BPI, Royalties LP, Royalties GP, Holdings LP, Holdings GP and certain of the Related Parties have entered into a Governance Agreement, providing for, among other things, the governance of Royalties GP. See "Management – Governance Agreement".

## **DESCRIPTION OF BP CANADA LP**

### **General**

BP Canada LP is a limited partnership formed under the laws of British Columbia. The business of BP Canada LP is being the exclusive franchisor Boston Pizza Restaurants. This involves collecting royalties from franchisees, collecting contributions from suppliers to franchisees, and making distributions of available cash to its partners, Holdings LP and BPI. BP Canada LP is governed by the BP Canada Limited Partnership Agreement.

### **Partners**

The partners of BP Canada LP are BPI, as the sole general partner, holding 100% of the Class 2 GP Units, Class 3 GP Units, Class 4 GP Units, Class 5 GP Units and Class 6 GP Units; and Holdings LP, as the sole limited partner, holding 100% of the Class 1 LP Units and Class 2 LP Units.

### **BP Canada LP Securities**

The interests of BP Canada LP are divided into: (i) an unlimited number of Class 1 LP Units, Class 2 LP Units, Class 3 LP Units, Class 4 LP Units and Class 5 LP Units, which may be held by limited partners of BP Canada LP; and (ii) an unlimited number of Class 2 GP Units, Class 3 GP Units, Class 4 GP Units, Class 5 GP Units and Class 6 GP Units, which may be held by general partners of BP Canada LP.

As of February 9, 2016, there are: (i) 1,000 Class 1 LP Units and 5,047,613 Class 2 LP Units issued and outstanding, all of which are held by Holdings LP; and (ii) 100,000,000 Class 2 GP Units, 100,000,000 Class 3 GP Units, 100,000,000 Class 4 GP Units, 100,000,000 Class 5 GP Units and 1,000 Class 6 GP Units issued and outstanding, all of which are held by BPI. Class 3 LP Units, Class 4 LP Units and Class 5 LP Units will only be issued in the event that BPI exchanges Class 3 GP Units, Class 4 GP Units and Class 5 GP Units, respectively, for Units (or a combination of cash and Units). The rights and entitlements of these units in BP Canada LP with respect to voting, distributions of distributable cash, allocations of income and distributions of proceeds of liquidation of BP Canada LP are described in this description of BP Canada LP.

The BP Canada Limited Partnership Agreement provides that except for: (i) the 1,000 Class 1 LP Units and 5,047,613 Class 2 LP Units held by Holdings LP; (ii) the 100,000,000 Class 2 GP Units, 100,000,000 Class 3 GP Units, 100,000,000 Class 4 GP Units, 100,000,000 Class 5 GP Units and 1,000 Class 6 GP Units held by BPI; and (iii) Class 3 LP Units, Class 4 LP Units and Class 5 LP Units that may be issued pursuant to the BP Canada Exchange Agreement; no units of BP Canada LP may be issued without the consent of all partners of BP Canada LP.

Limited partners are liable for the liabilities, debts and obligations of BP Canada LP, but only to the extent of the amount contributed by them or agreed to be contributed by them to BP Canada LP, provided that they take no part in the management of BP Canada LP. Subject to applicable law, limited partners do not otherwise have any liability in respect of the liabilities, debts and obligations of BP Canada LP. The maximum amount to be contributed to BP Canada LP in respect of a Class 1 LP Unit or a Class 2 LP Unit is the amount agreed to by BP Canada LP as the value of the property contributed to BP Canada LP in respect of such unit. Each holder of Class 2 GP Units, Class 3 GP Units, Class 4 GP Units, Class 5 GP Units or Class 6 GP Units, as a general partner, will have unlimited liability for obligations of BP Canada LP.

## Available Cash / Distributions

BPI, as general partner, is obligated, on behalf of BP Canada LP, to distribute cash as set out below. Distributions of available cash in respect of each month will be made no later than the third business day immediately prior to the end of the month following the month in which the applicable distribution period ends to those partners listed on record on the 21<sup>st</sup> day of such following month (except distributions in respect of December, for which the record date will be the last day of December).

Available cash at any time will represent, in general, all of BP Canada LP's cash at such time, less amounts which in the opinion of BPI are required to be provided for at such time in respect of:

- payment of any principal or interest on debt obligations, if any, of BP Canada LP;
- expenses of BP Canada LP; and
- reasonable reserves considered necessary or desirable by BPI.

BP Canada LP is obligated to make monthly distributions to its partners of available cash in the following order and priority:

1. *Class 1 Distribution.* The Class 1 LP Units are entitled to a first priority distribution (the "**Class 1 Distribution**") equal to the aggregate of interest payments on Eligible Debt in such month plus 0.05% of such interest amount, up to a maximum of:
  - (a) if no exchange rights have been exercised in respect of Class 3 GP Units, Class 4 GP Units or Class 5 GP Units, 1.5% of Franchise Sales for such month;
  - (b) if exchange rights have been exercised in respect of Class 3 GP Units only, 2.0% of Franchise Sales for such month;
  - (c) if exchange rights have been exercised for Class 3 GP Units and Class 4 GP Units only, 2.5% of Franchise Sales for such month; and
  - (d) if exchange rights have been exercised for Class 3 GP Units, Class 4 GP Units and Class 5 GP Units, 3.0% of Franchise Sales for such month.
2. *Class 2 Distribution.* Following payment of the Class 1 Distribution, the Class 2 LP Units and Class 2 GP Units are entitled to receive a distribution of available cash (the "**Class 2 Distribution**") equal to the greater of nil and 1.5% of Franchise Sales for such month less the Class 1 Distribution for such month. The Class 2 Distribution is paid to Holdings LP and BPI *pro rata* based on the number of Class 2 LP Units held by Holdings LP and the Class 2 Distribution Limit at the time.
3. *Class 3 Distribution.* Following payment of the Class 2 Distribution, the Class 3 LP Units (if any) and Class 3 GP Units are entitled to receive a distribution of available cash (the "**Class 3 Distribution**") equal to the greater of nil and 2.0% of Franchise Sales for such month less the sum of distributions paid on the Class 1 LP Units and the Class 2 LP Units for such month. The Class 3 Distribution is paid to Holdings LP and BPI *pro rata* based on the number of Class 3 LP Units held by Holdings LP and the Class 3 Distribution Limit at the time (or 100% to BPI if no Class 3 LP Units have been issued).
4. *Class 4 Distribution.* Following payment of the Class 3 Distribution, the Class 4 LP Units (if any) and Class 4 GP Units are entitled to receive a distribution of available cash (the "**Class 4 Distribution**") equal to the greater of nil and 2.5% of Franchise Sales for such month less the less the sum of distributions paid on the Class 1 LP Units, the Class 2 LP Units and the Class 3 LP Units for such month. The Class 4 Distribution is paid to Holdings LP and BPI *pro rata* based on the

number of Class 4 LP Units held by Holdings LP and the Class 4 Distribution Limit at the time (or 100% to BPI if no Class 4 LP Units have been issued).

5. *Class 5 Distribution.* Following payment of the Class 4 Distribution, the Class 5 LP Units (if any) and Class 5 GP Units are entitled to receive a distribution of available cash (the “**Class 5 Distribution**”) equal to the greater of nil and 3.0% of Franchise Sales for such month less the sum of distributions paid on the Class 1 LP Units, the Class 2 LP Units, the Class 3 LP Units and the Class 4 LP Units for such month. The Class 5 Distribution is paid to Holdings LP and BPI *pro rata* based on the number of Class 5 LP Units held by Holdings LP and the Class 5 Distribution Limit at the time (or 100% to BPI if no Class 5 LP Units have been issued).
6. *Class 6 Distribution.* Following payment of the Class 5 Distribution, all remaining available cash will be distributed to BPI as a distribution on the Class 6 GP Units.

In addition, as soon as practicable after each Adjustment Date, the next distribution on the Class 2 GP Units and Class 2 LP Units (and in the case that Class 3 LP Units, Class 4 LP Units or Class 5 LP Units have been issued, then the next distribution on the Class 3 GP Units and Class 3 LP Units, Class 4 GP Units and Class 4 LP Units, or Class 5 GP Units and Class 5 LP Units, as applicable, as well) will be increased or decreased, as the case may be, to reconcile the amounts distributed in respect of the prior Fiscal Year that were based on an estimated Class 2 Determined Amount versus the actual Class 2 Determined Amount (or in the case of Class 3 GP Units and Class 3 LP Units, Class 4 GP Units and Class 4 LP Units, or Class 5 GP Units and Class 5 LP Units, if applicable, the estimated Class 3 Determined Amount, Class 4 Determined Amount, or Class 5 Determined Amount, as applicable, versus the actual Class 3 Determined Amount, Class 4 Determined Amount, or Class 5 Determined Amount). See “Annual Adjustment to Royalty Pool”.

### **Annual Adjustment to Royalty Pool**

The BP Canada Limited Partnership Agreement provides for an annual adjustment to the distribution and exchange entitlements of the BP Canada GP Units based upon permanently closed Boston Pizza Restaurants and any Additional Restaurants, to reflect the additional Distribution Income payable by BP Canada LP to Holdings LP as a result of adding Net New Restaurants to the Royalty Pool. See “Annual Adjustment to Royalty Pool”.

### **Allocation of Income and Losses**

The income or loss, if any, of BP Canada LP for accounting purposes for each Fiscal Year, and the income or loss, if any, of BP Canada LP as determined pursuant to the Tax Act for a particular Fiscal Year, is allocated to the holders of BP Canada LP Securities in a similar manner as distributions of cash from BP Canada LP as described above, except that the benefit of any deduction relating to any depreciation of the franchise agreements or the supplier contracts comprising part of the Transferred Assets resulting from these transactions will be allocated to the benefit of the Class 1 LP Units and Class 2 LP Units D Units. This allocation is intended to recognize that the Fund funded the acquisition of the Transferred Assets. The amount of income allocated to a partner may exceed or be less than the amount of cash distributed by BP Canada LP to that partner.

### **Voting**

Except as expressly provided for in the BP Canada Limited Partnership Agreement, units in BP Canada LP do not carry any entitlement to vote.

### **Functions of BPI**

BPI is the sole general partner of BP Canada LP and has the authority and obligation to manage the business and affairs of BP Canada LP, to make decisions regarding the business of BP Canada LP and to bind BP Canada LP in respect of any such decision. BPI is required to exercise its powers and discharge



its duties honestly, in good faith and in the best interests of BP Canada LP and to exercise the care, diligence and skill of a reasonably prudent person in comparable circumstances. The authority and power to be vested in BPI to manage the business and affairs of BP Canada LP includes all authority necessary or incidental to carry out the objects, purposes and business of BP Canada LP.

### **Restrictions on Authority of BPI**

The authority of BPI, as general partner, is limited in certain respects under the BP Canada Limited Partnership Agreement. BPI is prohibited, without the consent of Holdings LP, from dissolving BP Canada LP or selling, exchanging or otherwise disposing of all or substantially all of the assets of BP Canada LP.

### **No Compensation of General Partner**

BPI is not entitled to any fee for the performance of its duties as general partner of BP Canada LP, and will only receive funds from BP Canada LP as distributions on its BP Canada GP Units or as reimbursement for out-of-pocket costs incurred in the performance of its duties as general partner of BP Canada LP.

### **License to Use BP System**

BPI granted BP Canada LP, for a term expiring upon the dissolution of BP Canada LP, an exclusive, royalty-free license to use the franchised system of restaurants featuring pizza, pasta, ribs and other food specialities, beverages and form of entertainment, which operate using the BP Rights, including all related intellectual property owned by BPI, in connection with being the exclusive franchisor of Boston Pizza Restaurants.

### **Limited Liability**

BPI is obligated to operate BP Canada LP in a manner so as to ensure, to the greatest extent possible, the limited liability of the limited partners. Limited partners may lose their limited liability in certain circumstances. If limited liability is lost, other than by reason of an act or omission of the relevant limited partner, BPI is obligated to indemnify the limited partner against all claims suffered or incurred by such limited partner because the liability of such limited partner is not limited as intended by the BP Canada Limited Partnership Agreement.

### **Retirement or Removal of General Partner**

BPI may only retire or be removed as general partner of BP Canada LP if such retirement or removal is approved by a resolution of the board of directors of BPI appointing a successor general partner and such resolution is consented to by Holdings LP.

### **Transfer of BP Canada LP Securities**

Except as expressly permitted or required under the Governance Agreement or the BP Canada Exchange Agreement, no securities of BP Canada LP will be permitted to be transferred or assigned except with the written consent of each partner. No assignment will be effective until the assignee has delivered to the general partner an assignment in the prescribed form, the certificate representing the transferred units and such other instruments and documents as the general partner may request and such assignment is recorded on the Register. Except with the prior written consent of the general partner (which consent the general partner will be entitled to withhold in its sole discretion), the assignment of such securities will not release the assignor thereof from any obligations under the BP Canada Limited Partnership Agreement.

## **Dissolution and Wind-Up**

In the event that BP Canada LP is to be wound up, BPI will be appointed as the receiver of BP Canada LP and will liquidate all of BP Canada LP's assets. Following liquidation, all of BP Canada LP's cash assets will be distributed to the partners of BP Canada LP in the following order:

1. to pay any outstanding expenses or debts of BP Canada LP;
2. to provide for necessary reserves;
3. to any partner that has contributed additional capital after June 30, 2015 (other than capital contributed by Holdings LP from the proceeds of Eligible Debt in respect thereof), an amount equal to the additional capital less any prior returns of capital paid to such partner;
4. to the holders of Class 1 LP Units, an amount equal to the greater of any amounts outstanding on the Eligible Debt and \$10;
5. to the holders of Class 2 LP Units and Class 2 GP Units, an amount equal to the greater of nil and the net present value of 1.5% of Franchise Sales less the amount paid to holders of Class 1 LP Units, paid proportionately based on their respective distribution entitlements at such time;
6. to the holders of Class 3 LP Units and Class 3 GP Units, an amount equal to the greater of nil and the net present value of 2.0% of Franchise Sales less amounts paid to holders of Class 1 LP Units, Class 2 LP Units and Class 2 GP Units, paid proportionately based on their respective distribution entitlements at such time;
7. to the holders of Class 4 LP Units and Class 4 GP Units, an amount equal to the greater of nil and net present value of 2.5% of Franchise Sales less amounts paid to holders of Class 1 LP Units, Class 2 LP Units and Class 2 GP Units, Class 3 LP Units and Class 3 GP Units, paid proportionately based on their respective distribution entitlements at such time;
8. to the holders of Class 5 LP Units and Class 5 GP Units, an amount equal to the greater of nil and net present value of 3.0% of Franchise Sales less amounts paid to holders of Class 1 LP Units, Class 2 LP Units and Class 2 GP Units, Class 3 LP Units, Class 3 GP Units, Class 4 LP Units and Class 4 GP Units, paid proportionately based on their respective distribution entitlements at such time; and
9. the residue, if any, to the holders of Class 6 GP Units.

Alternatively, prior to the liquidation of all of BP Canada LP's assets, BPI may, with the consent of Holdings LP, purchase all BP Canada LP Units held by Holdings LP for an amount equal to the amount that Holdings LP would otherwise be entitled to upon the liquidation of BP Canada LP.

The net present value of Franchise Sales will be calculated by a valuator selected by BP Canada LP. Holdings LP will have a set period of time to review and dispute the calculation of net present value by the valuator selected by BP Canada LP. In the event that Holdings LP disputes the calculation of net present value of Franchise Sales, Holdings LP will have the right to appoint its own valuator. In such a case, the mean of the two calculations of net present value of Franchise Sales will be the net present value of Franchise Sales.

## **Amendments to the BP Canada Limited Partnership Agreement**

The BP Canada Limited Partnership Agreement provides that it may only be amended with the approval of the partners of BP Canada LP given by a resolution of all of the partners of BP Canada LP, except that the BP Canada Limited Partnership Agreement may be amended by the general partner without consent of the limited partners to reflect a change in name of BP Canada LP, a change that is reasonable and necessary

to continue the qualification of BP Canada LP as a limited partnership, a change that is reasonably, necessary or appropriate to allow BP Canada LP to take advantage of or avoid detrimental effects of changes in the Tax Act, or other changes of a housekeeping nature, provided that the general partner provides notice of the change to the limited partners within 30 days of such change.

## DESCRIPTION OF THE FUND

### Declaration of Trust

The Fund is a limited purpose open-ended trust established under the laws of the Province of British Columbia pursuant to the Declaration of Trust. The Fund is a mutual fund trust for the purposes of the Tax Act and intends to continue to so qualify. The following is a summary of the material attributes and characteristics of the Units and Special Voting Units and certain provisions of the Declaration of Trust which does not purport to be complete. Reference should be made to the Declaration of Trust for a complete description of the Units and Special Voting Units and the full text of its provisions.

### Activities of the Fund

The Declaration of Trust provides that the Fund is restricted to:

- (a) investing its securities, including those issued by the Trust, Royalties GP and Holdings GP and acquiring and holding the BP Loan;
- (b) temporarily holding cash in interest-bearing accounts or short-term government debt or investment grade corporate debt for the purposes of paying the expenses of the Fund, paying amounts payable by the Fund in connection with the redemption of any Units and making distributions to Unitholders;
- (c) issuing Units and Special Voting Units (i) for cash or in satisfaction of any non-cash distribution or in order to acquire securities, including those issued by the Trust, Holdings LP, Holdings GP or Royalties LP, (ii) upon the conversion or exchange of securities or debt obligations issued by the Fund, the Trust, Holdings LP, Holdings GP, Royalties LP or any other person, and (iii) in satisfaction of any indebtedness of or borrowing by the Fund;
- (d) issuing debt securities or borrowing funds (including letters of credit, bank guarantees and bankers acceptances);
- (e) guaranteeing the obligations of Royalties LP, the Trust, Holdings LP, or Holdings GP or any affiliate of the Fund and granting security interests in the assets of the Fund therefor;
- (f) pledging securities issued by the Trust or Holdings GP as security for the debt securities or borrowed funds referred to in (d) or the guarantees referred to in (e);
- (g) issuing rights and Units pursuant to any Unitholder rights plan adopted by the Fund;
- (h) purchasing securities pursuant to any issuer bid made by the Fund;
- (i) entering into and performing its obligations under certain agreements, including the Administration Agreement, the Governance Agreement, the Royalties Exchange Agreement and the BP Canada Exchange Agreement; and
- (j) undertaking such other activities, or taking such actions, including investing in securities as will be approved by the Trustees from time to time provided that the Fund will not undertake any activity, take any action or make any investment which would result in the Fund not being considered a "mutual fund trust" for purposes of the Tax Act.

The Fund does not hold securities of entities other than the Trust, Holdings GP and Royalties GP and the only loans it holds is the BP Loan and Series 1 Trust Notes.

### **Units and Special Voting Units**

The beneficial interests in the Fund are divided into interests in two classes as follows:

- (a) a class described and designated as “Units”, which are entitled to the rights and subject to the limitations, restrictions and conditions set out in the Declaration of Trust. An unlimited number of Units may be created and issued pursuant to the Declaration of Trust. Each Unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund, whether of net income, net realized capital gains or other amounts, and in the net assets of the Fund in the event of termination or winding-up of the Fund; and
- (b) a class described and designated as “Special Voting Units”, which may be issued by the Fund, from time to time, to holders of record of securities which are ultimately exchangeable, exercisable or convertible into Units and will be entitled to such number of votes at meetings of Voting Unitholders as is equal to the number of Units into which the related securities are exchangeable, exercisable or convertible but will not be entitled to any distributions from the Fund.

All Units have equal rights and privileges and are not subject to future calls or assessments. Except as set out under “Redemption Right” below, the Units have no conversion, retraction, redemption or pre-emptive rights. Issued and outstanding Units and Special Voting Units may be subdivided or consolidated from time to time by the Trustees without the approval of Voting Unitholders.

No certificates have been issued for fractional Units and fractional Units do not entitle the holders thereof to vote. The Units are not “deposits” within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of such act or any other legislation. Furthermore, the Fund is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.

The Special Voting Units entitle the holders thereof to vote at any meeting of Voting Unitholders but do not entitle the holder to receive any distributions from the Fund. As of February 9, 2016, BPI, as holder of Class B Units of Royalties LP and Class 2 GP Units of BP Canada LP, held Special Voting Units representing 3,425,105 votes, being that number of Units that BPI would be entitled to receive upon the exchange of its Class B Units and Class 2 GP Units for Units of the Fund. The Special Voting Units issued to BPI, as the holder of Class B Units of Royalties LP and Class 2 GP Units of BP Canada LP, may be transferred only under the same circumstances as the associated Class B Units and Class 2 GP Units, and will be redeemed upon the exchange of Class B Units or Class 2 GP Units for Units of the Fund. Special Voting Units may be redeemed by the holder at any time for nominal consideration.

### **Issuance of Units**

The Declaration of Trust provides that the Units or rights to acquire Units may be issued at the times, to the persons, for the consideration and on the terms and conditions that the Trustees determine. Units may be issued in satisfaction of any non-cash distribution of the Fund to Unitholders on a *pro rata* basis. The Declaration of Trust also provides that immediately after any *pro rata* distribution of Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Units will be consolidated such that each Unitholder will hold after the consolidation the same number of Units as the Unitholder held before the non-cash distribution. In this case, each certificate representing a number of Units prior to the non-cash distribution is deemed to represent the same number of Units after the non-cash distribution and the consolidation.

## Trustees

The Declaration of Trust provides that the Fund will have a minimum of two Trustees and a maximum of ten Trustees. The Trustees are to supervise the activities and manage the affairs of the Fund. See “Management – Trustees of the Fund” for a list of the current Trustees. Each of the current Trustees is also a director of Royalties GP.

Trustees are appointed at each annual meeting of Voting Unitholders to hold office for a term expiring at the close of the next annual meeting or until the earlier of the Trustee’s death, resignation or removal.

Any one or more of the Trustees may resign upon 30 days’ prior written notice to the Fund and may be removed by a resolution passed by a majority of the votes cast at a meeting of Voting Unitholders called for that purpose and the vacancy created by such removal or resignation may be filled at the same meeting, failing which it may be filled by the remaining Trustees.

A quorum of the Trustees, being a majority of the Trustees then holding office, may fill a vacancy in the Trustees, except a vacancy resulting from an increase in the maximum number of Trustees or from a failure of the Voting Unitholders to elect the required number of Trustees at a meeting of the Voting Unitholders called for such purpose. In the absence of a quorum of Trustees, or if the vacancy has arisen from a failure of the Voting Unitholders to elect the required number of Trustees at a meeting of the Voting Unitholders called for such purpose, the Trustees will forthwith call a special meeting of the Voting Unitholders to fill the vacancy. If the Trustees fail to call such meeting or if there are no Trustees then in office, any Voting Unitholder may call the meeting.

The Trustees may, between annual meetings of Voting Unitholders, appoint one or more additional Trustees to serve until the next annual meeting of Voting Unitholders, but the number of additional Trustees will not at any time exceed one-third of the number of Trustees who held office at the expiration of the immediately preceding annual meeting of Voting Unitholders.

The Declaration of Trust provides that, subject to the terms and conditions thereof, the Trustees may, in respect of the trust assets, exercise any and all rights, powers and privileges that could be exercised by a legal and beneficial owner thereof and will supervise the investments and conduct the affairs of the Fund.

The Declaration of Trust prohibits a Non-resident from acting as a Trustee. The Trustees are responsible for, among other things:

- acting for, voting on behalf of and representing the Fund as a unitholder and noteholder of the Trust and a shareholder of Royalties GP and Holdings GP, including voting for the election of the trustees of the Trust;
- maintaining records and providing reports to Voting Unitholders;
- supervising the activities of the Fund; and
- effecting payments of distributable cash from the Fund to Unitholders.

The Declaration of Trust provides that the Trustees will act honestly and in good faith with a view to the best interests of the Fund and in connection therewith will exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The duties and standard of care of the Trustees are intended to be similar to, and not to be any greater than, those imposed on a director of a corporation governed by the CBCA. The Declaration of Trust provides that the Trustees will be entitled to indemnification from the Fund in respect of the exercise of their powers and the discharge of their duties provided that they acted honestly and in good faith with a view to the best interests of the Unitholders.

## Cash Distributions

The following is a summary of the amount of cash distributions per Unit for the financial years ended 2015, 2014 and 2013:

	CASH DISTRIBUTIONS					
	2015 January to December Distributions		2014 January to December Distributions		2013 January to December Distributions	
	Payment Date	Amount	Payment Date	Amount	Payment Date	Amount
<b>January</b>	February 27, 2015	10.20¢	February 28, 2014	10.20¢	February 28, 2013	9.80¢
<b>February</b>	March 31, 2015	10.20¢	March 31, 2014	10.20¢	March 29, 2013	10.20¢
<b>March</b>	April 30, 2015	10.20¢	April 30, 2014	10.20¢	April 30, 2013	10.20¢
<b>April</b>	May 29, 2015	10.83¢	May 30, 2014	10.20¢	May 31, 2013	10.20¢
<b>May</b>	June 30, 2015	10.83¢	June 30, 2014	10.20¢	June 28, 2013	10.20¢
<b>June</b>	July 31, 2015	10.83¢	July 31, 2014	10.20¢	July 31, 2013	10.20¢
<b>July</b>	August 31, 2015	10.83¢	August 29, 2014	10.20¢	August 30, 2013	10.20¢
<b>August</b>	September 30, 2015	10.83¢	September 30, 2014	10.20¢	September 30, 2013	10.20¢
<b>September</b>	October 30, 2015	10.83¢	October 31, 2014	10.20¢	October 31, 2013	10.20¢
<b>October</b>	November 30, 2015	10.83¢	November 28, 2014	10.20¢	November 29, 2013	10.20¢
<b>November</b>	December 31, 2015	10.83¢	December 31, 2014	10.20¢	December 31, 2013	10.20¢
<b>December</b>	January 29, 2016	10.83¢	January 30, 2015	10.20¢	January 31, 2014	10.20¢

While the amount of cash to be distributed per month per Unit to Unitholders is determined by the Trustees in their sole discretion, the Fund's current distribution policy is that such amount will generally be equal to a *pro rata* share of interest and principal repayments on the BP Loan and the Trust Notes and distributions on or in respect of the Trust Units owned by the Fund less:

- administrative expenses and other obligations of the Fund;
- amounts which may be paid by the Fund in connection with any cash redemptions of Units;
- any interest expense incurred by the Fund; and
- reasonable reserves established by the Trustees in their sole discretion, including, without limitation, reserves established to pay SIFT Tax.

The Fund intends to make distributions each month of amounts determined by the Trustees in their sole discretion to be available for distribution by the Fund for such month. Distributions in respect of each month are paid on the last day of the immediately following month to Unitholders of record on the 21st day of such following month (except in respect of the month of December, for which the record date is the last day of December).

To the extent that income of the Fund is applied to any cash redemptions of Units or is otherwise unavailable for cash distribution, distributions will be made to Unitholders in the form of additional Units.

Such additional Units will be issued pursuant to applicable exemptions under applicable securities laws, discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing.

Holders of Units who are Non-residents will be required to pay all withholding taxes payable in respect of any distributions of income by the Fund, whether such distributions are in the form of cash or additional Units. Non-residents should consult their own tax advisors regarding the tax consequences of investing in the Units.

### **Book-Entry Only System**

Registration of interests in and transfer of the Units will be made only through a book-based system (the “**Book-Entry Only System**”) administered by CDS. Units must be purchased, transferred and surrendered for redemption through a CDS participant. All rights of Unitholders must be exercised through, and all payments or other property to which such Unitholder is entitled will be delivered by, CDS or the CDS participant through which the Unitholder holds such Units. Upon purchase of any Units, the Unitholder will receive only a customer confirmation from the registered dealer which is a CDS participant and from or through which the Units are purchased.

The ability of a beneficial owner of Units to pledge such Units or otherwise take action with respect to such Unitholder’s interest in such Units (other than through a CDS participant) may be limited due to the lack of a physical certificate.

The Fund has the option to terminate registration of the Units through the Book-Entry Only System in which case certificates for the Units in fully registered form would be issued to beneficial owners of such Units or their nominees.

### **Rights of Unitholders**

The rights of Unitholders as investors in the Fund are currently governed by the Declaration of Trust and have been summarized above under “Description of the Fund”. Although the Declaration of Trust confers upon a Unitholder many of the same protections, rights and remedies that an investor would have as a shareholder of a corporation governed by the CBCA, significant differences do exist.

Many of the provisions of the CBCA respecting the governance and management of a corporation have been incorporated in the Declaration of Trust. For example, Unitholders are entitled to exercise voting rights in respect of their holdings of Units in a manner comparable to shareholders of a CBCA corporation and to elect Trustees and auditors. The Declaration of Trust also includes provisions modeled after comparable provisions of the CBCA dealing with the calling and holding of meetings of Unitholders and Trustees, the quorum for and procedures at such meetings and the right of investors to participate in the decision-making process where certain fundamental actions are proposed to be undertaken. The matters in respect of which Unitholder approval is required under the Declaration of Trust are generally less extensive than the rights conferred on the shareholders of a CBCA corporation, but effectively extend to certain fundamental actions that may be undertaken by the Fund’s subsidiary entities, as described under “Description of the Fund – Meetings of Voting Unitholders” and “Description of the Fund – Exercise of Certain Voting Rights Attached to Certain Securities”. These Unitholder approval rights are supplemented by provisions of applicable securities laws that are generally applicable to issuers (whether corporations, trusts or other entities) that are “reporting issuers” or the equivalent or are listed on the TSX.

The Declaration of Trust contains conflict of interest provisions, similar to those contained in the CBCA, that require each Trustee or other officer of the Fund to disclose to the Fund, as applicable, any interest in a material contract or transaction or proposed material contract or transaction with the Fund, or the fact that such person is a director or officer of, or otherwise has a material interest in, any person who is a party to

a material contract or transaction or proposed material contract or transaction with the Fund. In any case, a Trustee who has made disclosure to the foregoing effect is not entitled to vote on any resolution to approve the contract or transaction unless the contract or transaction is one relating primarily to (i) his or her remuneration as a Trustee or officer of the Fund, as applicable, or (ii) insurance or indemnity.

Unitholders do not have recourse to a dissent right under which shareholders of a CBCA corporation are entitled to receive the fair value of their shares when certain fundamental changes affecting the corporation are undertaken (such as an amalgamation, a continuance under the laws of another jurisdiction, the sale of all or substantially all of its property, a going private transaction or the addition, change or removal of provisions restricting (i) the business or businesses that the corporation can carry on, or (ii) the issue, transfer or ownership of shares). As an alternative, Unitholders seeking to terminate their investment in the Fund are entitled to receive, subject to certain conditions and limitations, their *pro rata* share of the Fund's net assets through the exercise of the redemption rights provided by the Declaration of Trust, as described under "Description of the Fund – Redemption Right". Unitholders similarly do not have recourse to the statutory oppression remedy that is available to shareholders of a CBCA corporation where the corporation undertakes actions that are oppressive, unfairly prejudicial or that disregard the interests of security holders and certain other parties. Shareholders of a CBCA corporation may also apply to a court to order the liquidation and dissolution of the corporation in those circumstances, whereas Unitholders could rely only on the general provisions of the Declaration of Trust, which permit the winding-up of the Fund with the approval of a Voting Unitholders' Special Resolution. Shareholders of a CBCA corporation may also apply to a court for the appointment of an inspector to investigate the manner in which the business of the corporation and its affiliates is being carried on where there is reason to believe that fraudulent, dishonest or oppressive conduct has occurred. The Declaration of Trust allows Unitholders to pass resolutions appointing an inspector to investigate the Trustees' performance of their responsibilities and duties, but this process would not be subject to court oversight to assure the other investigative procedures, rights and remedies available under the CBCA. The CBCA also permits shareholders to bring or intervene in derivative actions in the name of the corporation or any of its subsidiaries, with the leave of a court. The Declaration of Trust does not include a comparable right of the Unitholders to commence or participate in legal proceedings with respect to the Fund.

### **Redemption Right**

Units are redeemable at any time on demand by the holders thereof. As the Units have been issued in book entry form, a Unitholder who wishes to exercise the redemption right is required to obtain a redemption notice form from the Unitholder's investment dealer who is required to deliver the completed redemption notice form to CDS. Upon receipt of the redemption notice by the Fund, all rights to and under the Units tendered for redemption will be surrendered and the holder thereof will be entitled to receive a price per Unit (the "**Redemption Price**") equal to the lesser of:

- 90% of the weighted average price per Unit at which the Units have traded on the stock exchange on which the Units are listed (or if the Units are not listed on any stock exchange, the principal market on which the Units are quoted for trading) during the 20-trading day period immediately following the date on which the Units were surrendered for redemption (the "**Unit Redemption Date**"); and
- an amount equal to (a) the closing price of the Units on the principal stock exchange on which the Units are listed (or if the Units are not listed on any stock exchange, the principal market on which the Units are quoted for trading), if there was a trade on the Unit Redemption Date and the exchange or market provides a closing price; (b) the average of the highest and lowest prices of the Units if there was a trade on the Unit Redemption Date and the exchange or market provides only the highest and lowest prices of the Units traded on a particular day; or (c) the average of the last bid and ask prices of the Units on the exchange or market if there was no trading on the Unit Redemption Date.

The aggregate Redemption Price payable by the Fund in respect of any Units surrendered for redemption during any calendar month will be satisfied by way of a cash payment no later than the last day of the month



following the month in which the Units were tendered for redemption, provided that Unitholders are not entitled to receive cash upon the redemption of their Units if:

- the total amount payable by the Fund in respect of such Units and all other Units tendered for redemption in the same calendar month exceeds \$50,000, provided that the Trustees may, in their sole discretion, waive such limitation in respect of all Units tendered for redemption in any calendar month;
- at the time such Units are tendered for redemption, the outstanding Units are not listed for trading on a stock exchange or traded or quoted on another market which the Trustees consider, in their sole discretion, one which provides representative fair market value prices for the Units; or
- the normal trading of Units is suspended or halted on any stock exchange on which the Units are listed (or, if not listed on a stock exchange, on any market on which the Units are quoted for trading) on the Unit Redemption Date or for more than five trading days during the ten-day trading period commencing immediately after the Unit Redemption Date.

If a Unitholder is not entitled to receive cash upon the redemption of Units as a result of the foregoing limitations, then the Redemption Price for each Unit tendered for redemption will be the fair market value thereof as determined by the Trustees in their sole discretion and, subject to any applicable regulatory approvals, will be paid and satisfied by way of a distribution in kind. In such circumstances, the Fund will transfer to the Trust, in respect of each Unit surrendered for redemption, a *pro rata* portion of the outstanding BP Loan owed to the Fund in consideration for Trust Units and Series 3 Trust Notes. Trust Units and Series 1 Trust Notes having a value equal to the Redemption Price will then be redeemed by the Trust in consideration of the issuance to the Fund of Series 2 Trust Notes and Series 3 Trust Notes, respectively. The portion of the fair market value of such redeemed Units derived from the Fund's interest in the BP Loan may, in the Trustees' discretion, be represented by Series 3 Trust Notes issued by the Trust to the Fund in consideration for the transfer by the Fund to the Trust of an interest in the BP Loan of equivalent value. The Series 2 Trust Notes and Series 3 Trust Notes will then be distributed in satisfaction of the Redemption Price. No fractional Series 2 Trust Notes or Series 3 Trust Notes in integral multiples of less than \$100 will be distributed and where the number of securities of the Trust to be received by a Unitholder includes a fraction or, in the case of Trust Notes, a multiple less than \$100, that number will be rounded to the next lowest whole number or integral multiple of \$100 as the case may be. The Fund will be entitled to all interest paid on the Trust Notes, if any, and distributions paid on the Trust Units on or before the date of the distribution in kind. Where the Fund makes a distribution in kind of securities of the Trust on the redemption of Units of a Unitholder, the Fund currently intends to allocate to that Unitholder any capital gain or income realized by the Fund as a result of the redemption of Trust Units, the transferring of an interest in the BP Loan owned by the Fund to the Trust in exchange for Series 3 Trust Notes or any capital gain realized by the Fund as a result of the distribution of Series 2 Trust Notes or Series 3 Trust Notes to the Unitholder.

It is anticipated that the redemption right described above will not be the primary mechanism for holders of Units to dispose of their Units. Series 2 Trust Notes and Series 3 Trust Notes which may be distributed to Unitholders in connection with a redemption will not be listed on any stock exchange, no market is expected to develop in securities of the Trust and such securities may be subject to an indefinite "hold period" or other resale restrictions under applicable securities laws. Series 2 Trust Notes and Series 3 Trust Notes so distributed may not be qualified investments for registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans and tax free savings accounts and may be prohibited investments for registered retirement savings plans, registered retirement income funds and tax free savings accounts, depending upon the circumstances at the time.

## Trust Units

Trust Units are not, and are not intended to be, issued or held by any person other than the Fund.

An unlimited number of Trust Units may be issued pursuant to the declaration of trust for the Trust. Each Trust Unit is transferable and represents an equal undivided beneficial interest in any distributions from the Trust (whether of net income, net realized capital gains or other amounts) and in the net assets of the Trust in the event of termination or winding-up of the Trust. All Trust Units have equal rights and privileges. The Trust Units are not subject to future calls or assessments. The Trust Units have no conversion, retraction or pre-emptive rights. The Trust Units are redeemable at the option of the holder.

The amount of cash to be distributed per Trust Unit in respect of each month will be equal to a proportionate share of distributions on or in respect of the securities of Holdings LP owned by the Trust and all other amounts, if any, from any other investments from time to time held by the Trust, received in respect of such period, less amounts which are paid, payable, incurred or provided for in respect of such period in connection with:

- administrative expenses and other obligations (including reasonable reserves) of the Trust;
- any interest (including interest payable in respect of the Trust Notes) incurred by the Trust;
- principal repayments in respect of the Trust Notes considered advisable by the trustees of the Trust and any other debt securities of the Trust; and
- reasonable reserves established by the trustee of the Trust for the payment of any costs which have been or may be incurred and to provide for any payments of income tax liability.

The trustee of the Trust may authorize additional distributions in excess of the aforementioned distributions during the year, as the trustee sees fit, in the trustee's sole discretion.

Any income of the Trust which is unavailable for cash distribution will, to the extent necessary to ensure that the Trust does not have any income tax liability under Part I of the Tax Act, be distributed to holders of Trust Units in the form of additional Trust Units.

## Trust Notes

The following is a summary of the material attributes and characteristics of the Trust Notes, which are issued by the Trust under a note indenture (the "**Note Indenture**") providing for the issuance of the Trust Notes by the Trust dated July 17, 2002 between the Trust and Computershare Trust Company of Canada (the "**Note Trustee**"), and is qualified in its entirety by reference to the provisions of the Note Indenture, which contains a complete statement of such attributes and characteristics.

The Trust Notes will be issued only as fully registered Trust Notes in a minimum denomination of \$100 and for amounts above such minimum, only in integral multiples of \$100. No fractional Trust Notes will be distributed and where the number of Trust Notes to be received by a Unitholder includes a fraction, such number will be rounded down to the lowest whole number or integral multiple of \$100.

Series 2 Trust Notes will be reserved by the Trust to be issued exclusively to holders of Trust Units as full or partial payment of the redemption price for Trust Units, as the trustees of the Trust may decide or, in certain circumstances, be obliged to issue. Series 3 Trust Notes will be reserved by the Trust to be issued exclusively as full or partial payment of the redemption price for Series 1 Trust Notes or as consideration for an interest in the BP Loan acquired from the Fund in the event of an in kind payment of the redemption price for Units redeemed by a Unitholder.

### *Interest and Maturity*

The Series 1 Trust Notes will mature on July 17, 2032 and will not bear interest. Each Series 2 Trust Note will mature on a date which is no later than the first anniversary of the date of issuance thereof and bear interest at a market rate to be determined by the trustee(s) of the Trust at the time of issuance thereof, payable in monthly installments on the last day of each calendar month that such Series 2 Trust Note is outstanding. Each Series 3 Trust Note will mature on July 17, 2032 and will bear interest at a market rate to be determined by the trustee(s) of the Trust at the time of issuance thereof, payable in monthly installments on the last day of each calendar month that such Series 3 Trust Note is outstanding.

### *Payment upon Maturity*

On maturity, the Trust will repay the Trust Notes by paying to the trustee under the Note Indenture in cash an amount equal to the principal amount of the outstanding Trust Notes which have then matured, together with accrued and unpaid interest thereon.

### *Redemption*

The Trust Notes are redeemable at the option of the Trust prior to maturity. The Series 1 Trust Notes are redeemable at the option of the holder prior to maturity.

### *Subordination/Security*

Payment of the principal amount and interest on the Trust Notes will be subordinated in right of payment to the prior payment in full of the principal of and accrued and unpaid interest on, and all other amounts owing in respect of all senior indebtedness which is defined as all indebtedness, liabilities and obligations of the Trust which, by the terms of the instrument creating or evidencing the same, will be expressed to rank in right of payment in priority to the indebtedness evidenced by the Note Indenture. The Note Indenture provides that upon any distribution of the assets of the Trust in the event of any dissolution, liquidation, reorganization or other similar proceedings relative to the Trust, the holders of all such senior indebtedness will be entitled to receive payment in full before the holders of the Trust Notes are entitled to receive any payment.

### *Default*

The Note Indenture provides that any of the following will constitute an event of default under the Note Indenture:

- default in repayment of the principal amount of any of the Trust Notes when the same becomes due and the continuation of such default for a period of ten business days;
- subject to the terms of any senior indebtedness, the failure to pay the interest obligations of any of the Series 2 Trust Notes or Series 3 Trust Notes, if and when issued, for a period of six months;
- default in the observance or performance of any other covenant or condition of the Note Indenture and the continuance of such default for a period of 60 days after notice in writing has been given by the Note Trustee to the Trust specifying such default and requiring the Trust to rectify the same;
- certain events of winding-up, liquidation, bankruptcy, insolvency or receivership of the Trust or Royalties LP;
- the taking of possession by an encumbrancer, in the opinion of the Note Trustee, of all or substantially all of the property of the Trust or of a material subsidiary, including

Royalties LP and the affected party failing to satisfy the claim or terminate such encumbrance within 60 days;

- the Trust ceasing to own any Royalties LP Securities or Royalties LP ceasing to own the BP Rights; or
- Royalties LP or any material subsidiary ceasing to carry on its business in the ordinary course or a substantial part thereof.

### **Meetings of Voting Unitholders**

Each Unit entitles the holder thereof to one vote at all meetings of Voting Unitholders. Special Voting Units entitle the holder thereof to one vote for each Unit that the holder would be entitled to receive if it exchanged all of its exchangeable securities of Royalties LP and BP Canada LP for Units of the Fund at all meetings of Voting Unitholders. Meetings of Voting Unitholders will be called and held annually for the appointment of Trustees and the appointment of auditors of the Fund. The Declaration of Trust provides that the Voting Unitholders will be entitled to pass resolutions that will bind the Fund only with respect to:

- the election or removal of Trustees;
- the appointment or removal of the auditors of the Fund;
- the appointment of an inspector to investigate the performance by the Trustees in respect of their respective responsibilities and duties in respect of the Fund;
- the approval of amendments to the Declaration of Trust (except as described under "Description of the Fund - Amendments to the Declaration of Trust");
- the termination of the Fund;
- the sale of all or substantially all of the assets of the Fund;
- the exercise of certain voting rights attached to Royalties LP Securities, common shares of Holdings GP and Royalties GP, Trust Notes and Trust Units held directly or indirectly by the Fund; and
- the dissolution of the Fund prior to the end of its term.

A resolution appointing or removing the Trustees and a resolution appointing or removing the auditors of the Fund must be passed by a simple majority of the votes cast by the Voting Unitholders either in person or by proxy, at a meeting of Voting Unitholders. All other matters must be approved by a resolution passed by a majority of more than 66 <sup>2</sup>/<sub>3</sub>% of the votes cast, either in person or by proxy, at a meeting of Voting Unitholders, or approved in writing by holders of more than 66 <sup>2</sup>/<sub>3</sub>% of the total Voting Units.

A meeting of Voting Unitholders may be convened at any time and for any purpose by the Trustees and must be convened if requisitioned by the holders of not less than 10% of the Voting Units then outstanding by a written requisition. A requisition must state in reasonable detail the business proposed to be transacted at the meeting.

Voting Unitholders may attend and vote at all meetings of the Voting Unitholders either in person or by proxy and a proxy holder need not be a Voting Unitholder. Two or more persons present in person or represented by proxy and representing in the aggregate at least 25% of the votes attached to the total of the then outstanding Voting Units will constitute a quorum for the transaction of business at all such meetings. The Declaration of Trust contains provisions as to the notice required and other procedures with respect to the calling and holding of meetings of Voting Unitholders.

## **Limitation on Non-resident Ownership**

In order for the Fund to maintain its status as a mutual fund trust under the Tax Act, the Fund must not be reasonably considered to have been established or to be maintained primarily for the benefit of Non-residents. Accordingly, the Declaration of Trust provides that at no time may Non-residents be the beneficial owners of a majority of the Units. The Trustees may require declarations as to the jurisdictions in which beneficial owners of Units are resident.

If the Trustees become aware that the beneficial owners of 49% of the Units then outstanding are, or may be, Non-residents or that such a situation is imminent, the Trustees may direct the transfer agent and registrar to make a public announcement thereof and will not accept a subscription for Units from or issue or register a transfer of Units to any person unless the person provides a declaration that he or she is not a Non-resident. If, notwithstanding the foregoing, the Trustees determine that a majority of the Units are held by Non-residents, the Trustees may direct the transfer agent of the Units to send a notice to Non-resident holders of Units, chosen in inverse order to the order of acquisition or registration or in such manner as the Trustees may consider equitable and practicable, requiring them to sell their Units or a portion thereof within a specified period of not less than 60 days. If the Unitholders receiving such notice have not sold the specified number of Units or provided the Trustees with satisfactory evidence that they are not Non-residents within such period, the Trustees may direct the transfer agent to sell such Units on behalf of such Unitholders and, in the interim, the voting and distribution rights attached to such Units will be suspended. Upon such sale, the affected holders will cease to be holders of the Units and their rights will be limited to receiving the net proceeds of such sale.

Special Voting Units may not be owned by a Non-resident. In the event that a holder of Special Voting Units becomes a Non-resident, such a holder will be deemed to have exercised his or her right of redemption in accordance with the Declaration of Trust and such Special Voting Units will be immediately redeemed for nominal consideration.

## **Amendments to the Declaration of Trust**

The Declaration of Trust may be amended or altered from time to time by a Voting Unitholders' Special Resolution.

The Trustees may, without the approval of the Voting Unitholders, make certain amendments to the Declaration of Trust, including amendments:

- for the purpose of ensuring continuing compliance with applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over the Trustees or over the Fund;
- which, in the opinion of counsel to the Trustees, provide additional protection for Voting Unitholders;
- to remove any conflicts or inconsistencies in the Declaration of Trust or to make minor corrections which, in the opinion of the Trustees, are necessary or desirable and not prejudicial to the Voting Unitholders;
- which, in the opinion of the Trustees, are necessary or desirable as a result of changes in Canadian taxation laws or accounting standards; and
- for the purpose of ensuring that the Fund continues to qualify as a "mutual fund trust" under the Tax Act and Units are not considered "foreign property" under the Tax Act.

## **Term of the Fund**

The Fund has been established for a term ending 21 years after the date of death of the last surviving issue of Her Majesty, Queen Elizabeth II, alive on June 10, 2002. On a date selected by the Trustees which is not more than two years prior to the expiry of the term of the Fund, the Trustees are obligated to commence to wind-up the affairs of the Fund so that it will terminate on the expiration of the term. In addition, at any time prior to the expiry of the term of the Fund, the Voting Unitholders may by a Voting Unitholders' Special Resolution require the Trustees to commence to wind-up the affairs of the Fund.

The Declaration of Trust provides that, upon being required to commence to wind-up the affairs of the Fund, the Trustees will give notice thereof to the Voting Unitholders, which notice will designate the time or times at which Voting Unitholders may surrender their Voting Units for cancellation and the date at which the register of Voting Units will be closed. After the date the register is closed, the Trustees will proceed to wind-up the affairs of the Fund as soon as may be reasonably practicable and for such purpose will, subject to any direction to the contrary in respect of a termination authorized by a resolution of the Voting Unitholders, sell and convert into money the Trust Units, Series 1 Trust Notes and all other assets comprising the Fund in one transaction or in a series of transactions at public or private sales and do all other acts appropriate to liquidate the Fund. After paying, retiring, discharging or making provision for the payment, retirement or discharge of all known liabilities and obligations of the Fund and providing for indemnity against any other outstanding liabilities and obligations, the Trustees will distribute the remaining part of the proceeds of the sale of the Trust Units, Series 1 Trust Notes and other assets together with any cash forming part of the assets of the Fund among the Unitholders in accordance with their *pro rata* interests. If the Trustees are unable to sell all or any of the Trust Units, Series 1 Trust Notes or other assets which comprise part of the Fund by the date set for termination, the Trustees may distribute the remaining Trust Units, Series 1 Trust Notes or other assets in kind directly to the Unitholders in accordance with their *pro rata* interests subject to obtaining all required regulatory approvals.

## **Take-over Bids**

The Declaration of Trust and the Governance Agreement contain provisions to the effect that if a take-over bid is made for the Units (including rights to the Units to be issued upon exercise of the Exchange Rights) and not less than 90% of the Units on a fully diluted basis (including the Units issuable upon the exchange of any securities exchangeable into Units but not including any Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Units held by Unitholders and holders of securities exchangeable for Units who did not accept the take-over bid on the terms offered by the offeror.

## **Exercise of Certain Voting Rights Attached to Certain Securities**

The Declaration of Trust provides that the Fund will not vote the securities held by it in the Trust, Holdings LP, Holdings GP, Royalties GP or Royalties LP to authorize, among other things:

- any sale, lease or other disposition of all or substantially all of the direct or indirect assets of the Trust, Royalties GP or Holdings GP except in conjunction with an internal reorganization;
- any amalgamation, arrangement or other merger of the Trust, Holdings GP or Royalties GP with any other corporation except in conjunction with an internal reorganization;
- any material amendment to the note indenture in respect of the Trust Notes other than in contemplation of a further issue of Trust Notes; and
- any material amendment to the declaration of trust for the Trust, the Holdings Limited Partnership Agreement or the Royalties Limited Partnership Agreement which may be prejudicial to the Fund,

without the authorization of the Voting Unitholders by a Voting Unitholders' Special Resolution.

## **Information and Reports**

The Fund will furnish, in accordance with and subject to applicable securities laws, to Voting Unitholders such consolidated financial statements of the Fund (including quarterly and annual consolidated financial statements) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Unitholders' tax returns under the Tax Act and equivalent provincial legislation.

Prior to each meeting of Voting Unitholders, the Trustees will provide the Voting Unitholders (along with notice of such meeting) all such information as is required by applicable law and the Declaration of Trust to be provided to such holders.

Royalties LP has undertaken to provide the Fund with:

- a report of any material change that occurs in the affairs of Royalties LP in form and content that it would file with the applicable securities regulatory authorities as if it were a reporting issuer; and
- all financial statements that it would be required to file with the applicable securities regulatory authorities as if it were a reporting issuer under applicable securities laws.

All such reports and statements must be provided to the Fund in a timely manner so as to permit the Fund to comply with the continuous disclosure requirements relating to reports of material changes in its affairs and the delivery of financial statements as required under applicable securities laws.

BPI is to provide Royalties LP and the Fund with BPI's unaudited financial statements within 45 days of the end of each quarterly accounting period of BPI and audited annual consolidated financial statements within 90 days of the end of each fiscal year of BPI. These financial statements are required to be prepared in accordance with Canadian generally accepted accounting principles. BPI also provided an undertaking to the applicable securities regulatory authorities to issue a press release and file a report of any material change that occurs in the affairs of BPI that would reasonably be expected to have a significant effect on the market price or value of the Units.

## **BP Loan**

As permitted by the Declaration of Trust, on July 17, 2002, the Fund acquired the BP Loan from a Canadian chartered bank. The following is a summary of the main terms of the BP Loan:

- interest on all amounts outstanding on the BP Loan accrues at 7.5% per annum payable on each "Interest Payment Date", being the last day of each month for which such interest has accrued;
- the principal amount, together with all accrued and unpaid interest, outstanding under the BP Loan will become due and payable on the 40<sup>th</sup> anniversary of July 17, 2002, subject to extension by the mutual agreement of BPI and the lender, or earlier, at the option of the lender, following the occurrence and continuance of an event of default;
- the events of default under the BP Loan include:
  - (i) default in repayment of the principal amount of the BP Loan when the same becomes due;
  - (ii) the failure to pay interest obligations under the BP Loan when the same become due, following a period of three days after receipt of written notice of such default;

- (iii) the winding-up, liquidation, bankruptcy, insolvency or receivership of BPI;
  - (iv) the taking of possession by an encumbrancer of all or substantially all of the property of BPI and its subsidiaries;
  - (v) a material default under the License and Royalty Agreement, the Fund GSA (BPI) or Royalties LP GSA (BPI); and
  - (vi) the right to accelerate or the acceleration of other indebtedness of BPI or any subsidiary of BPI that has or is reasonably likely to have a material adverse effect on BPI, including the indebtedness permitted under the License and Royalty Agreement. See “License and Royalty – Guarantee and Security for the Royalty”;
- the BP Loan is secured by the Fund GSA (BPI). The security interest for all amounts payable by BPI under the BP Loan, as set out in the Fund GSA (BPI), is the same as, and ranks equally with, the security interest granted in respect of the Royalty described under “License and Royalty – Guarantee and Security for the Royalty”. The Fund GSA (BPI) contains negative covenants that are the same as the negative covenants contained in Royalties LP GSA (BPI). See “License and Royalty – Guarantee and Security for the Royalty – Negative Covenants”;
  - the BP Loan is guaranteed by BP Canada LP pursuant to the Fund Guarantee, and is secured by the Fund GSA (BP Canada LP). The security interest under the Fund GSA (BP Canada LP) is the same as, and ranks equally with, the security interest granted by BP Canada LP in favour of Royalties LP under the Royalties LP GSA (BP Canada LP). See “License and Royalty – Guarantee and Security for the Royalty”. The Fund GSA (BP Canada LP) contains negative covenants that are the same as the negative covenants contained in Royalties LP GSA (BP Canada LP). See “License and Royalty – Guarantee and Security for the Royalty – Negative Covenants”;
  - BPI (as holder of the Class C Units) has the right to transfer such Class C Units to Holdings LP in consideration for the assumption by Holdings LP of (and the concurrent release of BPI of its obligations with respect to) an amount of the indebtedness under the BP Loan equal to \$10 per Class C Unit to be transferred; and
  - the BP Loan may not be assigned (directly, by operation of law or otherwise) other than to the Fund or the Trust, without the prior consent of BPI.

## CREDIT FACILITIES

Holdings LP and Royalties LP have the Credit Facilities with the Bank in the amount of up to \$90.3 million expiring on May 5, 2020. The Credit Facilities are comprised of: (a) a \$2.0 million committed operating facility issued to Royalties LP (“**Facility A**”); (b) a \$55.0 million committed revolving credit facility issued to Royalties LP for the purpose of refinancing Royalties LP’s previous credit facilities and to facilitate the Fund repurchasing and cancelling Units under normal course issuer bids, substantial issuer bids or to finance the cash component of any exchange of exchangeable BP Canada GP Units (“**Facility B**”); and (iii) a \$33.3 million committed revolving credit facility issued to Holdings LP for the purpose of subscribing for Class 1 LP Units of BP Canada LP (“**Facility D**”). As at February 9, 2016, the following amounts have been drawn down on the Credit Facilities: (i) nil on Facility A; (ii) \$53.3 million on Facility B; and \$33.3 million on Facility D.

The Credit Facilities bear interest at fixed or variable interest rates, as selected by Royalties LP or Holdings LP, as applicable, comprised of either the Bank’s current rate for fixed rate operating loans or a combination of the Bank’s bankers’ acceptance rates plus between 1.00% and 1.50%, or the Bank’s prime rate plus between 0.00% and 0.50%, depending upon debt to EBITDA ratios.



Royalties LP and Holdings LP have entered into the following interest rate swaps (collectively, the “**Swaps**”) under the Royalties LP Swap Agreement and Holdings LP Swap Agreement, respectively:

- Royalties LP entered into a swap to fix the interest rate at 1.443% plus between 1.00% and 1.50% per annum (depending upon debt to EBITDA ratios) for a term ending August 1, 2017 for \$30.0 million drawn on Facility B;
- Royalties LP entered into a swap to fix the interest rate at 1.92% plus between 1.00% and 1.50% per annum (depending upon debt to EBITDA ratios) for a term ending June 1, 2018 for \$6.0 million drawn on Facility B;
- Royalties LP entered into a swap to fix the interest rate at 1.51% plus between 1.00% and 1.50% per annum (depending upon debt to EBITDA ratios) for a term ending on February 1, 2022 for \$13.9 million drawn on Facility B; and
- Holdings LP entered into a swap to fix the interest rate at 1.25% plus between 1.00% and 1.50% per annum (depending upon debt to EBITDA ratios) for a term ending on August 1, 2020 for \$17.0 million of the \$33.3 million drawn on Facility D.

The indebtedness and liability of Royalties LP and Holdings LP under the Credit Facilities are guaranteed by the Fund, the Trust, Holdings GP, Holdings LP, Royalties GP and Royalties LP, all of whom have granted a first-ranking security interest over all of the assets of Fund, the Trust, Holdings GP, Holdings LP, Royalties GP and Royalties LP. Neither BPI nor BP Canada LP has guaranteed or provided any security with respect to the Credit Facilities. The principal covenants of the Credit Facilities are: (i) the Fund and its subsidiaries, taken as a whole, will maintain a total Funded Debt (defined below) to EBITDA ratio of not greater than 3.00:1 on completion of the Transaction reducing to 2.25:1 within 12 months after completion of the Transaction (tested quarterly on a trailing 12 month basis) and (ii) the Fund and its subsidiaries, taken as a whole, will maintain a position so that actual cash distributed to Unitholders does not exceed the sum of: (a) Facility Distributable Cash (defined below), and (b) cash on hand (being the greater of cash on hand as indicated on the Fund’s consolidated balance sheets at the end of the period of the test and nil) (tested quarterly on a trailing 12 month basis), except that such actual distributed cash may from time to time exceed the sum of Facility Distributable Cash and cash on hand by an amount of up to \$2.0 million. “**Funded Debt**” is defined as all indebtedness for borrowed money that carries an interest cost. For the purposes of the Credit Facilities, “**Facility Distributable Cash**” is defined as EBITDA (as defined in the Credit Facilities) less interest expense, any principal repayments that may be required and any other cash payments required by the Fund or its subsidiaries (including, without limitation, income taxes), taken as a whole, before making cash distributions (excluding returns of capital) to Unitholders. Royalties LP and Holdings LP were in compliance with all of their financial covenants and financial condition tests as of December 31, 2015.

Royalties LP and Holdings LP have third-party debt service obligations under the Credit Facilities. The degree to which Royalties LP and Holdings LP are leveraged could have important consequences to the holders of the Units, including: (i) a portion of Royalties LP’s and Holdings LP’s cash flow could be dedicated to the payment of the principal of and interest on their indebtedness, thereby reducing funds available for distribution to the Fund; and (ii) certain of Royalties LP’s and Holdings LP’s borrowings may be at variable rates of interest, which exposes Royalties LP and Holdings LP to the risk of increased interest rates. Upon maturity of the Credit Facilities, Royalties LP and Holdings LP will need to refinance the Credit Facilities. There can be no assurance that refinancing of this indebtedness will be available to Royalties LP and Holdings LP, or available to them on acceptable terms. Royalties LP’s and Holdings LP’s ability to make scheduled payments of principal of or interest on, or to refinance, their indebtedness depends on future cash flows, which are dependent on Royalty that BPI pays Royalties LP and Distribution Income BP Canada LP pays Holdings LP, prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond Royalties LP’s or Holdings LP’s control.

The Credit Facilities contain numerous restrictive covenants that limit the discretion of management of Royalties GP and Holdings GP with respect to certain business matters. These covenants place restrictions on, among other things, the ability of Royalties LP and Holdings LP to incur additional indebtedness, to create liens or other encumbrances, to pay distributions or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets to allow a change of control, to change the terms of the Royalties Limited Partnership Agreement or Holdings Limited Partnership Agreement, and to merge or consolidate with another entity. A failure to comply with the obligations in the Credit Facilities could result in an event of default which, if not cured or waived, could result in the acceleration of the relevant indebtedness. If the indebtedness under the Credit Facilities were to be accelerated, there can be no assurance that the assets of Royalties LP, Holdings LP and their related entities would be sufficient to repay in full that indebtedness.

## **ANNUAL ADJUSTMENT TO ROYALTY POOL**

### **General**

The amount of Royalty payable by BPI to Royalties LP under the License and Royalty Agreement, and the amount of Distribution Income payable by BP Canada LP to Holdings LP, is determined by reference to the amount of Franchise Sales from Boston Pizza Restaurants in the Royalty Pool. BP Canada LP intends to continue to expand the number of Boston Pizza Restaurants in Canada by entering into franchise agreements in respect of new Boston Pizza Restaurants that are not included in the Royalty Pool. The Royalty Pool is adjusted on each Adjustment Date to add Additional Restaurants that opened, and to remove any Boston Pizza Restaurant that permanently closed, during the Fiscal Year ended immediately prior to that Adjustment Date. The following is a summary only of the manner by which such adjustments are calculated and implemented. Reference should be made to the License and Royalty Agreement, the Royalties Limited Partnership Agreement and the BP Canada Limited Partnership Agreement for the full text of these adjustments.

### **Distribution Entitlements**

The holders of the Class B Units are entitled to receive distributions from Royalties LP on the Class B Units based upon the Class B Distribution Limit at the applicable time. Similarly, the holders of Class 2 GP Units are entitled to receive distributions from BP Canada LP on the Class 2 GP Units based upon the Class 2 Distribution Limit. If in the future BPI has exercised exchange rights in respect of Class 3 GP Units, Class 4 GP Units or Class 5 GP Units, then from and after the exercise of such exchange rights, the holders of Class 3 GP Units, Class 4 GP Units or Class 5 GP Units, as the case may be, will be entitled to receive distributions from BP Canada LP based upon the Class 3 Distribution Limit, Class 4 Distribution Limit or Class 5 Distribution Limit, respectively.

### **Annual Adjustments to Distribution and Exchange Entitlements**

The Class B Distribution Limit, the Class B Exchange Limit (the number of Fund Units the holder of Class B Units is entitled to acquire from time to time), the Class 2 Distribution Limit and the Class 2 Exchange Limit (the number of Fund Units the holder of Class 2 GP Units is entitled to acquire from time to time) are adjusted on the Adjustment Date in each year based upon the Class B Determined Amount and the Class 2 Determined Amount. If in the future BPI has exercised exchange rights in respect of Class 3 GP Units, Class 4 GP Units or Class 5 GP Units, then from and after the first Adjustment Date occurring after such exchange, the Class 3 Distribution Limit, Class 3 Exchange Limit (the number of Fund Units the holder of Class 3 GP Units is entitled to acquire from time to time), the Class 4 Distribution Limit, Class 4 Exchange Limit (the number of Fund Units the holder of Class 4 GP Units is entitled to acquire from time to time), or the Class 5 Distribution Limit, Class 5 Exchange Limit (the number of Fund Units the holder of Class 5 GP Units is entitled to acquire from time to time), as the case may be, will be adjusted on the Adjustment Date in each year based upon the Class 3 Determined Amount, Class 4 Determined Amount or the Class 5 Determined Amount, respectively.

## Calculation of Annual Adjustments

The amount of Franchise Sales of the Additional Restaurants that is used to calculate the Class B Determined Amount and Class 2 Determined Amount (and, if and when applicable, the Class 3 Determined Amount, Class 4 Determined Amount or Class 5 Determined Amount) is based upon the amount that the actual Franchise Sales of the Additional Restaurants for the first Fiscal Year in which such Additional Restaurants are included in the Royalty Pool exceeds the Franchise Sales of Boston Pizza Restaurants that permanently closed during the year (the amount of Franchise Sales of a “permanently closed” Boston Pizza Restaurant is determined using Franchise Sales of that restaurant for the twelve months following the date of adding that restaurant to the Royalty Pool). An estimate of the Class B Determined Amount and Class 2 Determined Amount (and, if and when applicable, the Class 3 Determined Amount, Class 4 Determined Amount or Class 5 Determined Amount) is to be made based upon: (i) the amount of the Franchise Sales of the Additional Restaurants for such Fiscal Year as forecast by BPI, on the basis of assumptions that are considered to be reasonable by the boards of directors of Royalties GP and BPI; and (ii) an estimate of the effective average tax rate to be paid by the Fund. Such estimated Class B Determined Amount and Class 2 Determined Amount (and, if and when applicable, Class 3 Determined Amount, Class 4 Determined Amount or Class 5 Determined Amount) is to be readjusted after the end of such Fiscal Year when the actual Class B Determined Amount and Class 2 Determined Amount (and, if and when applicable, Class 3 Determined Amount, Class 4 Determined Amount or Class 5 Determined Amount) is calculated on the basis of the actual Franchise Sales for such Additional Restaurants for such Fiscal Year, and the actual effective average tax rate to be paid by the Fund is determined. BPI is to provide Royalties LP and BP Canada LP with an audited report of the amount of such Franchise Sales of the Additional Restaurants for the first Fiscal Year in which such Additional Restaurants are included in the Royalty Pool.

The calculation of the Class B Determined Amount and Class 2 Determined Amount (and, if and when applicable, the Class 3 Determined Amount, Class 4 Determined Amount or Class 5 Determined Amount), and in turn the Additional Entitlements BPI receives in respect thereof, is designed to be accretive to Unitholders as the expected increase in net Franchise Sales from the Net New Restaurants added to the Royalty Pool is valued at a 7.5% discount. The Class B Determined Amount and Class 2 Determined Amount are as follows:

- (a) The Class B Determined Amount is 92.5% of the amount determined by multiplying the Royalty paid by BPI in respect of; and
- (b) The Class 2 Determined Amount is 92.5% of the amount determined by multiplying the 1.5% of;

the Franchise Sales for such Net New Restaurants in respect of the first Fiscal Year for which such Net New Restaurants are included in the Royalty Pool by one minus the estimated effective average SIFT Tax rate that the Fund will pay during the Fiscal Year in which the Adjustment Date occurs, and dividing this amount by the annual yield paid on the Units for the Fiscal Year immediately preceding the Adjustment Date in respect of such first mentioned Fiscal Year. The annual yield is determined by dividing the per Unit amount distributed in cash by the Fund in such Fiscal Year (annualized in the case of a Fiscal Year of less than 12 months) by the Current Market Price of the Units on such Adjustment Date. The Class 3 Determined Amount, Class 4 Determined Amount or Class 5 Determined Amount, if and when applicable, will be calculated in the same manner as the Class 2 Determined Amount except in each case substituting 0.5% of the Franchise Sales for such Net New Restaurants for 1.5% of the Franchise Sales for such Net New Restaurants.

BPI receives 80% of the Additional Entitlements initially, with the balance received when the actual full year performance of the Net New Restaurants and the actual effective tax rate paid by the Fund are known with certainty. BPI receives 100% of distributions from the Additional Entitlements throughout the year. Once the Net New Restaurants have been part of the Royalty Pool for a full year, an audit of the Franchise Sales of these restaurants is performed, and the actual effective tax rate paid by the Fund is determined. At such time an adjustment is made to reconcile distributions paid to BPI and the Additional Entitlements received by BPI.

## THE EXCHANGE RIGHTS

Pursuant to the Royalties Limited Partnership Agreement, Royalties Exchange Agreement, BP Canada Limited Partnership Agreement and the BP Canada Exchange Agreement, BPI (or a Related Party to whom the applicable units have been transferred) has the right to exchange Class B Units, Class 2 GP Units, Class 3 GP Units, Class 4 GP Units and Class 5 GP Units, for Units, and Class C Units (for indebtedness under the BP Loan). Below is a summary of the Exchange Rights.

### Class B Units

Pursuant to the Royalties Limited Partnership Agreement and Royalties Exchange Agreement, BPI (or a Related Party to whom such Class B Units are transferred) has the right to exchange a Class B Unit for that number of Units equal to the Class B Exchange Multiplier.

### Class C Units

Pursuant to the Royalties Limited Partnership Agreement and Royalties Exchange Agreement, BPI, as the holder of Class C Units, has the right to transfer such Class C Units to Holdings LP in consideration for the assumption by Holdings LP of (and the concurrent release of BPI of its obligations with respect to) an amount of the indebtedness under the BP Loan equal to \$10 per Class C Unit to be transferred.

### Class 2 GP Units, Class 3 GP Units, Class 4 GP Units and Class 5 GP Units

Pursuant to the BP Canada Limited Partnership Agreement and BP Canada Exchange Agreement, the Class 2 GP Units, Class 3 GP Units, Class 4 GP Units and Class 5 GP Units each have the right to be exchanged by the holder for either Units or a combination of cash and Units.

#### *Conditions for Initial Exchange of Class 3 GP Units, Class 4 GP Units and Class 5 GP Units*

Class 3 GP Units, Class 4 GP Units and Class 5 GP Units have been issued to BPI in order to provide BPI with a mechanism for increasing the Fund's Franchise Sales Participation to 6.0%, 6.5%, and 7.0%, respectively, of Franchise Sales, in each case, less the *pro rata* portion payable to BPI in respect of its retained interest in the Fund. Under the BP Canada Exchange Agreement, BPI may only increase the Fund's Franchise Sales Participation if BPI's business is generating sufficient EBITDA for BPI and BP Canada LP to distribute the Fund's Franchise Sales Participation on a going-forward basis.

More specifically, Class 3 GP Units, Class 4 GP Units and Class 5 GP Units may only be initially exchanged when, for any preceding period of not less than 24 months ending after December 31, 2016, 90% of Normalized EBITDA of BPI (assuming, among other things, the income of BP Canada LP is consolidated with the income of BPI and that none of the Royalty is paid by BPI to Royalties LP) during such period would have exceeded the result of 100% less the Committed Retained Interest (defined below), multiplied by:

- (a) 6.0% of Franchise Sales (the "**Class 3 Exchange Condition**"), for Class 3 GP Units;
- (b) 6.5% of Franchise Sales (the "**Class 4 Exchange Condition**"), for Class 4 GP Units; and
- (c) 7.0% of Franchise Sales (the "**Class 5 Exchange Condition**" and, together with the Class 3 Exchange Condition and the Class 4 Exchange Condition, the "**Exchange Conditions**"), for Class 5 GP Units.

The applicable Exchange Condition must be demonstrated to have been met on the basis of audited financial statements of BPI (the "**Exchange Statements**"). If BPI wishes to test whether the Exchange Conditions have been met for a period other than a financial year of BPI, BPI may cause the preparation and audit of financial statements of BPI to be conducted at its cost.

BPI has the option to initially exchange Class 3 GP Units, Class 4 GP Units and Class 5 GP Units at any time within 90 days after the end of the period shown on the applicable Exchange Statements, provided that the Class 3 Exchange Condition, Class 4 Exchange Condition and Class 5 Exchange Condition, respectively, has been met. Following the initial exchange of Class 3 GP Units, Class 4 GP Units and Class 5 GP Units, BPI will not have to demonstrate that the applicable Exchange Condition has been met for any subsequent period in order to exercise exchange rights in respect of such class of units in the future.

For the avoidance of doubt, BPI may not exercise exchange rights (a) in respect of Class 4 GP Units unless it has previously or concurrently exercised exchange rights in respect of Class 3 GP Units or (b) in respect of Class 5 GP Units unless it has previously or concurrently exercised exchange rights in respect of Class 3 GP Units and Class 4 GP Units.

#### *Establishment of Initial Exchange Limits*

Upon BPI increasing the Fund's Franchise Sales Participation to 6.0%, 6.5%, and 7.0%, respectively, of Franchise Sales (less BPI's retained interest in the Fund) through exercising the option to initially exchange Class 3 GP Units, Class 4 GP Units or Class 5 GP Units, BPI will be compensated for so doing by the Class 3 GP Units, Class 4 GP Units and Class 5 GP Units, respectively, becoming exchangeable for Units. BPI's right to increase the Fund's Franchise Sales Participation upon the applicable Exchange Condition being satisfied is designed to be accretive to Unitholders as the additional Distribution Income that Holdings LP will receive from BP Canada LP thereafter is valued at a 7.5% discount. The number of Units into which the Class 3 GP Units, Class 4 GP Units and Class 5 GP Units will be initially exchangeable is the Class 3 Initial Exchange Limit, Class 4 Initial Exchange Limit and Class 5 Initial Exchange Limit, respectively.

#### *Exchanges after Establishment of Initial Exchange Limits*

The Class 2 GP Units entitle the holder to exchange a Class 2 GP Unit for that number of Units equal to the Class 2 Exchange Multiplier. Following the initial exchange of Class 3 GP Units, Class 4 GP Units and Class 5 GP Units, the Class 3 GP Units, Class 4 GP Units and Class 5 GP Units will entitle the holder to exchange a Class 3 GP Unit, Class 4 GP Unit or Class 5 GP Unit for that number of Units equal to the Class 3 Exchange Multiplier, Class 4 Exchange Multiplier or Class 5 Multiplier, respectively. Consequently, the aggregate amount of Units that may be issued in exchange for Class 2 GP Units, Class 3 GP Units, Class 4 GP Units and Class 5 GP Units, as the case may be, may not exceed the Class 2 Exchange Limit, the Class 3 Exchange Limit, the Class 4 Exchange Limit or the Class 5 Exchange Limit, respectively.

Upon any exchange of Class 2 GP Units, Class 3 GP Units, Class 4 GP Units or Class 5 GP Units, BP Canada LP will issue a number of Class 2 LP Units, Class 3 LP Units, Class 4 LP Units or Class 5 LP Units, respectively, equal to the number of Units issued to BPI upon such exchange in order to ensure that the portion of the Class 2 Distribution, Class 3 Distribution, Class 4 Distribution and Class 5 Distribution, respectively, payable to BPI is effectively equal to BPI's retained interest in the Fund.

#### **Restrictions on Exchanges**

The number of Class B Units, Class 2 GP Units, Class 3 GP Units, Class 4 GP Units and Class 5 GP Units that may be exercised at any time is subject to the following requirements:

1. **Relative Percentage Interests:** The BP Canada Exchange Agreement contemplates that, upon any exchange of Class 2 GP Units, Class 3 GP Units, Class 4 GP Units, Class 5 GP Units or Class B Units, BPI will cause its Class B Relative Percentage Interest, Class 2 Relative Percentage Interest, Class 3 Relative Percentage Interest, Class 4 Relative Percentage Interest and Class 5 Relative Percentage Interest (to the extent the applicable BP Canada GP Units have previously been exchanged), respectively, to remain within 0.1% of each other. If at any time any of the Relative Percentage Interests varies from any of the other Relative Percentage Interests by 2% or more, BPI will be required to cause an exchange of all applicable BP Canada GP Units and Class B Units within 90 days of such time to cause all of the Relative Percentage Interests to be within 0.1% of less of each other.

For purposes of the above, the “**Class B Relative Percentage Interest**”, at any time, is the percentage of the monthly distributions payable by Royalties LP to BPI on account of the Class B Units held by BPI at such time. The “**Class 2 Relative Percentage Interest**”, “**Class 3 Relative Percentage Interest**”, “**Class 4 Relative Percentage Interest**” or “**Class 5 Relative Percentage Interest**”, at any time, is the percentage of the Class 2 Distribution, Class 3 Distribution, Class 4 Distribution and Class 5 Distribution, as the case may be, payable by BP Canada LP to BPI on the Class 2 GP Units, Class 3 GP Units, Class 4 GP Units and Class 5 GP Units, as the case may be, held by BPI at such time.

2. **Committed Retained Interest:** BPI has agreed not to take any active steps to reduce its interest in the Fund to below 10% (such minimum interest in the Fund being the “**Committed Retained Interest**”). In order to meet this test, BPI must hold at least that number of Class B Units and BP Canada GP Units which entitle it to maintain a 10% retained interest in the Fund (measured on the basis of its rights to receive distributions on the Class B Units and BP Canada GP Units).

BPI has the option to increase the minimum Committed Retained Interest in its discretion. BPI also has the option to decrease the minimum Committed Retained Interest to an amount not less than 10% provided that, if BPI has previously exercised its rights to cause an exchange of any of the Class 3 GP Units, Class 4 GP Units or Class 5 GP Units, the highest of the Class 3 Exchange Condition, Class 4 Exchange Condition and Class 5 Exchange Condition which has been exercised would remain satisfied at the proposed reduced Committed Retained Interest.

### **Cash Option**

In connection with any proposed exercise of exchange rights in respect of Class 2 GP Units, Class 3 GP Units, Class 4 GP Units or Class 5 GP Units, the Fund has the right to make an offer to pay cash to BPI in exchange for a portion of such units in lieu of issuing Units to BPI in exchange for such units. If the Fund makes such an offer to BPI, BPI may accept such offer in whole or in part in its sole discretion. If BPI accepts an offer to receive cash in exchange for a portion of the Class 2 GP Units, Class 3 GP Units, Class 4 GP Units or Class 5 GP Units that would otherwise be exchanged for Units, the cash consideration payable in respect of such Class 2 GP Units, Class 3 GP Units, Class 4 GP Units or Class 5 GP Units, as the case may be, will equal the Current Market Price of a Unit multiplied by the number of Units that BPI would otherwise have been entitled to receive had it not elected to receive cash in exchange for such Class 2 GP Units, Class 3 GP Units, Class 4 GP Units or Class 5 GP Units.

### **Exchange Procedures**

#### *Class B Units*

The exchange procedure for exchanging Class B Units is initiated by BPI delivering to Royalties GP, as escrow agent under the Royalties Exchange Agreement, a unit certificate in respect of the Class B Units to be exchanged, duly endorsed in blank for transfer together with the required form of exchange notice. Royalties GP will thereupon give notice of the proposed exchange to Holdings LP. Holdings LP will issue and deliver to the Trust any combination of Holdings LP Units and notes of Holdings LP equal to the Current Market Price of Units into which the tendered Class B Units are exchangeable. The Trust will thereupon issue and deliver to the Fund any combination of Trust Units and Trust Notes equal to the Current Market Price of Units into which the tendered Class B Units are exchangeable. The Fund will thereupon issue the Units into which the tendered Class B Units are exchangeable, and deliver a certificate representing such Units to the Trust. The Trust will deliver the certificate to Holdings LP, and Holdings LP will deliver the certificate to Royalties GP as escrow agent. Royalties GP will complete the exchange procedure by causing to be issued in the name of Holdings LP a unit certificate for that number of Class D Units to be issued on the exchange, entering Holdings LP in the register of limited partners of Royalties LP in respect of such additional Class D Units of a number equal to the Class B Exchange Multiplier for each Class B Unit exchanged, causing the Class B Units so tendered for exchange to be cancelled, and delivering to BPI a certificate for that number of Units of the Fund to be received on the exchange.

### *Class C Units*

The exchange procedure for Class C Units is initiated by BPI delivering to Royalties GP as escrow agent under the Royalties Exchange Agreement a unit certificate in respect of the Class C Units to be exchanged, duly endorsed in blank for transfer and giving notice of the proposed exchange to Holdings LP. Upon receipt of a notice of such exchange, Holdings LP is obligated to assume, and the Fund is obligated to release BPI with respect to, an aggregate amount of the indebtedness under the BP Loan equal to \$10 per Class C Unit to be transferred. Royalties GP will effect the exchange procedure by causing to be issued in the name of Holdings LP a unit certificate for that number of Class C limited partner units to be issued on the exchange, entering Holdings LP in the register of limited partners of Royalties LP in respect of such additional Class C limited partner units, causing the Class C Units so tendered for exchange to be cancelled.

### *Class 2 GP Units, Class 3 GP Units, Class 4 GP Units and Class 5 GP Units*

If BPI wishes to first exercise exchange rights in respect of Class 3 GP Units, Class 4 GP Units or Class 5 GP Units, then it must deliver a notice to the Fund and Holdings LP containing: (i) the number and class of the Class 3 GP Units, Class 4 GP Units or Class 5 GP Units that it proposes to exchange; (ii) the number and class of other BP Canada GP Units and Class B Units it proposes to exchange in order to comply with the restrictions on exchange noted in “Exchange Rights – Restrictions on Exchange”; (iii) an officer’s certificate detailing how the applicable Exchange Condition has been satisfied; and (iv) a copy of the Exchange Statements upon which BPI is relying.

If BPI wishes to exercise exchange rights in respect of Class 2 GP Units, or Class 3 GP Units, Class 4 GP Units or Class 5 GP Units after an initial exchange of the same has occurred, then BPI must deliver a notice to the Fund and Holdings LP containing: (i) the number and class of the Class 2 GP Units, Class 3 GP Units, Class 4 GP Units or Class 5 GP Units that it proposes to exchange; and (ii) the number and class of other BP Canada GP Units and Class B Units it proposes to exchange in order to comply with the restrictions on exchange noted in “Exchange Rights – Restrictions on Exchange”. Within 7 days after receiving either such notice, the Fund must provide BPI with a notice specifying the maximum number of exchangeable BP Canada GP Units in respect of which Holdings LP is willing to pay BPI cash.

BPI must then initiate the exchange procedures for exchanging BP Canada GP Units by delivering to the Fund and Holdings GP a notice, in the required form, specifying how many BP Canada GP Units it wishes to exchange for cash, if any (up to the maximum number specified by the Fund), and how many BP Canada GP Units it wishes to exchange for Units, together with unit certificates representing the BP Canada GP Units to be exchanged, duly endorsed in blank for transfer. The exchange procedures are then completed in a manner similar to how the exchange of Class B Units is completed except that: (i) BPI completes the exchange procedures rather than Royalties LP; and (ii) the procedures are varied to the extent that any BP Canada GP Units are exchanged for cash, with slight variations depending upon whether or not the cash is funded via Eligible Debt or otherwise.

### **Other Covenants**

The Fund has agreed not to: (i) make distributions of Units, rights, options, warrants, evidences of indebtedness or assets of the Fund (other than in limited prescribed circumstances) to Unitholders, (ii) issue or distribute rights or options to Unitholders entitling them to subscribe for Units (or securities convertible into or exchangeable for Units), (iii) subdivide or combine the Units or reclassify or effect an amalgamation, merger or reorganization transaction affecting the Units, unless an economically equivalent change is made simultaneously with respect to the Class B Units and the exchangeable BP Canada GP Units.

The Fund has agreed to use its reasonable efforts to permit BPI to participate in any offer or similar transaction with respect to Units (other than a normal course issuer bid) that is proposed by the Fund or proposed to Unitholders and is recommended or consented to by the Fund, without requiring BPI to exercise its Exchange Rights prior to participating in the offer.

The Exchange Rights may be exercised by BPI with respect to any number of Class B Units or exchangeable BP Canada GP Units held by BPI at such time upon not less than three and not more than 10 business days' prior written notice to Holdings LP and Royalties GP (in the case of Class B Units) and the Fund and Holdings LP (in the case of exchangeable BP Canada GP Units) of the exercise of such Exchange Rights.

## DESCRIPTION OF OTHER MATERIAL CONTRACTS

### Registration Rights Agreement

The Fund and BPI entered into a registration rights agreement dated May 6, 2015 (the "**Registration Rights Agreement**"), pursuant to which the Fund granted BPI certain demand and "piggy-back" registration rights. Subject to certain limitations, these rights will enable BPI to require the Fund to file a prospectus and otherwise assist with a public offering of Units held by BPI, including Units acquired by BPI as a result of exercising the Exchange Rights. The Fund will not be required to qualify any Units for distribution to the public: (i) more than once in any 12 month period; (ii) unless the offering size is at least \$20 million; (iii) if the Fund determines that the filing of such prospectus would be seriously detrimental to the Fund or Unitholders, in which case the Fund may postpone the filing of such prospectus for up to 120 days; or (iv) at any time after the first date on which BPI's ownership of the Fund (on a fully-diluted basis) is less than 10% (unless it is caused by the Fund issuing Units). The Fund's expenses will be borne by BPI (or on a proportionate basis if both the Fund and BPI are selling Units) pursuant to the terms of the Registration Rights Agreement.

### Underwriting Agreement

The Fund, BPI, and the Underwriters entered into an underwriting agreement dated March 27, 2015 (the "**Underwriting Agreement**") whereby the Underwriters agreed to purchase, as principals, subject to the conditions stipulated in the Underwriting Agreement, the Subscription Receipts at a price of \$22.10 per Subscription Receipt for total gross consideration of \$111,552,247.30. The Underwriting Agreement provided that the Fund pay the Underwriters' fee of \$0.884 per Subscription Receipt for Subscription Receipts issued and sold by the Fund for an aggregate fee payable by the Fund of \$4,462,089.89, in consideration for their services.

### Subscription Receipt Agreement

Pursuant to the Subscription Receipt Agreement, the Fund issued, on April 16, 2015, the Subscription Receipts at a price of \$22.10 each, for net proceeds (after offering and transaction costs) of \$105.3 million. In accordance with the terms of the Subscription Receipt Agreement, each Subscription Receipt was converted into one Unit and 10.2 cents was paid to each holder of a Subscription Receipt, being the amount that the Subscription Receipt holder would have received as distributions on a Unit since April 16, 2015, had the holder held the Unit instead of a Subscription Receipt.

### Transfer Agreement

Pursuant to the Transfer Agreement, BPI transferred the Transferred Assets to BP Canada LP in exchange for 100,000,000 Class 2 GP Units, 100,000,000 Class 3 GP Units, 100,000,000 Class 4 GP Units, 100,000,000 Class 5 GP Units and 999 Class 6 GP Units. BPI and Holdings LP made a joint election under subsection 97(2) of the Tax Act to cause the transfer and assignment of the Transferred Assets to take place on a partially tax-deferred basis. In addition, BPI and BP Canada LP made a joint election under subsection 20(24) of the Tax Act in respect of the assumption by BP Canada LP of certain prepaid obligations of BPI under certain of the Transferred Assets.

The Transfer Agreement included customary representations and warranties of both parties. In particular, BPI made representations and warranties to BP Canada LP with respect to validity, enforceability and good standing of the franchise agreements and supplier contracts included in the Transferred Assets.



The Transfer Agreement also provided that if any of the franchise agreements and supplier contracts included in the Transferred Assets were not effectively transferred to BP Canada LP or required the consent of a third party to be transferred, then BPI would hold such agreements as trustee on behalf of BP Canada LP until they were effectively transferred or the consent of the third party was obtained.

The franchise agreements included in the Transferred Assets require franchisees to contribute an amount equal to 3% of their franchise revenue to the Boston Pizza cooperative marketing fund (the “**Co-op**”), which BPI used and expended on various marketing activities for the benefit of Boston Pizza Restaurants. Under the Transfer Agreement, BPI transferred the administration of the Co-op to BP Canada LP and BP Canada LP has thereafter administered the Co-op for the benefit of Boston Pizza Restaurants. In addition, under the Transfer Agreement, BP Canada LP is responsible for administering the program for Boston Pizza Restaurant gift cards, including funds held in respect of gift cards in accordance with the BP Manuals (as defined in the BP Canada Limited Partnership Agreement). BPI paid BP Canada LP any amounts then held in the Co-op or held in respect of gift cards, respectively.

Concurrent with completion of the Transferred Assets to BP Canada LP, BPI and BP Canada LP entered into the BP Licensed Marks Sublicense Agreement, and BP Canada LP granted the Fund Guarantee, Royalties LP Guarantee, Fund GSA (BP Canada LP) and Royalties LP GSA (BP Canada LP).

## MARKET FOR SECURITIES

### Trading Price and Volume

Units of the Fund are listed for trading on the TSX under the symbol BPF.UN. The following is a summary of the price ranges and volume traded on a monthly basis for the Fiscal Year ended December 31, 2015:

<u>MONTH</u>	<u>OPEN</u>	<u>HIGH</u>	<u>LOW</u>	<u>CLOSE</u>	<u>TOTAL MONTH VOLUME TRADED</u>
January, 2015	\$21.48	\$22.25	\$21.00	\$21.38	370,920
February, 2015	\$21.50	\$23.10	\$21.00	\$22.72	519,969
March, 2015	\$22.83	\$23.49	\$21.66	\$22.10	507,713
April, 2015	\$22.08	\$22.25	\$21.15	\$21.44	1,185,535
May, 2015	\$21.50	\$21.90	\$21.19	\$21.69	721,307
June, 2015	\$21.70	\$21.75	\$20.79	\$20.85	672,240
July, 2015	\$20.79	\$21.29	\$18.90	\$20.38	595,271
August, 2015	\$20.36	\$20.36	\$16.05	\$18.78	827,312
September, 2015	\$18.75	\$18.75	\$16.67	\$17.22	626,553
October, 2015	\$17.16	\$18.42	\$16.60	\$18.17	529,239
November, 2015	\$18.17	\$19.00	\$18.02	\$18.71	481,949
December, 2015	\$18.73	\$18.73	\$16.61	\$17.93	716,150

## MANAGEMENT

### Trustees of the Fund

The name, province of residence and principal occupation for the five preceding years of each of the Trustees is shown below. The Trustees are appointed at each annual meeting of Unitholders. The term of office for each Trustee expires at the close of the next annual general meeting of the Fund or until the earlier of the Trustee's death, resignation or removal.

<u>Trustee and Province of Residence</u>	<u>Trustee Since</u>	<u>Principal Occupation for Previous Five Years</u>
William C. Brown British Columbia, Canada	July 2002	Trustee of the Fund – July 2002 to present; Corporate Director
W. Murray Sadler, British Columbia, Canada	QC June 2008	Trustee of the Fund – June 2008 to present; Corporate Director; Lawyer and associate counsel

Trustee and Province of Residence    Trustee Since    Principal Occupation for Previous Five Years

of the law firm of Heather Sadler Jenkins LLP – until his retirement from active legal practice in 2013

David L. Merrell, British Columbia, Canada	FCA June 2014	Trustee of the Fund – June 2014 to present; Self-employed consultant to Grant Thornton LLP, arbitrator, estate trustee – November 2009 to present; Accountant and managing partner of the accounting firm of Grant Thornton LLP – until his retirement from active practice in 2009
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*Remuneration of Trustees of the Fund and Directors of Royalties GP*

Each of the Trustees is entitled to annual compensation of \$26,000 plus an additional \$1,000 for each regularly scheduled meeting of Trustees attended and \$500 for each extraordinary meeting of the Trustees attended, unless the extraordinary meeting is deemed to be substantive, as determined by the Chairman of such meeting, then each Trustee is entitled to \$1,000 for each extraordinary meeting of the Trustees attended. Each of the directors of Royalties GP is entitled to annual compensation for their services as a director of \$26,000 per year plus an additional \$1,000 per director for attending each regularly scheduled meeting of the board of directors and \$500 per director for each extraordinary meeting of the board of directors or a committee of the board of directors, unless the extraordinary meeting is deemed to be substantive, as determined by the Chairman of such meeting, then each director is entitled to \$1,000 for each extraordinary meeting of the directors attended (in each case, except where the director attends a meeting of the Trustees on the same day and for which compensation is paid). Each of the directors of Royalties GP is reimbursed for general expenses as they arise from time to time. At present, neither Mr. Pacinda nor Mr. Bews receives compensation for their roles as directors of Royalties GP. For descriptions of Mr. Pacinda, Chief Executive Officer of Royalties GP, and Mr. Bews, Chief Financial Officer of Royalties GP, see “Management - Directors and Officers of Royalties GP”.

*Directors' and Officers' Liability Insurance*

The trustees of the Fund and the Trust, and the directors and officers of Holdings GP and Royalties GP are covered under the directors' and officers' insurance policy established by the Fund. The aggregate limit of liability applicable to those insured trustees, directors and officers under the policy is \$15 million inclusive of defence costs. The policy will pay on behalf of the Fund, the Trust, Holdings GP and Royalties GP all losses for which the Fund, the Trust, Holdings GP or Royalties GP grants indemnification to such trustees, directors or officers in excess of a deductible of \$100,000 for each loss. In addition, there is an excess “Side A” directors' and officers' policy in the amount of \$10 million. The premiums for the policies are paid by Royalties LP. For the policy year ending July 2016, the premiums for these policies were \$78,000.

*Units Held*

To the knowledge of the Fund, as at February 9, 2016, the trustees of the Fund and the Trust, and the directors and officers of Holdings GP and Royalties GP, together as a group, beneficially owned, directly or indirectly, or exercised control or direction over 96,565 Units representing 0.5% of outstanding Units of the Fund.

*Corporate Cease Trade Orders, Bankruptcies, Penalties or Sanctions*

No Trustee or director or executive officer of Royalties GP, is, or has been, within the past ten years, a director, chief executive officer or chief financial officer of any company, that (a) while that person was

acting in that capacity was the subject of a cease trade or similar order or an order that denied that company access to any exemption under Canadian securities legislation, for a period of more than 30 consecutive days (collectively an “**Order**”) or (b) after that person ceased to act in that capacity was subject to an Order that resulted from an event that occurred while that person was acting in that capacity. No Trustee, director or executive officer of Royalties GP or Unitholder of the Fund holding a sufficient number of securities of the Fund to materially affect control of the Fund: (a) is or has been within the past ten years a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver or receiver manager or trustee appointed to hold its assets; or (b) has, within the past ten years become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or become subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold their assets.

No Trustee of the Fund, director or executive officer of Royalties GP or Unitholder of the Fund holding a sufficient number of securities of the Fund to materially affect control of the Fund: (a) has had any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority; (b) since December 31, 2000, entered into any settlement agreement with a securities regulatory authority; or (c) has had any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision with respect to the Fund.

*Conflicts of Interest*

Except as described in the “Interest of Management and Others in Material Transactions” section below, to the knowledge of the Fund, no Trustee or director or executive officer of Royalties GP has an existing or potential material conflict of interest with the Fund or any of its subsidiaries. The Governance Agreement requires that certain procedures be followed whenever a conflict arises between the Fund or any of its subsidiaries and BPI.

**Audit Committee of the Fund**

The Audit Committee is responsible for monitoring Royalties GP and Royalties LP’s financial reporting, accounting systems, internal controls and liaising with external auditors.

*Composition of the Audit Committee*

<b><u>Audit Committee Member</u></b>	<b><u>Is the member: (i) independent and (ii) financially literate?</u></b>
William C. Brown	Mr. Brown is independent and financially literate.
W. Murray Sadler, QC	Mr. Sadler is independent and financially literate.
David L. Merrell, FCA	Mr. Merrell is independent and financially literate.

## *Relevant Education and Experience*

### Audit Committee Member

William C. Brown

### Education and Experience

Mr. Brown served as Vice President of BC Sugar Refinery Ltd. from 1976 to 1988, President from 1988 to 1997, and Chief Executive Officer from 1990 to 1997. Mr. Brown was Chairman of BC Sugar Refinery Ltd. from 1997 to 1998. Mr. Brown has also acquired significant experience and exposure to accounting and financial reporting issues through his board appointments and serving on the Audit Committee at Union Gas Ltd. from 2002 to 2007, Harmac Pacific Inc. from 1998 to 1999, Westcoast Energy Inc. from 1995 to 2007, TimberWest Forest Corp. from 1993 to 2009, Duke Seabridge Ltd. from 1992 to 2002, Coast Tractor & Equipment Ltd. from 1992 to 2002 and Pacific Northern Gas Ltd. from 1985 to 1995. Mr. Brown has a Bachelor of Science degree from the University of New Brunswick.

W. Murray Sadler, QC

Mr. Sadler, QC was a founding partner of the law firm of Heather Sadler Jenkins LLP. He is a graduate of the University of British Columbia (BA 63, LL.B 66) and practiced law since his call to the Bar in the province of British Columbia in 1967 until his retirement from active practice in 2013. Mr. Sadler's professional practice included financial restructuring, taxation and the organization and reorganization of various business structures. He was Chair of the Board of the University of Northern British Columbia during its formation, facilities construction and initial startup. Mr. Sadler ended his 10 year term as a director of the Provincial Health Services Authority of British Columbia on December 31, 2015 where he served as Chair of its Research Committee and member of its Audit and Finance Committees. These collective experiences have provided Mr. Sadler with exposure to accounting and financial reporting issues. Mr. Sadler has been awarded an honorary Doctor of Laws by the University of Northern British Columbia and was awarded Queen Elizabeth II Gold and Diamond Jubilee Medals.

David L. Merrell, FCA

Mr. Merrell articulated in Winnipeg and obtained his Chartered Accountant designation in 1971. He joined what is now Grant Thornton LLP in 1978 and specialized in taxation for 16 years with the balance of his career dedicated to general audit, accounting and financial practice. In addition, Mr. Merrell served two three-year terms on Grant Thornton LLP's Policy Board, served as a Director of Grant Thornton Productivity Improvement Inc., was managing partner of both the Winnipeg and Vancouver offices and of the BC region. Mr. Merrell has served on a number of professional committees including the Council of the Manitoba CA Institute, the National Firms Committee, the Professional Conduct and the Discipline Tribunal and Chaired the Taxation Committee of Manitoba. In 2006 Mr. Merrell elected as a Fellow of the Institute of Chartered Accountants (FCA) in British Columbia. He has also served on the Board of Directors of many organizations including Chair of the Multiple Sclerosis Society BC and Yukon Division, Director of the MS Society of Canada and Chair of the Vancouver Summer Music Festival.

### *Terms of Reference for Audit Committee*

The terms of reference for the Audit Committee are set forth in the attached Schedule A.

### **External Auditor Service Fees**

#### *Auditor Fees*

The aggregate fees billed for professional services rendered by the Fund's external auditor for the years ended December 31, 2015 and December 31, 2014 are as follows:

		<u>December 31, 2015</u>	<u>December 31, 2014</u>
Audit fees	\$	254,129	93,000
Audit-related fees		42,578	34,578
Tax fees		16,500	9,500
All other fees		-	19,500
Total fees	\$	313,207	156,578

Audit fees for 2015 and 2014 include fees related to the Fund's annual audit, quarterly reviews, accounting consultations and audit of the statement of Franchise Sales. In addition, audit fees for 2015 include \$140,775 for services provided in connection with the Transaction.

Audit-related fees for 2015 and 2014 include fees related to review and compilation engagements related to the Fund's subsidiaries and internal control review.

Tax fees for 2015 and 2014 are primarily for tax consultation services related to general tax consultation services and preparation of corporate income tax returns.

All other fees for 2014 relate to consultation services related to assistance in social media governance assessment.

#### *Pre-Approval Policies and Procedures*

The Canadian Institute of Chartered Accountants' Rules of Professional Conduct on auditor independence include prohibitions or restrictions on services that may be provided by auditors to their audit clients and require that all services provided to a listed entity audit client, including its subsidiaries, be pre-approved by the client's Board of Directors / Audit Committee.

The Fund will not engage an auditor to carry out any prohibited service. The Trustees will consider the pre-approval of permitted services to be performed by the external auditor in each of the following broad categories:

#### Audit Services

#### Audit Related Services

#### Tax Services

- Compliance Services
- Canadian & US Tax Planning Services
- Commodity Tax Services
- Executive Tax Services

#### Other Services

- Valuation Services
- Information Technology Advisory and Risk Management Services
- Actuarial Services
- Forensic and Related Services

Corporate Recovery Services  
Transaction Services  
Corporate Finance Services  
Project Risk Management Services  
Operational Advisory and Risk Management Services  
Regulatory and Compliance Services

For permitted services the following pre-approval policies will apply:

#### Audit Services

The Trustees will pre-approve all audit services provided by an auditor through their recommendation of an auditor to the Unitholders for appointment at the Fund's annual meeting and through the Trustees' review of the auditor's annual audit plan.

#### Pre-Approval of Audit Related, Tax and Other Services

Annually, the Trustees will update a list of pre-approved services and pre-approve services that are recurring or otherwise reasonably expected to be provided. The Trustees will be subsequently informed (quarterly) of the services for which the auditor has been actually engaged. Any additional requests for pre-approval will be addressed on a case-by-case specific engagement basis.

#### **Administration Agreement**

Under the Administration Agreement, Royalties LP is obligated to provide or arrange for the provision of administrative services to the Fund, Holdings LP, Holdings GP and the Trust. With respect to the Fund the administrative services provided by Royalties LP include without limitation, those necessary to: (i) ensure compliance by the Fund with continuous disclosure obligations under applicable securities legislation, including the preparation of financial statements relating thereto; (ii) provide investor relations services; (iii) provide or cause to be provided to Unitholders all information to which Unitholders are entitled under the Declaration of Trust, including relevant information with respect to income taxes; (iv) call and hold all meetings of Unitholders and distribute required materials, including notices of meetings and information circulars, in respect of all such meetings; (v) provide for the calculation of distributions to Unitholders; (vi) attend to all administrative and other matters arising in connection with any redemption of Units; (vii) ensure compliance with the Fund's limitations on Non-resident ownership; (viii) administer certain loans; and (ix) meet general accounting, book-keeping and administrative needs. Royalties LP is obligated to pay all expenses incurred by it and attributable to the exercise of its duties in the administration of the Fund, Holdings LP, Holdings GP and the Trust and no fee is payable to Royalties LP for the services provided by it to the Fund, Holdings LP, Holdings GP or the Trust under the Administration Agreement.

#### **Directors and Officers of Royalties GP**

As the managing general partner of Royalties LP, Royalties GP has the authority to manage the business and affairs of Royalties LP, including the authority to carry out Royalties LP's obligations under the Administration Agreement. Thus, the Fund is managed and administered by Royalties LP which, in turn, is managed by the managing general partner, Royalties GP. Certain matters relating to the conduct of the business and affairs of Royalties GP are provided for in the Governance Agreement. See "Management – Governance Agreement".

The name, province of residence and principal occupation for the five preceding years of each of the directors and officers of Royalties GP, managing general partner of Royalties LP, administrator to the Fund are set out in the table below:

<u>Name,</u> <u>Province of Residence</u>	<u>Office Held</u>	<u>Principal Occupation for Previous Five Years</u>
William C. Brown <sup>(1)</sup> British Columbia, Canada	(2) Director, June, 2002	Trustee of the Fund – July 2002 to present, Corporate Director
W. Murray Sadler, QC <sup>(1)</sup> British Columbia, Canada	(2) Director, June, 2008	Trustee of the Fund – June 2008 to present; Corporate Director; Lawyer and associate counsel of the law firm of Heather Sadler Jenkins LLP – until his retirement from active legal practice in 2013
David L. Merrell, FCA <sup>(1)</sup> British Columbia, Canada	(2) Director, June, 2014	Trustee of the Fund – June 2014 to present; Corporate Director; Self-employed consultant to Grant Thornton LLP, arbitrator, estate trustee – November 2009 to present; Accountant and managing partner of the accounting firm of Grant Thornton LLP – until his retirement from active practice in 2009
Mark G. Pacinda <sup>(3)</sup> Ontario, Canada	Director, Chief Executive Officer July, 2011	President of BPI – January 2004 to present; Chief Operating Officer of BPI – January 2009 to July 2011; Chief Executive Officer of BPI – July 2011 to present
Wes Bews <sup>(3)</sup> British Columbia, Canada	Assistant Secretary,  November, 2008; Director and Chief Financial Officer, December 2010	Vice President, Finance of T & M Management Services Ltd. – January 2008 to December 2009 – Vice President, Finance of BPI – January 2010 to July 2011; Chief Financial Officer of BPI – July 2011 to present

(1) Also a Trustee of the Fund.

(2) Member of the Audit Committee and the Governance Committee.

(3) Nominee of BPI.

## **Governance Agreement**

### *Directors and Committees*

Under the Governance Agreement, three of the directors of Royalties GP are nominated by the Fund (each of whom may be a Trustee and must be “independent” within the meaning of section 1.2 of National Instrument 58-101 *Disclosure of Corporate Governance Practices*) and, for so long as BPI holds a 10% interest in the Fund (other than as a result of the Fund issuing Units), whether directly or indirectly through its Class B Units of Royalties LP or exchangeable BP Canada GP Units, two of the directors are nominated by BPI. In addition, the Governance Agreement provides for the establishment of an Audit Committee and a Governance Committee of Royalties GP, each of which are to be comprised solely of nominees of the Fund.

### *Governance Committee*

The Governance Committee is responsible for, among other things, overseeing the operations of Royalties LP, addressing any conflicts of interest between Royalties LP and BPI, annually reviewing the operations and performance of BPI and for assisting the board of Royalties GP in establishing its approach to corporate governance issues and advising the board in filling vacancies. The corporate governance



practices of Royalties GP are disclosed under the heading “Statement of Corporate Governance Practices” in the Information Circular for the Fund dated March 27, 2015.

#### *Restrictive Covenants*

BPI agreed with Royalties LP in the Governance Agreement not to amend the term or provisions of the confidentiality, non-solicitation and non-competition covenants contained in employment agreements with its senior management without the consent of Royalties LP, and to enforce these covenants to the extent required by Royalties LP.

#### *Restrictions on the Transfer of Partnership Securities*

BPI agreed in the Governance Agreement that it will not sell, transfer, encumber or otherwise dispose of any Royalties LP Securities, BP Canada LP Securities or Special Voting Units without the prior written consent of the other parties to the Governance Agreement, except:

- in accordance with the Royalties Exchange Agreement or the BP Canada Exchange Agreement;
- to the Fund, the Trust, Holdings LP or Royalties LP in accordance with the Royalties Limited Partnership Agreement or BP Canada Limited Partnership Agreement;
- in the event of a take-over bid for all of the Units in which the offeror acquires 90% of all of the issued and outstanding Units (including rights to the Units to be issued upon exercise of the Exchange Rights), in which case BPI will be obligated to sell its Class B Units and BP Canada GP Units to the successful offeror;
- in the event of a take-over bid, amalgamation, plan of arrangement or other business combination or reorganization involving all or substantially all of Royalties LP Securities, Royalties LP’s assets, BP Canada LP Securities, BP Canada LP’s assets, the Units or the Fund’s assets;
- to create a security interest in favour of a bank or other financial institution in respect of *bona fide* indebtedness of BPI, a subsidiary of BPI, Holdings LP or Royalties LP, provided that the bank or other financial institution enters into an agreement with the Fund and Royalties LP or Holdings LP, as applicable, agreeing to cause any person who may acquire any Class B Units or BP Canada GP Units in a realization proceeding to become a party to and to observe the terms and provisions of the Royalties Limited Partnership Agreement, BP Canada Limited Partnership Agreement, the Royalties Exchange Agreement, BP Canada Exchange Agreement and the Governance Agreement;
- to a Related Party in accordance with the Governance Agreement; or
- by creating a security interest in favour of Royalties LP to secure BPI’s obligations under the License and Royalty Agreement.

If a take-over bid is made for all of the issued and outstanding Units (including rights to the Units to be issued upon exercise of the Exchange Rights) and not less than 90% of the Units on a fully-diluted basis (other than Units held at the date of the takeover bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, or upon the merger of the Fund with another entity, the Fund will have the option, exercisable within 60 days of the closing of the take-over bid or the merger, to acquire from BPI all of BPI’s Class B Units and BP Canada GP Units. The aggregate price for such Class B Units and BP Canada GP Units will be equal to the price paid per Unit pursuant to the successful take-over bid or merger multiplied by the number of Units which BPI would be entitled to receive if BPI exercised its Exchange Rights on the date of purchase.

### *Right of First Offer (“ROFO”)*

BPI and each of the Related Parties agreed with Royalties LP, Holdings LP and the Fund in the Governance Agreement that neither BPI nor the Related Parties will enter into any agreement which, if completed, would result in a Change of Control (as defined hereafter) of BPI unless Royalties LP, Holdings LP or the Fund is first provided with the opportunity to acquire the assets and undertaking of BPI, or the shares of BPI held directly or indirectly by the Related Parties, for the consideration and on terms set forth in a written notice provided by BPI to the Fund, Royalties LP and Holdings LP (the “**ROFO Notice**”). The ROFO Notice must set forth the amount of the purchase price to be paid by Royalties LP, Holdings LP or the Fund for the assets and undertaking of BPI, or the shares of BPI held directly or indirectly by the Related Parties, and a summary of the material terms of the proposed transaction.

If, within 30 days after the receipt of the ROFO Notice, the Fund, Royalties LP or Holdings LP does not inform BPI in writing that the Fund, Royalties LP or Holdings LP desires to purchase the assets and undertaking of BPI, or the shares of BPI held directly and indirectly by the Related Parties, or within 30 days after the Fund, Royalties LP or Holdings LP informs BPI of its desire to purchase the assets and undertaking of BPI, or the shares of BPI held directly and indirectly by the Related Parties, and the Fund, Royalties LP or Holdings LP does not enter into an agreement with BPI or the Related Parties for the purchase of assets and undertaking of BPI, or the shares of BPI held directly and indirectly by the Related Parties, then BPI or the Related Parties may enter into any agreement in respect thereof which, if completed, would result in a Change of Control of BPI, so long as:

- the amounts that would be received by the direct and indirect shareholders of BPI upon completion of the transaction contemplated by such agreement, after taking into account the amount of income taxes that would be payable under the Tax Act by BPI and the Related Parties if the consideration payable in respect of the transaction that results in such Change of Control were immediately distributed to, or paid to, the Related Parties, is at least equal to the amount of such consideration set forth in the ROFO Notice;
- the non-price terms of the transaction as contained in such agreement, when considered as a whole in a commercially reasonable manner having regard to the nature of the transaction and the summary of the proposed transaction as contained in the ROFO Notice, are not materially less favourable to BPI and/or the Related Parties, as the case may be, than the summary of the terms of the proposed transaction contained in the ROFO Notice; and
- on or before the completion of the transaction as contained in such agreement, the purchaser or other party to such agreement, if the Change of Control involves the sale of the shares of BPI, enters into an agreement with Royalties LP and the Fund agreeing to guarantee the obligations of BPI under the Governance Agreement and the operating covenants of BPI under the License and Royalty Agreement.

If BPI or the Related Parties do not enter into such an agreement within 210 days after the date the ROFO Notice was given to the Fund, Royalties LP and Holdings LP by BPI in respect of such transaction, or a transaction giving effect to a Change of Control permitted by the foregoing is not completed by the first anniversary of the date upon which such ROFO Notice was first given, then neither BPI nor the Related Parties may enter into an agreement which, if completed, would result in a Change of Control, unless the Fund, Royalties LP and Holdings LP are again provided with the opportunity to acquire the assets and undertaking of BPI, or the shares of BPI held directly or indirectly by the Related Parties in accordance with the foregoing.

For the purposes of the Governance Agreement, a Change of Control is defined as:

- the direct or indirect acquisition by any person or persons (other than one or more Related Parties), acting jointly or in concert, of beneficial ownership) of 50% or more of the votes attached to BPI’s then outstanding voting shares; or

- the approval by shareholders of BPI of (a) an amalgamation involving BPI, or (b) a complete liquidation or dissolution of BPI or the sale or other disposition of all or substantially all of the assets of BPI if immediately after the completion of a transaction referred to in (a) or (b) the Related Parties would not own directly or indirectly more than 50% of the votes attached to the then outstanding voting securities of each person that then owns the assets and undertaking previously owned by BPI.

Notwithstanding the foregoing, a Change in Control will not be deemed to occur solely because 50% or more of the votes attached to BPI's then outstanding voting shares are acquired by: (a) a Related Party; or (b) a trustee or other fiduciary holding securities for the benefit of a Related Party or the estate of a deceased Related Party.

### **Legal Proceedings**

Management is not aware of any litigation outstanding, pending or threatened against the Fund, BPI, BP Canada LP, Royalties LP, the Trust, Holdings LP, Holdings GP or Royalties GP which would be material to Unitholders.

### **Interest of Management and Others in Material Transactions**

BPI has an interest in the following material transactions involving the Fund and Royalties LP:

- BPI receives ongoing distributions from Royalties LP on its Class B Units and Class C Units;
- BPI received ongoing distributions from BP Canada LP on its BP Canada GP Units;
- Mark G. Pacinda, President and Chief Executive Officer of BPI, and Wes Bews, Chief Financial Officer of BPI, are also directors and officers of Royalties GP. The Fund has engaged Royalties LP, its administrator to provide certain administrative services on behalf of the Fund. In turn, certain of the administrative services are performed by BPI as a general partner of Royalties LP. Under the terms of Royalties LP Agreement governing Royalties LP, BPI is entitled to be reimbursed for certain out-of-pocket expenses incurred in performing these services. The total amount paid to BPI in respect of these services during 2015 was \$0.4 million;
- On May 6, 2015, BPI completed the Transaction and received gross proceeds of \$155.9 million in connection therewith, comprised of \$138.7 million in cash and Class 2 GP Units of BP Canada LP that were then exchangeable for 752,387 Units (then having a value of \$17.2 million); and
- On March 10, 2014, BPI exchanged 2,036,135 Class B Units for 790,006 Units, which were then sold, together with 887,500 Units held by persons controlled by the Chairmen and owners of BPI, to a syndicate of investment dealers for gross proceeds of \$35.4 million, of which BPI received \$16.7 million.

### **TRANSFER AGENTS AND REGISTRARS**

The transfer agent and registrar of the Units is Computershare Investor Services Inc. at its principal offices in Vancouver, British Columbia and Toronto, Ontario.

### **LIST OF MATERIAL CONTRACTS**

The only material contracts entered into by any of the Fund, Holdings LP, Holdings GP, the Trust, Royalties LP or Royalties GP, other than in the ordinary course of business, that were entered into in the most recently completed financial year, or before the most recently completed financial year but are still in effect, are as follows:

1. the agreements required for the Credit Facilities, referred to under "Credit Facilities";

2. the agreements required for the BP Loan, the Fund GSA (BPI), the Fund Guarantee and the Fund GSA (BP Canada LP) referred to under “Description of the Fund – BP Loan”;
3. the License and Royalty Agreement, the Royalties LP GSA (BPI), the Royalties LP Guarantee and the Royalties LP GSA (BP Canada LP) referred to under “License and Royalty”;
4. the Governance Agreement referred to under “Description of Royalties LP – Governance Agreement” and “Management – Governance Agreement”;
5. the Royalties Exchange Agreement and BP Canada Exchange Agreement referred to under “The Exchange Rights”;
6. the Royalties Limited Partnership Agreement referred to under “Description of Royalties LP”;
7. the BP Canada Limited Partnership Agreement referred to under “Description of BP Canada LP”;
8. the Holdings Limited Partnership Agreement referred to under “Corporate Structure – Boston Pizza Holdings Limited Partnership”;
9. the Declaration of Trust of the Fund referred to under “Description of the Fund”;
10. the declaration of trust of the Trust referred to under “Corporate Structure – Boston Pizza Holdings Trust” and “Description of the Fund – Trust Units”;
11. the Administration Agreement referred to under “Management - Administration Agreement”;
12. the Note Indenture for the Trust Notes referred to under “Description of the Fund – Redemption Right” and “Description of the Fund – Trust Notes”;
13. the Royalties LP Swap Agreement and Holdings LP Swap Agreement referred to under “Credit Facilities”;
14. the Investment Agreement referred to under “General Development of the Business – Significant Acquisition – Transaction”;
15. the Transfer Agreement referred to under “General Development of the Business – Significant Acquisition – Transaction” and “Description of Other Material Contracts – Transfer Agreement”;
16. the Subscription Receipt Agreement referred to under “General Development of the Business – Significant Acquisition – Transaction” and “Description of Other Material Contracts – Subscription Receipt Agreement”; and
17. the Underwriting Agreement referred to under “Description of Other Material Contracts – Underwriting Agreement”.

Copies of the foregoing documents may be examined during normal business hours at the offices of the Fund, at 100 – 10760 Shellbridge Way, Richmond, British Columbia, V6X 3H1 or may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

#### **INTERESTS OF EXPERTS**

The auditors of the Fund, KPMG LLP (“**KPMG**”) have prepared the auditors’ report attached to the Fund’s annual consolidated financial statements for its most recently completed year end. As of February 9, 2016, KPMG was independent from the Fund within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accounts of British Columbia. Fort Capital Corporation prepared and delivered a Valuation and Fairness Opinion dated March 23, 2015, in respect of the consideration received by BPI in

connection with the Transaction. As of the date hereof, the partners, employees and consultants of Fort Capital Corporation, as a group, beneficially own less than 1% of the outstanding securities of the Fund and each of the associates and affiliates of the Fund.

## **ADDITIONAL INFORMATION**

Additional information related to the Fund may be found on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information, including Trustees' remuneration and indebtedness, and principal holders of the Fund's securities, is contained in the Fund's information circular for its most recent annual meeting of Unitholders that involved the appointment of Trustees. Additional financial information is provided in the Fund's audited financial statements and management's discussion and analysis for its most recently completed financial year.

## **RISKS & UNCERTAINTIES**

### **Risks Related to the Business of BPI and BP Canada LP**

#### *The Restaurant Industry and its Competitive Nature*

The performance of the Fund is directly dependent upon the Royalty and interest payments on the BP Loan received from BPI, and Distribution Income received from BP Canada LP. The amount of the Royalty and Distribution Income received by Royalties LP and Holdings LP from BPI and BP Canada LP, respectively, 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, BP Canada LP and the Boston Pizza franchisees are unable to successfully compete in the casual dining sector, Franchise Sales may be adversely affected; the amount of the Royalty and Distribution Income may be reduced and the ability of BPI to pay the Royalty or interest on the BP Loan, and the ability of BP Canada LP to pay Distribution Income, may be impaired. The restaurant industry is also affected by adverse weather conditions, changes in demographic trends, traffic patterns, and the type, number, and location of competing restaurants. In addition, factors such as government regulations, smoking bylaws, inflation, publicity from any food borne illnesses, increased food, labour and benefits costs, continuing operations of key suppliers and the availability of experienced management and hourly employees may adversely affect the restaurant industry in general and therefore potentially affect Franchise Sales. BPI's and BP Canada LP's success also depends on numerous factors affecting discretionary consumer spending, including economic conditions, disposable consumer income and consumer confidence. Adverse changes in these factors could reduce guest traffic or impose practical limits on pricing, either of which could reduce revenue and operating income, which could adversely affect Franchise Sales, the Royalty, Distribution Income and the ability of BPI to pay the Royalty to Royalties LP or interest on the BP Loan to the Fund, and the ability of BP Canada LP to pay Distribution Income to Holdings LP.

#### *Growth of the Royalty and Distribution Income*

The growth of the Royalty payable by BPI to Royalties LP under the License and Royalty Agreement, and the growth of Distribution Income payable by BP Canada LP to Holdings LP, are dependent upon the ability of BPI and BP Canada LP to (i) maintain and grow their franchised restaurants, (ii) locate new restaurant sites in prime locations, and (iii) obtain qualified operators to become Boston Pizza franchisees. BPI and BP Canada LP face competition for restaurant locations and franchisees from their competitors and from franchisors of other businesses. BPI's and BP Canada LP's inability to successfully obtain qualified franchisees could adversely affect their business development. The opening and success of a Boston Pizza Restaurant is dependent on a number of factors, including: availability of suitable sites; negotiations of acceptable lease or purchase terms for new locations; availability, training and retention of management and other employees necessary to staff new Boston Pizza Restaurants; adequately supervising construction; securing suitable financing; and other factors, some of which are beyond the control of BPI and BP Canada LP. Boston Pizza franchisees may not have all the business abilities or access to financial resources necessary to open a Boston Pizza Restaurant or to successfully develop or operate a Boston

Pizza Restaurant in their franchise areas in a manner consistent with BPI's and BP Canada LP's standards. BPI and BP Canada LP provide training and support to Boston Pizza franchisees, but the quality of franchised operations may be diminished by any number of factors beyond BPI's and BP Canada LP's control. Consequently, Boston Pizza franchisees may not successfully operate restaurants in a manner consistent with BPI's and BP Canada LP's standards and requirements, or may not hire and train qualified managers and other restaurant personnel. If they do not, the image and reputation of BPI and BP Canada LP may suffer, and gross revenue and results of operations of the Boston Pizza Restaurants could decline.

#### *The Closure of Boston Pizza Restaurants May Affect the Amount of Royalty and Distribution Income*

The amount of the Royalty payable to Royalty LP by BPI, and the amount of Distribution Income payable by BP Canada LP to Holdings LP, are dependent upon the Franchise Sales, which is dependent on the number of Boston Pizza Restaurants that are included in the Royalty Pool and the Franchise Sales of those Boston Pizza Restaurants. Each year, a number of Boston Pizza Restaurants may close and there is no assurance that BPI and BP Canada LP will be able to open sufficient new Boston Pizza Restaurants to replace the Franchise Sales of the Boston Pizza Restaurants that have closed.

#### *BPI and BP Canada LP Revenue*

The ability of BPI to pay the Royalty and the interest on the BP Loan, and the ability of BP Canada LP to pay Distribution Income, are dependent on (i) Boston Pizza franchisees' ability to generate revenue and to pay royalties to BP Canada LP, (ii) BP Canada LP's ability to enter into arrangements with suppliers and distributors to generate competitive pricing for franchisees and revenue for BP Canada LP, and (iii) BP Canada LP's receipt of amounts for other franchise fees (including initial and renewal franchise fees). Failure of BP Canada LP to achieve adequate levels of collection from Boston Pizza franchisees or the loss of revenues from arrangements with suppliers and distributors could have a serious effect on the ability of BP Canada LP to pay Distribution Income and of BPI to pay the Royalty or interest on the BP Loan.

#### *Intellectual Property*

The ability of BPI and BP Canada LP to maintain or increase Franchise Sales will depend on their ability to maintain "brand equity" through the use of the BP Rights licensed from Royalties LP. If Royalties LP fails to enforce or maintain any of its intellectual property rights, BPI and BP Canada LP may be unable to capitalize on their efforts to establish brand equity. All registered trademarks in Canada can be challenged pursuant to provisions of the *Trade-marks Act* (Canada) and if any BP Rights are ever successfully challenged, this may have an adverse impact on Franchise Sales, and therefore on the Royalty and Distribution Income. Royalties LP owns the BP Rights in Canada. However it does not own identical or similar trademarks owned by parties not related to BPI or Royalties LP in other jurisdictions. Third parties may use such trademarks in jurisdictions other than Canada in a manner that diminishes the value of such trademarks. If this occurs, the value of the BP Rights may suffer and gross revenue by Boston Pizza Restaurants could decline. Similarly, negative publicity or events associated with such trademarks in jurisdictions outside of Canada may negatively affect the image and reputation of Boston Pizza Restaurants in Canada, resulting in a decline in gross revenue by Boston Pizza Restaurants.

#### *Government Regulation*

BPI and BP Canada LP are subject to various federal, provincial and local laws affecting their business. Each Boston Pizza Restaurant is subject to licensing and regulation by a number of governmental authorities, which may include alcoholic beverage control, smoking laws, health and safety and fire agencies. Difficulties in obtaining or failures to obtain the required licenses or approvals could delay or prevent the development of a new Boston Pizza Restaurant in a particular area or limit the operations of an existing Boston Pizza Restaurant.

### *Regulations Governing Food Service and Alcoholic Beverages*

Boston Pizza Restaurants are subject to various federal, provincial and local government regulations, including those relating to the sale of food and alcoholic beverages. Such regulations are subject to change from time to time. The failure to obtain and maintain these licenses, permits and approvals could adversely affect the operations of a Boston Pizza Restaurant. Typically, licenses must be renewed annually and may be revoked, suspended or denied renewal for cause at any time if governmental authorities determine that the Boston Pizza Restaurant's conduct violates applicable regulations. Difficulties or failures to maintain or obtain the required licenses and approvals could adversely affect existing Boston Pizza Restaurants and delay or result in a decision to cancel the opening of new Boston Pizza Restaurants, which would adversely affect BPI's and BP Canada LP's business.

In addition, the ability of Boston Pizza Restaurants to serve alcoholic beverages is an important factor in attracting customers. Alcoholic beverage control regulations require each Boston Pizza Restaurant to apply to provincial or municipal authorities for a license or permit to sell alcoholic beverages on the premises and, in certain locations, to provide service for extended hours and on Sundays. Typically, licenses must be renewed annually and may be revoked or suspended for cause at any time. Alcoholic beverage control regulations relate to numerous aspects of daily operations of Boston Pizza Restaurants, including minimum age of patrons and employees, hours of operation, advertising, wholesale purchasing, inventory control, and handling, storage and dispensing of alcoholic beverages. The failure of BPI, BP Canada LP or a Boston Pizza franchisee to retain a license to serve liquor for a Boston Pizza Restaurant would adversely affect that restaurant's operations. BPI, BP Canada LP or a Boston Pizza franchisee may be subject to legislation in certain provinces, which may provide a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person. BPI and BP Canada LP carry host liquor liability coverage as part of their existing comprehensive general liability insurance. There is no assurance that such insurance coverage will be adequate.

### *Laws Concerning Employees*

The operations of Boston Pizza Restaurants are also subject to minimum wage laws governing such matters as working conditions, overtime and tip credits, as well as rules and regulations regarding the employment of temporary foreign workers. Significant numbers of Boston Pizza Restaurants' food service and preparation personnel are paid at rates related to the minimum wage and, accordingly, further increases in the minimum wage could increase Boston Pizza Restaurants' labour costs. In some regions of Canada, Boston Pizza Restaurants employ temporary foreign workers – the supply of labour in such regions could be reduced by regulations concerning the employment of temporary foreign workers.

### *Sales Tax Regulations*

While there are variations in studies about the extent to which sales taxes impact retail sales, the increase in the after-tax price of goods and services has a negative effect on the customer's perception of spending on restaurant dining. Such negative perception can potentially reduce either the frequency of guest visits to restaurants, the total amount which guests spend per restaurant visit, or both. Price elasticity appears to have less impact on densely-populated and market-dominant areas such as urban or downtown restaurants. However, as customer perception of disposable spending is adversely affected by increased after-tax prices, Franchise Sales is at risk of declining if retail sales taxes increase.

### *Franchise Regulation Risk*

The complete failure to provide a disclosure document as required by the franchise disclosure laws and regulations of the provinces of Alberta, Manitoba, Ontario, New Brunswick and Prince Edward Island (or the provision of a disclosure document that is materially non-compliant), provides a franchisee with a two year absolute right of rescission. If a disclosure document is not provided within the time required by applicable provincial legislation, a franchisee is provided with sixty days from receipt of the disclosure document in which to rescind the franchise agreement. The statutory right of rescission gives a franchisee the right to receive back all monies paid, and to recover for its losses, if any. Franchise legislation also provides a franchisee with a statutory right of action to sue if a franchisee suffers a loss because of a

misrepresentation contained in the disclosure document, or as a result of the franchisor's failure to comply with its disclosure obligations. These rights are in addition to any rights that might exist at common law. Claims arising from any non-compliance with franchise disclosure laws may adversely affect the ability of BP Canada LP to pay Distribution Income to Holdings LP, and of BPI to pay the Royalty to Royalties LP or interest on the BP Loan to the Fund. British Columbia has passed similar franchise legislation, which may come into force during 2016, and when in force, will provide franchisees in British Columbia similar rights as the franchise disclosure laws and regulations of the provinces of Alberta, Manitoba, Ontario, New Brunswick and Prince Edward Island.

#### *Potential Litigation and Other Complaints*

BPI, BP Canada LP and Boston Pizza franchisees may be the subject of complaints or litigation from guests alleging food related illness, injuries suffered on the premises or other food quality, health or operational concerns. Adverse publicity resulting from such allegations may materially affect the sales by Boston Pizza Restaurants, regardless of whether such allegations are true or whether BPI, BP Canada LP or a Boston Pizza franchisee is ultimately held liable.

#### *Insurance*

BPI and BP Canada LP maintain insurance coverage to protect them from liabilities they incur in the course of their business. There is no assurance that such insurance coverage will respond to, or be adequate to protect them from, such liabilities. Additionally, in the future, BPI's and BP Canada LP's insurance premiums may increase and they may not be able to obtain similar levels of insurance on reasonable terms or at all. Any substantial inadequacy of, or inability to obtain insurance coverage could materially adversely affect BPI's and BP Canada LP's business, financial condition and results of operations. Furthermore, there are types of losses BPI or BP Canada LP may incur that cannot be insured against or that are not economically reasonable to insure. Such losses could have a material adverse effect on BPI's and BP Canada LP's business and results of operations.

#### *Dependence on Key Personnel*

The success of the Fund depends upon the personal efforts of senior management of BPI, including their ability to retain and attract appropriate franchisee candidates. The loss of the services of such key personnel could have a material adverse effect on the performance of the Fund.

#### *Security of Confidential Consumer Information*

BPI, BP Canada LP or Boston Pizza franchisees may incur unanticipated costs resulting from breaches of security of confidential consumer information related to their electronic processing of credit and debit card transactions. The majority of sales occurring in Boston Pizza Restaurants are paid for by credit or debit cards. Other restaurants and retailers have experienced security breaches in which credit and debit card information, or personal information of customers, has been stolen. BPI, BP Canada LP or Boston Pizza franchisees may in the future become subject to claims for purportedly fraudulent transactions arising out of the actual or alleged theft of credit or debit card information, and BPI, BP Canada LP or Boston Pizza franchisees may also be subject to lawsuits or other proceedings relating to these types of incidents. In addition, most provinces have enacted legislation requiring notification of security breaches involving personal information, including credit and debit card information. Any such claims or proceedings could cause BPI or BP Canada LP to incur significant unplanned expenses, which could have an adverse impact on their financial condition and results of operations. Furthermore, adverse publicity resulting from these allegations may have a material adverse effect on Franchise Sales, Royalty, Distribution Income and the ability of BP Canada LP to pay Distribution Income to Holdings LP, or BPI to pay the Royalty to Royalties LP or interest on the BP Loan to the Fund.



### *Reliance on Technology*

BPI, BP Canada LP and Boston Pizza franchisees rely heavily upon information systems, including point-of-sale processing in Boston Pizza Restaurants, for management of their supply chain, payment of obligations, collection of cash, credit and debit card transactions and other processes and procedures, including the taking and sending of orders to Boston Pizza Restaurants. BPI's and BP Canada LP's ability to efficiently and effectively manage their business depends significantly on the reliability and capacity of these systems. BPI's and BP Canada LP's operations depend upon their ability to protect their computer equipment and systems against damage from physical theft, fire, power loss, telecommunications failure or other catastrophic events, as well as from internal and external security breaches, viruses and other disruptive problems. The failure of these systems to operate effectively, maintenance problems, upgrading or transitioning to new platforms, expanding BPI's and BP Canada LP's systems as they grow or a breach in security of these systems could result in delays in customer service and reduced efficiency in BPI's and BP Canada LP's operations. Remediation of such problems could result in significant, unplanned capital investments.

### **Risks Related to the Structure of the Fund**

#### *Investment Eligibility*

There can be no assurance that the Units will continue to be qualified investments for registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans or tax-free savings accounts under the Tax Act. In addition, a Unit may be a prohibited investment in respect of a registered retirement savings plan, registered retirement income fund or tax-free savings account where, in general terms, the holder or annuitant (as the case may be) does not deal at arm's length with the Fund or has a "significant interest" (as defined in the Tax Act) in the Fund. The Tax Act imposes penalties for the acquisition or holding of non-qualified or prohibited investments.

#### *Dependence of the Fund on the Trust, Holdings LP, BPI and BP Canada LP*

The cash distributions to the Unitholders are entirely dependent on the ability of the Trust to pay its interest obligations, if any, under the Trust Notes and to make distributions on the Trust Units and upon the ability of BPI to pay the interest on the BP Loan and the ability of Holdings LP to meet its obligations to assume payment of the BP Loan as consideration for the purchase of Class C general partner units of Royalties LP held by BPI or any related party or Class C limited partner units of Royalties LP acquired by Holdings LP or a permitted transferee pursuant to the exchange agreement, as the case may be. The ability of the Trust to pay its interest obligations or make distributions on Trust Units held by the Fund is entirely dependent upon the ability of Holdings LP to make distributions on the Holdings LP Units held by the Trust. The ability of Holdings LP to make distributions on the Holdings LP Units held by the Trust is entirely dependent upon the ability of Royalties LP to make distributions on the limited partner units of Royalties LP held by Holdings LP and upon BP Canada LP's ability to pay Distribution Income on the limited partner units of BP Canada LP held by Holdings LP.

The only sources of revenue of the Fund are: (i) the Royalty payable by BPI to Royalties LP; (ii) Distribution Income payable by BP Canada LP to Holdings LP; and (iii) interest on the BP Loan payable by BPI to the Fund. BP Canada LP collects franchise fees and other amounts from Boston Pizza franchisees and BPI generates revenues from its corporate restaurants. In the conduct of the business, BPI pays expenses and incurs debt and obligations to third parties. These expenses, debts and obligations could impact the ability of BPI to pay the Royalty to Royalties LP and interest on the BP Loan to the Fund.

Royalties LP, Holdings LP and the Fund are each entirely dependent upon the operations and assets of BPI and BP Canada LP to pay the Royalty to Royalties LP, Distribution Income to Holdings LP and interest on the BP Loan to the Fund, and each is subject to the risks encountered by BPI and BP Canada LP in the operation of their business, including the risks relating to the casual dining restaurant industry referred to above and the results of operations and financial condition of BPI and BP Canada LP.

### *Leverage: Restrictive Covenants*

Royalties LP and Holdings LP have third-party debt service obligations under the Credit Facilities. The degree to which Royalties LP and Holdings LP are leveraged could have important consequences to Unitholders, including: (i) a portion of Royalties LP's and Holdings LP's cash flow from operations could be dedicated to the payment of the principal of and interest on their indebtedness, thereby reducing funds available for distribution to the Fund; and (ii) certain of Royalties LP's and Holdings LP's borrowings are at variable rates of interest, which exposes them to the risk of increased interest rates. The Credit Facilities are due on May 5, 2020, at which time Royalties LP and Holdings LP will need to refinance such loans. There can be no assurance that refinancing of this indebtedness will be available to Royalties LP or Holdings LP, or available to Royalties LP or Holdings LP on acceptable terms. If Royalties LP and Holdings LP cannot refinance this indebtedness on acceptable terms upon maturity, it will negatively impact the ability of Royalties LP and Holdings LP to make distributions on their partnership securities, which in turn will negatively impact Distributable Cash and the Fund's ability to make distributions on the Units. Royalties LP's and Holdings LP's ability to make scheduled payments of principal or interest on, or to refinance, their indebtedness depends on future cash flows, which is dependent on Distribution Income Holdings LP receives from BP Canada LP, Royalty payments Royalties LP receives from BPI, prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control.

The Credit Facilities contain numerous restrictive covenants that limit the discretion of Royalties LP's and Holdings LP's management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of Royalties LP and Holdings LP to incur additional indebtedness, to create liens or other encumbrances, to pay distributions or make certain other payments, investments, loans and guarantees, to sell or otherwise dispose of assets, to allow a change of control, to change the terms of the Holdings Limited Partnership Agreement or Royalties Limited Partnership Agreement and to merge or consolidate with another entity. A failure to comply with the obligations in the Credit Facilities could result in an event of default which, if not cured or waived, could result in the acceleration of the relevant indebtedness. If the indebtedness under the Credit Facilities were to be accelerated, there can be no assurance that Royalties LP's, Holdings LP's and the Trust's assets would be sufficient to repay that indebtedness.

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

### *Cash Distributions are Not Guaranteed and Will Fluctuate with Royalties LP's and Holdings LP's Performance*

Although the Fund's policy is to distribute the total amount of cash received by the Fund from the Trust on the Trust Units and the Trust Notes and from BPI on the BP Loan, less the sum of: (a) administrative expenses and other obligations of the Fund; (b) amounts which may be paid by the Fund in connection with any cash redemptions of Units; (c) any interest expense incurred by the Fund; and (d) reasonable reserves established by the Trustees in their sole discretion, including, without limitation, reserves established to pay SIFT Tax, in order to maximize returns to Unitholders, there can be no assurance regarding the amounts of income to be generated by the Fund, Royalties LP or Holdings LP. The actual amount distributed in respect of the Units will depend upon numerous factors, including amount of and payment of Distribution Income by BP Canada LP, and the Royalty and interest on the BP Loan by BPI.

### *Restrictions on Certain Unitholders and Liquidity of Units*

The Declaration of Trust imposes various restrictions on Unitholders. Unitholders that are Non-residents and partnerships that are not Canadian partnerships for purposes of the Tax Act are prohibited from beneficially owning more than 50% of the Units (on a non-diluted and a fully-diluted basis). These restrictions may limit (or inhibit the exercise of) the rights of certain Unitholders, including Non-residents, to acquire Units, to exercise their rights as Unitholders and to initiate and complete take-over bids in respect of the Units. As a result, these restrictions may limit the demand for Units from certain Unitholders and thereby adversely affect the liquidity and market value of the Units held by the public.

### *Fund not a Corporation*

Investors are cautioned that the Fund is not generally regulated by established corporate law and Unitholders' rights are governed primarily by the specific provisions of the Declaration of Trust of the Fund, which address such items as the nature of the Units, the entitlement of Unitholders to cash distributions, restrictions respecting non-resident holdings, meetings of Unitholders, delegation of authority, administration, Fund governance and liabilities and duties of the Trustees to Unitholders. As well, under certain existing legislation such as the *Bankruptcy and Insolvency Act* and the *Companies' Creditor Arrangement Act*, the Fund is not a legally recognized entity within the definitions of these statutes. In the event of an insolvency or restructuring of the Fund, the rights of Unitholders will be different from those of shareholders of an insolvent or restructuring corporation.

### *Nature of Units*

Securities such as the Units are hybrids in that they share certain attributes common to both equity securities and debt instruments. The Units do not represent a direct investment in the Trust, Royalties LP or Holdings LP and should not be viewed by investors as units in the Trust, Royalties LP or Holdings LP. Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. The Units represent a fractional interest in the Fund. The Fund's only assets are Series 1 Trust Notes, Trust Units, the BP Loan, common shares of Royalties GP and common shares of Holdings GP. The price per Unit is typically a function of the anticipated amount of distributions.

### *Possible Unitholder Liability*

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

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

### *Distribution of Securities on Redemption of Units or Termination of the Fund*

Upon a redemption of Units or termination of the Fund, the Trustees may distribute Series 2 Trust Notes and Series 3 Trust Notes directly to the Unitholders, subject to obtaining all required regulatory approvals. There is currently no market for Series 2 Trust Notes or Series 3 Trust Notes. In addition, the Series 2 Trust Notes and Series 3 Trust Notes are not freely tradable and are not currently listed on any stock exchange. Securities of the Trust so distributed may not be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans or tax free savings accounts and may be prohibited investments for registered retirement savings plans, registered retirement income funds and tax free savings accounts, depending upon the circumstances at the time.

### *The Fund May Issue Additional Units Diluting Existing Unitholders' Interests*

The Declaration of Trust authorizes the Fund to issue an unlimited number of Units and Special Voting Units for such consideration and on such terms and conditions as will be established by the Trustees without

the approval of any Unitholders. Additional Units will be issued by the Fund upon the exchange of the Class B Units or Class 2 GP Units held by BPI or any Related Party.

#### *Income Tax Matters*

There can be no assurance that Canadian federal income tax laws will not be changed in a manner that adversely affects the Fund and the Unitholders. If the Fund ceases to qualify as a “mutual fund trust” under the Tax Act, the income tax treatment afforded to Unitholders would be materially and adversely different in certain respects.

Distributions on the Trust Units and interest on the BP Loan accrue at the Fund level for income tax purposes whether or not actually paid. Similarly, the Royalty may accrue at the Royalties LP level, and Distribution Income may accrue at the Holdings LP level, for income tax purposes whether or not actually paid. As a result, the income of Royalties LP or Holdings LP allocated to the Fund (through the Trust and Holdings LP), in respect of a particular fiscal year may exceed the cash distributed by Royalties LP or Holdings LP to the Fund (through the Trust and Holdings LP) in such year. The Declaration of Trust provides that the Trustees may declare distributions to Unitholders in such amounts as the Trustees may determine from time to time. Where, in a particular year, the Fund does not have sufficient available cash to distribute the amounts so declared to Unitholders (for instance, where distributions on the Trust Units or interest payments on the BP Loan are due but not paid in whole or in part), the Declaration of Trust provides that additional Units may be distributed to Unitholders in lieu of cash distributions. Unitholders will generally be required to include an amount equal to the fair market value of those distributed Units in their taxable income.

On January 1, 2011, the Fund became liable to pay the SIFT Tax. The payment of the SIFT Tax reduces the amount of cash available for distributions to Unitholders. The SIFT Tax may also adversely affect the marketability of the Units and the ability of the Fund to undertake financings and acquisitions.

#### *Internal Control Over Financial Reporting*

All internal control systems contain inherent limitations, no matter how well designed. As a result, management acknowledges that its internal controls over financial reporting will not prevent or detect all misstatements due to error or fraud. In addition, management's evaluation of internal controls can provide only reasonable, not absolute, assurance that all internal control issues that may result in material misstatements, if any, have been detected.

#### *Additional 1.5% of Franchise Sales*

The effective acquisition of the additional 1.5% of Franchise Sales is in the form of an equity investment in limited partnership units of BP Canada LP. The Fund's right to be paid 1.5% of Franchise Sales (less BPI's *pro rata* interest) on distributions on limited partnership units ranks behind debts and other obligations of BP Canada LP, including unsecured debts. This is different from the Fund's right to receive the Royalty, which is a secured debt from BPI to Royalties LP. If BP Canada LP becomes insolvent, there is a risk that the Fund will not receive distributions on its investment in BP Canada LP.

### **NOTE REGARDING FORWARD-LOOKING INFORMATION**

Certain information in this Annual Information Form may constitute “forward-looking information” that involves known and unknown risks, uncertainties, future expectations and other factors which may cause the actual results, performance or achievements of the Fund, the Trust, Royalties LP, Holdings LP, Holdings GP, Royalties GP, BPI, BP Canada LP, Boston Pizza Restaurants, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information. When used in this Annual Information Form, forward-looking information may include words such as “anticipate”, “estimate”, “may”, “will”, “expect”, “believe”, “plan” and other similar terminology. This information reflects current expectations regarding future events and operating performance and speaks only as of the date of this Annual Information Form.

Forward-looking information in this Annual Information Form includes, but is not limited to, such things as:

- future distributions and dates distributions are to be paid or payable;
- adjustments to Additional Entitlements that are to occur in the future and when such adjustments will occur;
- how changes in distributions will be implemented;
- how distributions will be funded;
- the future expansion of Boston Pizza Restaurants;
- Boston Pizza is well positioned for future growth and should continue to strengthen its position as the number one casual dining brand in Canada by achieving positive SSSG and continuing to open new Boston Pizza locations across Canada;
- Royalties LP being able to refinance the Credit Facilities; and
- Restaurant Canada's forecasts with respect to Canada's commercial foodservice industry.

The forward-looking information disclosed herein is based on a number of assumptions including, among other things:

- absence of amendments to material contracts;
- no strategic changes of direction occurring;
- absence of changes in law;
- protection of BP Rights;
- pace of commercial real estate development;
- franchisees' access to financing;
- franchisees' duly paying franchise fees and other amounts;
- no closures of Boston Pizza Restaurants that materially affect the amount of Royalty or Distribution Income paid by BPI and BP Canada LP, respectively, to the Fund;
- future results being similar to historical results;
- expectations related to future general economic conditions; and
- accuracy of third party forecasts.

This forward-looking information involves a number of risks, uncertainties and future expectations including, but not limited to:

- competition;
- weather;
- changes in demographic trends;
- changes in consumer preferences and discretionary spending patterns;
- changes in national and local business and economic conditions;
- legislation and government regulation;
- cash distributions are not guaranteed;
- accounting policies and practices; and
- the results of operations and financial conditions of BPI, BP Canada LP and the Fund.

The foregoing list of factors is not exhaustive and should be considered in conjunction with the risks and uncertainties set out above in "Risks & Uncertainties".

This Annual Information Form discusses some of the factors that could cause actual results to differ materially from those expressed in or underlying such forward-looking information. Forward-looking information is provided as of the date hereof and, except as required by law, we assume no obligation to update or revise forward-looking information to reflect new events or circumstances.

**SCHEDULE A**  
**TERMS OF REFERENCE OF THE AUDIT COMMITTEE**

**I. PURPOSE**

The purpose of the Audit Committee (the “**Committee**”) is to assist the board of directors (the “**Board**”) of Boston Pizza GP Inc. (the “**Corporation**”) in fulfilling its oversight responsibilities with respect to the Corporation, the Partnership, the Trust, Holdings LP and the Fund, by reviewing the financial information which shall be provided to the shareholders of the Corporation and the unitholders of Royalties LP, the Trust, Holdings LP and the Fund and others, the systems of corporate financial controls which management and the Board have established and the audit process.

More specifically the purpose of the Committee is to satisfy itself that:

- A. The Corporation’s, Partnership’s, Trust’s, Holdings LP’s and Fund’s annual financial statements are fairly presented in accordance with generally accepted accounting principles and to recommend to the Board or the trustees, as the case may be, whether the annual financial statements should be approved.
- B. The information contained in Royalties LP’s, the Trust’s, Holdings LP’s and the Fund’s quarterly financial statements, the Fund’s annual report to Unitholders of the Fund and other financial publications, such as management’s discussion and analysis, is complete and accurate in all material respects and to recommend to the Board whether these materials should be approved.
- C. The Corporation has appropriate systems of internal control over the safeguarding of assets and financial reporting to ensure compliance by the Corporation, Royalties LP, the Trust, Holdings LP and the Fund with legal and regulatory requirements.
- D. The external audit functions with respect to the Corporation, Partnership, Trust, Holdings LP and Fund have been effectively carried out and that any matter which the independent auditors wish to bring to the attention of the Board has been addressed. The Committee shall also recommend to the Board the re-appointment or appointment of auditors of the Corporation, Royalties LP, the Trust, Holdings LP and the Fund and their remuneration.

**II. COMPOSITION AND TERMS OF OFFICE**

- A. Following each annual meeting of Unitholders of the Fund, the Board shall appoint not less than three directors to serve on the Committee, a majority of whom shall not be officers or employees of BPI or its affiliates.
- B. The Chair of the Committee shall be appointed by the Board and shall not be an officer or an employee of BPI or its affiliates.
- C. Any member of the Committee may be removed or replaced at any time by the Board and shall cease to be a member upon ceasing to be a director of the Corporation. Each member of the Committee shall hold office until the close of the next annual meeting of Unitholders of the Fund or until the member resigns or is replaced, whichever first occurs.
- D. The Committee shall meet at least four times per year. The meetings shall be scheduled to permit timely review of the interim and annual financial statements. Additional meetings may be held as deemed necessary by the Chair of the Committee or as requested by any member of the Committee or by the internal or external auditors.

- E. If all members consent, and proper notice has been given, or waived, a member or members of the Committee may participate in a meeting of the Committee by means of such telephonic, electronic or other communication facilities as to permit all persons participating in the meeting to communicate adequately with each other, and a member participating in such a meeting by any such means is deemed to be present at that meeting.
- F. A quorum for the transaction of business at all meetings of the Committee shall be a majority of the members of the Committee. Questions arising at any meeting shall be determined by a majority of votes of the members of the Committee present, and in case of an equality of votes the Chair of the Committee shall have a second casting vote.
- G. The Committee may invite such directors, officers and employees of the Corporation as it may see fit from time to time to attend meetings of the Committee and assist in the discussion and consideration of the business of the Committee, but without voting rights.
- H. The Committee shall keep regular minutes of proceedings and shall cause them to be recorded in books kept for that purpose, and shall report the same to the Board at such times as the Board may, from time to time, require.
- I. Supporting schedules and information reviewed by the Committee shall be available for examination by any director upon request to the Secretary of the Committee.
- J. The Committee shall choose as its Secretary such person as it deems appropriate.
- K. The external and internal auditors of the Corporation, Partnership, Trust, Holdings LP and/or Fund shall be given notice of, and have the right to appear before and to be heard at, every meeting of the Committee, and shall appear before the Committee when requested to do so by the Committee.

### III. DUTIES AND RESPONSIBILITIES

Subject to the powers and duties of the Board, the Board has delegated to the Committee the following powers and duties to be performed by the Committee on behalf of and for the Board acting on behalf of the Corporation, Partnership, Trust, Holdings LP and Fund:

#### A. Financial Reporting Control Systems

The Committee shall:

- (i) review reports from senior officers of the Corporation outlining any significant changes in financial risks facing the Corporation, Royalties LP, the Trust, Holdings LP and the Fund;
- (ii) review the management letter of the external auditors and the Corporation's responses to suggestions made;
- (iii) annually review the guidelines of the Committee; and
- (iv) obtain assurance from the external and internal auditors regarding the overall control environment and the adequacy of accounting system controls of the Corporation with respect to the financial information of the Corporation, Royalties LP, the Trust, Holdings LP and the Fund.

B. Interim Financial Statements

The Committee shall:

- (i) review interim financial statements of Royalties LP, the Trust, Holdings LP and the Fund with officers of the Corporation prior to their release and recommend their approval to the Board and the trustees, as the case may be; this shall include a detailed review of quarterly and year-to-date results; and
- (ii) review narrative comment accompanying interim financial statements.

C. Annual Financial Statements and Other Financial Information

The Committee shall:

- (i) review any changes in accounting policies or financial reporting requirements that may affect the current year's financial statements;
- (ii) obtain summaries of significant transactions, and other potentially difficult matters whose treatment in the annual financial statements merits advance consideration;
- (iii) obtain draft annual financial statements in advance of the Committee meeting and assess, on a preliminary basis, the reasonableness of the financial statements in light of the analyses provided by officers of the Corporation;
- (iv) review a summary provided by the Corporation's legal counsel of the status of any material pending or threatened litigation, claims and assessments against the Corporation, Royalties LP, the Trust, Holdings LP and/or the Fund;
- (v) discuss any annual financial statements and the auditors' report thereon in detail with officers of the Corporation and the auditors;
- (vi) review the annual report of the Fund and other annual financial reporting documents including the management discussion and analysis;
- (vii) provide to the Board or the trustees, as the case may be, a recommendation as to whether any of the annual financial statements should be approved; and
- (viii) review insurance coverage including directors', officers' and trustees' liability coverage.

D. External Audit Terms of Reference, Reports, Planning and Appointment

The Committee shall:

- (i) review the audit plan with the external auditors;
- (ii) discuss in private with the external auditors matters affecting the conduct of their audit and other corporate matters;
- (iii) recommend to the Board and/or trustees each year the retention or replacement of the external auditors; if there is a plan to change auditors, review all issues related to the change and the steps planned for an orderly transition;
- (iv) annually review and recommend for approval to the Board the terms of engagement and the remuneration of the external auditor; and



- (v) approve in advance any non-audit services provided by the external auditors.

E. Disclosure Controls and Procedures

The Committee shall review, discuss with the Disclosure Policy Committee and, to the extent the Committee deems appropriate, the internal auditor and the external auditor, the Fund's and BPI's disclosure controls and procedures and make recommendations to the Board of Directors and the Board of Trustees respecting the Fund's and BPI's disclosure controls and procedures. More particularly, the Committee shall:

- (i) discuss and review the Disclosure Policy Committee's annual evaluation and certification process of the design and effectiveness of the disclosure policy and disclosure controls and procedures;
- (ii) discuss with the Disclosure Policy Committee at least annually the guidelines and policies with respect to financial, fraud and disclosure risk assessments; and
- (iii) receive updates from the Disclosure Policy Committee in the form of meeting minutes.

IV. ACCOUNTABILITY

A. The Committee shall report to the Board at its next regular meeting all such action it has taken since the previous report.

B. The Committee is empowered to investigate any activity of the Corporation, Royalties LP, the Trust, Holdings LP and the Fund and all employees are to co-operate as requested by the Committee. The Committee may retain persons having special expertise to assist it in fulfilling its responsibilities.

C. The Committee is authorized to request the presence at any meeting, but without voting rights, of a representative from the external auditors, senior management, internal audit, legal counsel or anyone else who could contribute substantively to the subject of the meeting and assist in the discussion and consideration of the business of the Committee, including directors, officers and employees of the Corporation.