Pizza Pizza Limited

Consolidated Financial Statements
January 3, 2010 and December 28, 2008

RSM Richter

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Chartered Accountants

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Auditors' Report

To the Shareholders of
Pizza Pizza Limited

We have audited the consolidated balance sheets of Pizza Pizza Limited as at January 3, 2010 and December 28, 2008 and the consolidated statements of operations and deficit, other comprehensive loss, accumulated other comprehensive loss and cash flows for the 53-week period ended January 3, 2010 and the 52-week period ended December 28, 2008. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at January 3, 2010 and December 28, 2008 and the results of its operations and its cash flows for the 53-week period ended January 3, 2010 and the 52-week period ended December 28, 2008 in accordance with Canadian generally accepted accounting principles.

RSM Richter LLP

Chartered Accountants
Licenced Public Accountants

Toronto, Ontario
March 22, 2010

PIZZA PIZZA LIMITED
CONSOLIDATED BALANCE SHEETS
(In Thousands of Dollars)

	January 3, 2010	December 28, 2008 (restated – note 3)
ASSETS		
Current assets		
Cash and cash equivalents	$ 14,530	$ 13,767
Accounts receivable	7,192	7,553
Inventories (note 6)	6,171	5,463
Prepaid expenses and sundry assets	1,661	1,750
Income taxes recoverable	203	1,890
Receivables from jointly-controlled companies (note 24)	908	544
Current maturity of notes receivable (note 8)	2,300	5,035
Recoverable franchisee expenses, net	13,206	11,336
Total current assets	46,171	47,338
Property, plant and equipment (note 7)	19,382	17,381
Notes receivable (note 8)	6,400	1,679
Renovation funds (note 9)	4,321	5,167
Deferred franchise costs (note 11)	756	1,145
Future income tax asset (note 15)	16,112	19,379
Pizza 73 Rights and Marks (note 4)	57,095	57,095
Intangible assets (notes 4 and 10)	1,858	2,398
Goodwill (note 4)	17,979	17,979
	$ 170,074	$ 169,561
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities		
Accounts payable and accrued liabilities (note 12)	29,960	30,812
Deposits from franchisees	1,671	1,843
Current maturities of long-term debt (note 13)	1,380	489
Total current liabilities	33,011	33,144
Long-term debt (note 13)	48,860	48,082
Deferred revenue	4,508	6,318
Loan payable to Pizza Pizza Holdings Trust (note 14)	30,000	30,000
Advances from related party (note 24)	28,000	24,807
Leasehold inducements	261	214
Cash flow hedge (note 27)	2,534	4,033
Renovation funds (note 9)	1,484	1,441
Total liabilities	148,658	148,039
Non-controlling interest (note 16)	175,181	174,529
Commitments and Contingencies (notes 17 and 18)		
SHAREHOLDERS' DEFICIENCY		
Common shares and Special voting shares (note 19)	-	-
Accumulated other comprehensive loss	(628)	(867)
Deficit	(153,137)	(152,140)
	(153,765)	(153,007)
	$ 170,074	$ 169,561

See accompanying notes to consolidated financial statements

(Signed) MICHAEL OVERS
Director

PIZZA PIZZA LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
(In Thousands of Dollars)

	For the 53-week period ended January 3, 2010	For the 52-week period ended December 28, 2008 (restated - note 3)
Revenue		
Food sales (note 21)	$ 186,463	$ 193,067
Royalties, franchise fees and other related revenue (note 22)	25,544	26,735
Interest and other income	1,255	1,631
	213,262	221,433
Expenses		
Cost of food sales and general and administrative expenses (note 23)	183,107	191,234
Amortization of deferred franchise costs	340	354
Amortization of property, plant and equipment	4,514	4,584
Amortization of intangible assets	401	315
Interest on loan from Pizza Pizza Holdings Trust	1,800	1,800
Interest on long-term debt (note 13)	2,851	2,819
Gain on sale of Company-owned restaurants	(628)	(1,132)
	192,385	199,974
Earnings before income taxes and non-controlling interest	20,877	21,459
Provision for (recovery of) income taxes (note 15)		
Current	724	1,238
Future	3,267	1,240
	3,991	2,478
Earnings before non-controlling interest	16,886	18,981
Non-controlling interest in earnings of the Partnership (note 16)	17,883	20,079
Net loss for the period	$ (997)	$ (1,098)
Deficit – beginning of period	(152,140)	(151,042)
Deficit – end of period	$ (153,137)	$ (152,140)

See accompanying notes to consolidated financial statements

PIZZA PIZZA LIMITED
CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE LOSS
(In Thousands of Dollars)

	For the 53-week period ended January 3, 2010	For the 52-week period ended December 28, 2008
Net loss for the period	$ (997)	$ (1,098)
Other comprehensive income (loss)		
Income (loss) on interest rate swap designated as cash flow hedge (note 27)	1,499	(3,590)
Non-controlling interest in Partnership's other comprehensive (income) loss (note 16)	(1,260)	2,804
Other comprehensive income (loss)	239	(786)
Comprehensive loss	$ (758)	$ (1,884)

PIZZA PIZZA LIMITED
CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS
(In Thousands of Dollars)

	For the 53-week period ended January 3, 2010	For the 52-week period ended December 28, 2008
Balance, beginning of period	$ (867)	$ (81)
Other comprehensive income (loss)	239	(786)
Balance, end of period, being Pizza Pizza Limited's share of the fair value of a cash flow hedge	$ (628)	$ (867)

See accompanying notes to consolidated financial statements

PIZZA PIZZA LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of Dollars)

	For the 53-week period ended January 3, 2010	For the 52-week period ended December 28, 2008 (restated - note 3)
Operating activities		
Net loss for the period	$ (997)	$ (1,098)
Amortization of property, plant and equipment	5,616	5,759
Amortization of intangible assets	540	315
Amortization of deferred franchise costs	340	354
Amortization of leasehold inducements	(94)	(77)
Amortization of deferred revenue	(1,810)	(2,169)
Non-controlling interest	17,883	20,079
Accretion of interest expense	29	32
Gain on sale of Company-owned restaurants	(628)	(1,132)
Future income tax expense	3,267	1,240
	24,146	23,303
Proceeds of deferred revenue	-	7,000
Changes in non-cash operating elements of working capital (note 26)	(1,829)	(6,471)
Cash provided by operating activities	22,317	23,832
Investing activities		
Additions to property, plant and equipment – maintenance	(3,667)	(2,989)
Additions to property, plant and equipment – restaurants	(5,046)	(4,469)
Proceeds from sale of Company-owned restaurants	1,724	2,200
Additions to intangible assets	-	(852)
Purchase of Pizza 73 Rights and Marks (note 4)	-	(19)
Purchase of Pizza 73 Shares, net of cash acquired of $Nil (2008 - $Nil) (note 4)	-	(3,150)
Purchase of Pizza 73 restaurant Shares, net of cash acquired of $Nil (2008 - $26) (note 4)	-	(274)
Repayment of notes receivable	6,853	10,147
Issuance of notes receivable	(8,839)	(13,939)
Contributions to renovation funds	16,098	23,059
Disbursement from renovation funds	(15,209)	(17,519)
Deferred franchise costs	-	(324)
Deferred franchise cost recovery	49	-
Cash used in investing activities	(8,037)	(8,129)
Financing activities		
Proceeds of long-term debt	2,367	1,285
Repayments of long-term debt	(727)	(462)
Receipt of leasehold inducements	141	62
Advances from related party	8,822	18,970
Repayment of advances from related party	(5,629)	(13,509)
Distributions by Pizza Pizza Royalty Limited Partnership (note 16)	(18,491)	(18,326)
Cash used in financing activities	(13,517)	(11,980)
Increase in cash and cash equivalents	763	3,723
Cash and cash equivalents, beginning of period	13,767	10,044
Cash and cash equivalents, end of period	$ 14,530	$ 13,767

See supplementary cash flows information (note 26)
See accompanying notes to consolidated financial statements

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

1. Nature of Business

Pizza Pizza Limited (the "Company" or "Pizza Pizza"), a privately-held corporation, operates in the food service industry primarily throughout Ontario and Alberta and primarily franchises and operates quick-service restaurant ("QSR") businesses under the brand names of Pizza Pizza and Pizza 73. The Company derives revenues from franchises through the sale of franchise restaurants, royalties, and food and beverages. The Company also derives revenues from jointly-controlled and Company-owned restaurants through the sale of food products to retail customers.

During the 53-week period, the Company acquired 7 franchises (2008 – 7) and franchised 8 (2008 – 9). Below are the number of franchisees and licensees as at:

	January 3, 2010	December 28, 2008
Franchisees and licensees	591	571
Jointly-controlled restaurants	76	64
Company-owned restaurants	4	5

2. Significant Accounting Policies

a) Fiscal Year-end and Interim Period

The Company has a floating year-end of the Sunday closest to December 31, accordingly, interim periods consist of four 13-week periods with an additional week added to the last interim period every 5 to 6 years.

b) Basis of Consolidation

These financial statements consolidate the accounts of the Company, its interest in the Pizza Pizza Royalty Limited Partnership (the "Partnership"), its interest in a Pizza 73 restaurant, and proportionately consolidates the accounts of its jointly-controlled companies. Effective December 29, 2008, the Company and its wholly-owned subsidiary, Pacific and Canadian Food Services Inc., which historically was included in the consolidated financial statements, amalgamated. On consolidation, all significant inter-company transactions and balances have been eliminated. The detail of the consolidation as described, by entity, has been presented in note 28.

In June 2003, the Canadian Institute of Chartered Accountants ("CICA") issued Accounting Guideline 15, "*Consolidation of Variable Interest Entities*" ("AcG-15"), requiring the consolidation of variable interest entities ("VIEs") by the primary beneficiary of the expected residual returns or losses, or both, of the VIE. A VIE is any type of legal structure in which consolidation is required due to contractual or other financial arrangements, as opposed to traditional voting rights, if certain conditions exist.

The Partnership is considered to be a VIE and the Company is the primary beneficiary of the Partnership; accordingly, the Company consolidates the Partnership. The Pizza Pizza Royalty Income Fund (the "Fund") has a 73.7% interest in the Partnership as of January 3, 2010 (2008 – 78.5%). The Fund's 75.2% (2008 – 78.5%) interest in the Partnership as of December 31, 2009, being the Partnership's year-end, is shown as non-controlling interest on the balance sheets and the non-controlling interest equity allocation is shown in the statements of operations and deficit.

2. Summary of Significant Accounting Policies, continued

c) Revenue Recognition

The Company recognizes revenue on the following basis:

- Food sales are recognized when the products are delivered to the franchised restaurants and jointly-controlled companies. Pizza Pizza franchisees sign a franchise agreement which requires the franchisee to purchase from Pizza Pizza, at an agreed markup on cost, all of the raw materials and supplies used and sold in their Pizza Pizza restaurant(s). Payment for materials and supplies are due within seven days.

- Company-owned restaurant and jointly-controlled restaurant retail sales are recognized when the services are rendered and the products are sold to the public. Payment by the public is immediate.

- Franchise royalties and administration fees are recognized as earned and are based on a percentage of the franchisees' sales as provided for in individual franchise agreements. Royalties are due within seven days.

- Initial and renewal franchise fees are recognized at the commencement of the initial term of the franchise agreement and upon the renewal of such an agreement. The initial franchise fee is payable, in full, at the commencement of the agreement. The renewal fee is charged to franchisees upon renewal of their franchise agreement which is typically five years from the initial agreement.

- Construction fees are recognized when the related franchise restaurant becomes operational. Fees are generated by the Company acting as general contractor as per a franchise agreement.

- Interest and other income is recognized and accrued when earned. Interest income is derived from promissory notes with franchisees and investments in cash equivalents which have maturity dates less than three months.

d) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and short-term investments with a term at the date of acquisition of three months or less.

e) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined on the first-in, first-out basis.

f) Recoverable Expenses

The Company provides advertising and order processing services to Pizza Pizza and Pizza 73 restaurants. Expenses related to the provision of these services are paid by the Company. The Company recovers advertising expenses based on a percentage of individual restaurant sales and order processing service expenses based on the number of orders directed to the restaurant. Recoveries from franchisees are recorded as a reduction of the related expenses. To the extent that expenses recovered exceed or are less than expenses paid by the Company, the difference is recorded as a receivable or a payable.

In addition to providing advertising and order processing services to Pizza 73 restaurants, the Company also operates two Pizza 73 commissaries. A consulting agreement controls the mark-up on food sales which is designed to cover the expenses of the commissary operations. Recoveries are recorded as a reduction of the related expenses. To the extent that expenses recovered exceed or are less than expenses paid by the Company, the difference is allocated annually to individual restaurants based on a percentage of individual restaurant sales.

2. Summary of Significant Accounting Policies, continued

g) Amortization

On the declining balance method -

Equipment	20%
Furniture and fixtures	20%
Automobiles and trucks	30%

On the straight-line method -

Leasehold improvements	5 years
Computer - software	3 years
- hardware	4 years
Company-owned restaurant assets	5 years

h) Long-lived Assets

Long-lived assets are comprised of property, plant and equipment and finite life intangible assets subject to amortization. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of evaluating the recoverability of long-lived assets, the recoverability test is performed using undiscounted future net cash flows of the asset. The amount of the impairment is measured as the difference between the carrying value and the fair value of the asset and recognized by way of an additional current period amortization charge.

i) Intangible Assets

Intangible assets are assets acquired that lack physical substance and that meet the specified criteria for recognition apart from goodwill. Intangible assets with a finite life are recorded at cost and are amortized over the period of expected future benefit on the straight-line method:

Non-compete agreements	3 years
Lease agreements	10 years

Intangible assets which have an indefinite life are recorded at cost and are not being amortized. Management considers the Pizza 73 Rights and Marks to be an indefinite life asset. On an annual basis, management reviews the carrying amount of intangible assets, which have an indefinite life, for possible impairment by evaluating discounted cash flows. Intangible assets are written down to their estimated fair value as determined by discounted cash flows when a permanent decline is identified.

j) Goodwill

Goodwill is recorded as the excess of the purchase price of an acquired subsidiary over the fair value of the net assets acquired. Goodwill is not amortized and is subject to an annual impairment test. Goodwill impairment is evaluated between annual tests upon the occurrence of certain events or circumstances and assessed based on a comparison of the reporting unit's carrying amount to its fair value. When the carrying amount of the reporting unit exceeds its fair value, the fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of impairment loss, if any.

2. Summary of Significant Accounting Policies, continued

k) Derivative Financial Instruments

Interest rate swap contracts are designated as hedges of the cash flow relating to interest payments of the outstanding long-term debt or a portion thereof. The interest payments relating to swap contracts are recorded in net earnings over the life of the underlying transaction on an accrual basis as an adjustment to interest expense.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also formally assesses both at the hedge's inception and at the end of each quarter, to ensure the derivatives that are used in the hedged transactions are effective in offsetting changes in cash flows of hedged items.

l) Long-term Investments

Investment in Pizza Pizza GP Inc., the managing general partner of the Partnership, is accounted for using the equity method, under which the original cost of the investment is adjusted for the Company's share of post-acquisition earnings or losses and is reduced for distributions received. Long-term investments are written down when there is evidence of a decline in their value that is not temporary.

m) Deferred Franchise Costs

Certain costs related to the construction of new franchised locations are deferred and amortized over the term of the franchise agreement, generally being 5 years.

n) Future Income Taxes

The Company follows the liability method with respect to accounting for income taxes. Future tax assets and liabilities are determined based on differences between the carrying amount and the tax basis of assets and liabilities (temporary differences). Future income tax assets and liabilities are measured using the substantively enacted tax rates that will be in effect when these differences are expected to reverse. Future income tax assets, if any, are recognized only to the extent that, in the opinion of management, it is more likely than not that the assets will be realized.

The refundable portion of taxes on investment income is charged to retained earnings. The recovery of refundable taxes previously charged to retained earnings is credited to retained earnings in the period it becomes receivable.

o) Deferred Revenue

Deferred revenue relates to an allowance received from a supplier in consideration of the achievement of certain volume commitments. The deferred revenue is being amortized based on the proportion of volume commitments met during each year.

p) Renovation Funds

The Company maintains a long-term renovation program whereby franchisees contribute towards future restaurant renovations and upgrades. The franchise owner acknowledges that the renovation fund contribution may be used by the Company, without interest or other compensation to the franchise owner, to fund the renovation, expansion or relocation of other Pizza Pizza outlets until such time as the funds are required by the franchise owner for renovation, expansion or relocation of the franchised outlet.

2. Summary of Significant Accounting Policies, continued

q) Estimates

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty and are reviewed periodically and adjustments, if necessary, are made in the period in which they are identified. Actual results may differ from these estimates. Significant estimates and assumptions made by management are used for, but are not limited to, the valuation of inventory, allowance for doubtful accounts, useful lives of long-lived assets, and valuation of intangible assets and goodwill.

r) Financial Instruments

Financial Assets

Held-for-trading

Financial assets that are held with the intention of generating profits in the near term and derivative contracts that are financial assets, except for a derivative that is a designated and effective hedging instrument, are classified as held-for-trading. In addition, any other financial assets can be designated by the Company upon initial recognition as held-for-trading. These instruments are subsequently re-measured at fair value with the change in the fair value recognized in net income during the period.

Held-to-maturity

Financial assets that have a fixed maturity date and which the Company has a positive intention and the ability to hold to maturity are classified as held-to-maturity, which are subsequently re-measured at amortized cost using the effective interest rate method.

Loans and Receivables

Loans and receivables are non-derivative financial assets resulting from the delivery of cash or other assets in return for a promise to repay on a specified date, or on demand, usually with interest. Loans and receivables are subsequently re-measured at amortized cost using the effective interest rate method.

Available-for-sale

Available-for-sale assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Financial assets classified as available-for-sale are subsequently re-measured at fair value with the changes in fair value recorded in other comprehensive income.

Financial Liabilities

Held-for-trading

Financial liabilities that are held with the intention of generating profits in the near term and derivative contracts that are financial liabilities, except for a derivative that is a designated and effective hedging instrument, are classified as held-for-trading. In addition, any other financial liabilities can be designated by the Company upon initial recognition as held-for-trading. These instruments are subsequently re-measured at fair value with the change in the fair value recognized in net income during the period.

2. Summary of Significant Accounting Policies, continued

Other Liabilities

Non-derivative financial liabilities that have not been designated as held-for-trading are classified as other liabilities, which are subsequently re-measured at amortized cost using the effective interest rate method.

The Company has decided to elect all of its cash equivalents as held-to-maturity and record these items at amortized cost.

The Company has decided to elect its accounts receivable, notes receivable, renovation funds receivable, recoverable franchisee expenses, net and any receivable from related parties as a loan and receivable.

The Company has decided to elect its accounts payable and accrued liabilities, long-term debt, loan payable to Pizza Pizza Holdings Trust and advances from related Party as financial liabilities that are not held-for-trading.

Transaction costs related to the purchase of the Pizza 73 Rights and Marks have been capitalized to goodwill. Costs associated with the purchase of Pizza 73 Inc. and its affiliated companies (together “Pizza 73”) shares have been capitalized to goodwill and costs associated with obtaining financing have been offset against the long-term debt and are amortized into earnings using the effective interest rate method.

3. Changes in Accounting Policies

a) Effective December 29, 2008, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, Goodwill and Intangible Assets, which establishes standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. As a result of adopting the new standard, the Company has reclassified application software costs with a cost of $933 and accumulated amortization of $339 and $68 at January 3, 2010 and December 28, 2008, respectively from property, plant and equipment to intangible assets. The related amortization expense of $271 and $50 for the 53-week period ended January 3, 2010 and the 52-week period ended December 28, 2008 respectively was also reclassified from amortization of property, plant and equipment to amortization of intangible assets. There was no impact on the Company's net loss.

b) Effective December 29, 2008, CICA Handbook Section 3855, Financial Instruments – Recognition and measurement has been amended to change: (1) the categories into which a debt instrument is required or permitted to be classified; (2) the impairment model for held-to-maturity financial assets to the incurred credit loss model in section 3025; and (3) require reversal of the previously recognized impairment losses on available-for-sale financial assets in specified circumstances. The Company has determined that these amendments have no material effect on its financial statements.

   Also, effective July 1, 2009, the Company has adopted the amendments to CICA Handbook Section 3855, concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category. The Company has determined that this amendment has no material effect on its financial statements.

c) Effective December 29, 2008, the Company has adopted the amendments to the CICA Handbook Section 3862, Financial Instrument – Disclosures, which has been amended to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure. The Company has determined that these amendments have no material impact on its financial statements, however, the disclosures required by these changes are in note 27.

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

3. Changes in Accounting Policies, continued

d) Effective December 29, 2008, the Company adopted Emerging Issues Committee Abstract 173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" (EIC 173). EIC 173 requires an entity's own credit risk and the credit risk of the counterparty be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The Company has determined this change had no material effect on its financial statements.

4. Acquisition

a) In July 2008, the vendors of Pizza 73 met the thresholds based on earnings and revenue, and were entitled to an additional $2,983 of consideration with respect to the acquisition in July 2007. As a result of this additional consideration, the goodwill generated on the purchase of Pizza 73 shares has been increased.

In addition, during 2008, the Company paid additional transaction costs related to the acquisition of Pizza 73 shares in 2007, and the purchase price equation was affected with a related increase to goodwill of $167.

b) Effective August 25, 2008, Pizza Pizza acquired the remaining 50% of the outstanding shares of one of the Pizza 73 restaurants for $300 of cash consideration plus transaction costs of $1.

The acquisition was accounted for by the purchase method with the purchase price being allocated to the fair value of the acquired assets and liabilities. The results of operations included in these consolidated financial statements are from the acquisition date.

Net assets acquired:		
Cash	$	26
Property, plant and equipment		125
Other long-term assets		1
Goodwill		248
Long-term debt		(99)
	$	301
Consideration:		
Cash consideration		300
Acquisition costs		1
	$	301

Goodwill on this transaction is not deductible for tax purposes.

5. Royalty Pool Annual Adjustment

a) 2007 Royalty Pool Adjustment

In early January 2008, adjustments to royalty payments and Pizza Pizza's Class B Exchange Multiplier were made based on the actual performance of the 35 restaurants added to the Royalty Pool on January 1, 2007. As a result of the adjustments, the new Class B Exchange Multiplier at January 1, 2007 was 1.23525 and Pizza Pizza's exchangeable units can be exchanged into 5,031,342 Fund units, which was an increase of 122,427 Fund units, effective January 1, 2007.

5. Royalty Pool Adjustment, continued

b) 2008 Royalty Pool Adjustment – Class B Exchange Multiplier

On January 1, 2008, 28 net, new Pizza Pizza restaurants were added to the Royalty Pool as a result of 36 new restaurants opening and eight closing from January 1, 2007 to December 31, 2007. The additional system sales from the 28 net, new restaurants were estimated at $7,987 annually. The total number of Pizza Pizza restaurants in the Royalty Pool increased to 559. The yield of the Fund units was determined to be 9.0% calculated using $9.87 as a weighted average unit price. Weighted average unit price is calculated based on the market price of the units traded on the TSX during the period of twenty consecutive days ending on the fifth trading day before January 1, 2008. As a result of the contribution of the additional net sales to the Royalty Pool, Pizza Pizza's Class B Exchange Multiplier increased fractionally by 80% of the total adjustment or 0.09805; the new Class B Multiplier at January 1, 2008 was 1.33330. This adjustment also increased the entitlement of the holders of the Class B Units to distributions of cash and allocations of earnings from the Partnership.

In early January 2009, the second adjustment to royalty payments and Pizza Pizza's Class B Exchange Multiplier was made based on the actual performance of the 36 Pizza Pizza restaurants added to the Royalty Pool on January 1, 2008. As a result of the adjustments, the new Class B Exchange Multiplier was 1.3737 and Pizza Pizza's exchangeable units can be exchanged into 5,595,241 Fund units which is an increase of 164,542 Fund units, effective January 1, 2008.

c) 2008 Royalty Pool Adjustment – Class D Exchange Multiplier

On January 1, 2008, nine net, new Pizza 73 restaurants were added to the Royalty Pool as a result of two new restaurants opening between July 24, 2007 and September 1, 2007 and the inclusion of seven restaurants originally held out from the Royalty Pool when the Pizza 73 Rights were acquired. The additional system sales from the nine net, new restaurants was estimated at $7,450 annually. The total number of Pizza 73 restaurants in the Royalty Pool increased to 50. The yield of and the weighted average unit price used in the calculation of the Class D Multiplier was determined in the same manner as that of the Class B Multiplier calculation at 9.0% and $9.87, respectively. As a result of the contribution of the additional net sales to the Royalty Pool, Pizza Pizza's Class D Exchange Multiplier increased fractionally by 80% of the total adjustment or 5.58750; the new Class D Multiplier at January 1, 2008 was 5.58750. This adjustment also increased the entitlement of the holders of the Class D Units to distributions of cash and allocations of income from the Partnership.

In early January 2009, the second adjustment to royalty payments and Pizza Pizza's Class D Exchange Multiplier was made based on the actual performance of the nine Pizza 73 restaurants added to the Royalty Pool on January 1, 2008. As a result of the adjustments, the new Class D Exchange Multiplier was 7.9961 and Pizza Pizza's exchangeable units can be exchanged into 799,610 Fund units which is an increase of 240,860 Fund units, effective January 1, 2008.

d) 2009 Royalty Pool Adjustment – Class B Exchange Multiplier

On January 1, 2009, nine net, new Pizza Pizza restaurants were added to the Royalty Pool as a result of 18 new restaurants opening and nine closing from January 1, 2008 to December 31, 2008. The additional system sales from the 18 new restaurants are estimated at $4,698 annually less sales of $1,609 from nine permanently closed Pizza Pizza restaurants resulting in net, estimated Pizza Pizza sales of $3,089 added to the Royalty Pool. The total number of Pizza Pizza restaurants in the Royalty Pool has increased to 568. The yield of the Fund units was determined to be 15.3% calculated using $6.04 as a weighted average unit price, calculated based on the market price of the units traded on the TSX during the 20 consecutive days ending on the fifth trading day before January 1, 2009. As a result of the contribution of the additional net sales to the Royalty Pool, Pizza Pizza's Class B Exchange Multiplier increased fractionally by 80% of the total adjustment or 0.0365; the new Class B Multiplier is 1.4102. This adjustment will also increase the entitlement of the holders of the Class B units to distributions of cash and allocations of income from the Partnership.

5. Royalty Pool Adjustment, continued

In early January 2010, adjustments to royalty payments and Pizza Pizza's Class B Exchange Multiplier were made based on the actual performance of the 18 restaurants added to the Royalty Pool on January 1, 2009. As a result of the adjustments, the new Class B Exchange Multiplier is 1.4240 and Pizza Pizza's exchangeable units can be exchanged into 5,800,072 Fund units which is an increase of 56,141 Fund units, effective January 1, 2009.

e) 2009 Royalty Pool Adjustment – Class D Exchange Multiplier

On January 1, 2009, 19 new Pizza 73 restaurants were added to the Royalty Pool as a result of new restaurants opening between September 2, 2007 and September 1, 2008. The additional system sales from the 19 new restaurants are estimated at $14,075 annually, which was reduced by $4,923 in system sales attributable to certain of the restaurants now added to the Royalty Pool whose territories resulted in an adjustment to those previously existing restaurants, resulting in net, estimated Pizza 73 sales of $9,152 added to the Royalty Pool.

The total number of Pizza 73 restaurants in the Royalty Pool has increased to 69. The yield of 15.3% and the weighted average unit price of $6.04 used in the calculation of the Class D Multiplier is determined in the same manner as that of the Class B Multiplier calculation. As a result of the contribution of the additional net sales to the Royalty Pool, Pizza Pizza's Class D Exchange Multiplier increased fractionally by 80% of the total adjustment or 6.6075; the new Class D Multiplier is 14.6036. This adjustment will also increase the entitlement of the holders of the Class D units to distributions of cash and allocations of income from the Partnership.

In early January 2010, adjustments to royalty payments and Pizza Pizza's Class D Exchange Multiplier were made based on the actual performance of the 19 restaurants added to the Royalty Pool on January 1, 2009. As a result of the adjustments, the new Class D Exchange Multiplier is 15.4543 and Pizza Pizza's exchangeable units can be exchanged into 1,545,432 Fund units which is an increase of 85,077 Fund units, effective January 1, 2009.

f) 2010 Royalty Pool Adjustment – Class B Exchange Multiplier

On January 1, 2010, 22 net, new Pizza Pizza restaurants were added to the Royalty Pool as a result of 31 new restaurants opening and nine closing from January 1, 2009 to December 31, 2009. The additional system sales from the 31 new restaurants are estimated at $9,985 annually less sales of $3,075 from nine permanently closed Pizza Pizza restaurants resulting in net, estimated Pizza Pizza sales of $6,910 added to the Royalty Pool. The total number of Pizza Pizza restaurants in the Royalty Pool has increased to 590. The yield of the Fund units was determined to be 14.2% calculated using $6.54 as a weighted average unit price. Weighted average unit price is calculated based on the market price of the units traded on the TSX during the period of twenty consecutive days ending on the fifth trading day before January 1, 2010. As a result of the contribution of the additional net sales to the Royalty Pool, Pizza Pizza's Class B Exchange Multiplier increased fractionally by 80% of the total adjustment or 0.0810; the new Class B Multiplier is 1.5050. This adjustment will also increase the entitlement of the holders of the Class B units to distributions of cash and allocations of income from the Partnership. The second adjustment to the Class B Exchange Multiplier will be adjusted to be effective January 1, 2010, once the actual performance of the new restaurants is determined in early 2011.

g) 2010 Royalty Pool Adjustment – Class D Exchange Multiplier

On January 1, 2010, 12 new Pizza 73 restaurants were added to the Royalty Pool as a result of new restaurants opening between September 2, 2008 and September 1, 2009. The additional system sales from the 12, new restaurants are estimated at $8,230 annually, which was reduced by $6,807 in system sales attributable to certain of the restaurants now added to the Royalty Pool whose territory adjusted a previously existing restaurant, resulting in net, estimated Pizza 73 sales of $1,423 added to the Royalty Pool. The total number of Pizza 73 restaurants in the Royalty Pool has increased to 81. The yield of and the weighted average unit price used in the calculation of the Class D Multiplier is determined in the same manner as that of the Class B Multiplier calculation

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

5. Royalty Pool Adjustment, continued

at 14.2% and $6.54, respectively. As a result of the contribution of the additional net sales to the Royalty Pool, Pizza Pizza's Class D Exchange Multiplier increased fractionally by 80% of the total adjustment or 1.0191; the new Class D Multiplier is 16.4734. This adjustment will also increase the entitlement of the holders of the Class D units to distributions of cash and allocations of income from the Partnership. The second adjustment to the Class D Exchange Multiplier will be adjusted to be effective January 1, 2010, once the actual performance of the new restaurants is determined in early 2011.

h) Pizza Pizza Royalty Income Fund Outstanding Units

As of January 1, 2010, in exchange for adding the 34 net, new Pizza Pizza and Pizza 73 restaurants to the Royalty Pool, Pizza Pizza has received 329,910 additional Class B equivalent units and 101,912 Class D equivalent units. These units represent 80% of the full Class B and Class D entitlements (412,387 and 127,390 units, respectively), with the balance to be received when the 2010 sales performance is known with certainty. Including the 431,822 exchangeable units described above, at January 1, 2010, Pizza Pizza owns equivalent, exchangeable units equal to 26.3% of the Fund's fully diluted units.

The chart below shows the Fund units that would be outstanding if all of the Class B and D units were converted to Fund units after accounting for their respective multipliers.

Units outstanding and issuable on January 3, 2010		
Public float		21,818,392
Class B units held by Pizza Pizza at December 31, 2009	5,743,931	
Pizza Pizza additional Class B units - Holdback as of December 31, 2009	56,141	
Additional Pizza Pizza Class B equivalent units as of January 1, 2010	329,910	6,129,982
Class D units held by Pizza Pizza at December 31, 2009	1,460,355	
Pizza Pizza additional Class D units - Holdback as of December 31, 2009	85,077	
Additional Pizza Pizza Class D equivalent units as of January 1, 2010	101,912	1,647,344
Number of fully diluted units		29,595,718
Proportion of all units outstanding available for exchange by Pizza Pizza		26.3%

6. Inventories

	As at January 3, 2010	As at December 28, 2008
Food	$ 3,496	$ 2,589
Non-Food	2,675	2,874
	$ 6,171	$ 5,463

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

7. Property, Plant and Equipment

	As at January 3, 2010			As at December 28, 2008 (restated – note 3)		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Equipment	$ 13,678	$ 9,785	$ 3,893	$ 12,487	$ 9,031	$ 3,456
Furniture and fixtures	1,094	765	329	936	706	230
Automobiles and trucks	479	422	57	772	640	132
Leasehold improvements	8,224	6,114	2,110	6,633	5,760	873
Computer – software	7,166	5,843	1,323	6,947	5,520	1,427
- hardware	4,422	3,561	861	3,937	3,160	777
Company-owned restaurant assets	29,528	18,719	10,809	29,721	19,235	10,486
	$ 64,591	$ 45,209	$ 19,382	$ 61,433	$ 44,052	$ 17,381

Amortization for the 53-week period ended January 3, 2010 is shown net of recoveries from franchisees in the amount of $1,102 (2008 - $1,095).

Included in amortization of property, plant and equipment is amortization on Company-owned restaurant assets for the 53-week period ended January 3, 2010 that amounted to $3,683 (2008 - $3,754).

Equipment includes assets held under capital leases in the amount of $Nil (2008 - $1,000) and accumulated amortization of $Nil (2008 - $266). During the 53-week period ended January 3, 2010, the Company obtained ownership of the assets previously under capital lease.

8. Notes Receivable

	As at January 3, 2010	As at December 28, 2008
From franchisees, bearing interest between 6.0% and 9%	$ 6,017	$ 4,234
From franchisees, non-interest bearing	2,683	2,480
	8,700	6,714
Less: current maturity	2,300	5,035
	$ 6,400	$ 1,679

The notes receivable from franchisees are unsecured and are repayable in varying monthly principal amounts. The effective interest rate on the notes receivable is 5.4% (2008 – 7.4%).

9. Renovation Funds

The renovation funds are non-interest bearing and are repaid to/collected from franchisees on a monthly basis at amounts based on a percentage of sales.

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

10. Intangible Assets

	As at January 3, 2010			As at December 28, 2008 (restated – note 3)		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Non-compete agreement	$ 315	$ 258	$ 57	$ 315	$ 151	$ 164
Lease agreements	1,600	393	1,207	1,600	231	1,369
Computer Software	933	339	594	933	68	865
	$ 2,848	$ 990	$ 1,858	$ 2,848	$ 450	$ 2,398

Amortization for the 53-week period ended January 3, 2010 is shown net of recoveries from franchisees in the amount of $139 (2008 - $Nil).

11. Deferred Franchise Costs

	As at January 3, 2010			As at December 28, 2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Deferred franchise costs	$ 1,905	$ 1,149	$ 756	$ 1,954	$ 809	$ 1,145

12. Sales Tax Payable

The Company collects provincial sales tax and federal goods and services tax on behalf of certain franchised restaurants in addition to the collection of tax on its own account. These accounts are included in accounts payable and accrued liabilities as follows:

	As at January 3, 2010	As at December 28, 2008
Sales tax collected/(disbursed) in the Company's operations	$ 653	$ 575
Sales tax collected on behalf of certain franchised restaurants	5,483	4,500
	$ 6,136	$ 5,075

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

13. Long-term Debt

	As at January 3, 2010	As at December 28, 2008
Bank loan is a committed non-revolving, five-year facility granted to the Partnership maturing on July 23, 2012, used to finance a portion of the acquisition costs of the Pizza Pizza Rights and Marks and the Pizza 73 Rights and Marks. As security for repayment of the facility, Pizza Pizza grants to the Partnership a continuing, general security interest, subject to certain exceptions, in all present and acquired property of Pizza Pizza, and may not be assigned without the prior consent of Pizza Pizza. The facility bears interest at prime plus 0% to 0.25% or the Bankers' Acceptance rate plus 1.00% to 1.75%, depending on the level of funded debt to EBITDA, with EBITDA defined as annualized earnings before interest, taxes, depreciation and amortization. During 2007, an interest rate swap agreement, fixed the facility interest rate until January 6, 2010 at 3.55% plus the credit spread on $20,000 of the facility and an interest rate swap agreement, fixed the facility interest rate until July 23, 2012 at 5.05% plus the credit spread on the remaining $27,000 of the facility. The effective interest rates for the 53-week period ended January 3, 2010 on the $20,000 and $27,000 were 4.8% and 6.3%, respectively (December 28, 2008 – 4.8% and 6.3%, respectively). The Bank has also granted an extendable 364 day, committed, revolving operating facility for up to $1,000; no funds have been drawn. The facility is subject to certain financial covenants.	$ 47,000	$ 47,000
Notes payable, bearing interest from 7.75% to 8.38%, repayable in varying monthly principal amounts, maturing between 2012 and 2013. These notes were secured by specific Company-owned restaurant assets. The effective interest rate for the 53-week period ended January 3, 2010 was 8.5% (2008 – 9.1%).	554	142
Bank term loans of jointly-controlled companies, bearing interest at prime plus 0.7% to 0.9%, or 8% per annum. They are repayable in varying monthly principal amounts, maturing between 2009 and 2014. The effective interest rate for the 53-week period ended January 3, 2010 was 4.7% (2008 – 5.8%).	2,758	1,530
	50,312	48,672
Less: deferred financing charges	72	101
Less: current maturities	1,380	489
	$ 48,860	$ 48,082

Interest incurred on long-term debt for the 53-week period ended January 3, 2010 amounted to $2,851 (2008 – $2,819).

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

13. Long-term Debt, continued

Principal repayments on long-term debt in each of the next five fiscal years are as follows:

January 2, 2011	$	1,380
January 1, 2012		966
December 30, 2012		47,308
December 29, 2013		167
December 28, 2014		491

14. Loan Payable to Pizza Pizza Holdings Trust

The loan bears interest at 6.0% per annum, payable monthly, secured by a general security interest and a securities pledge, subject to certain exceptions, in all present and acquired property of Pizza Pizza and may not be assigned without the prior consent of Pizza Pizza. The full principal amount is due July 2025, with option for extension at renewal.

Pizza Pizza holds 3,000,000 Class C units of the Partnership. The Exchange Agreement provides that a holder of Class C Units may require the Pizza Pizza Holdings Trust (the "Trust") to purchase the Units in consideration of the assumption by the Trust of an amount of the indebtedness under the Pizza Pizza Loan equal to $10 per Class C Unit to be transferred. The Partnership will then purchase the Class C Units held by the Trust for an equal number of Class C LP Units.

Interest incurred and the effective interest rate on the loan payable for the 53-week period ended January 3, 2010 amounted to $1,800 (2008 - $1,800) and 6.0% (2008 – 6.0%), respectively

15. Income Taxes

The Company's effective income tax differs from the statutory combined Canadian income tax rate as follows:

		For the 53-week period ended January 3, 2010		For the 52-week period ended December 28, 2008
Federal and provincial statutory tax rates		33%		33.5%
Income taxes at statutory rates	$	6,889	$	7,189
Share of Partnership's earnings taxable to non-controlling interest		(5,900)		(5,001)
Partnership expenses deductible for tax but not accounting		1,186		1,552
Over provision in prior years		(99)		(194)
Effect of income taxable at lower rates		(905)		(1,176)
Change in statutory tax rates		2,911		-
Other		(91)		108
		(2,898)		(4,711)
	$	3,991	$	2,478

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

15. Income Taxes, continued

Significant components of future income tax assets (liabilities) are as follows:

	As at January 3, 2010	As at December 28, 2008
Deferred gain	$ 18,351	$ 21,567
Deferred franchise costs	149	795
Tax loss carryforward	1,512	834
	20,012	23,197
Property, plant and equipment	(1,463)	(1,749)
Intangible assets	(505)	(505)
Rights and Marks	(1,932)	(1,564)
	(3,900)	(3,818)
Future income tax asset	$ 16,112	$ 19,379

The Company has losses of approximately $5,558 which can be carried forward to fiscal 2028. The benefit of these losses has been recognized in the accounts.

16. Non-controlling Interest

Non-controlling interest represents the Fund's effective 75.2% (2008 – 78.5) interest in the Partnership at December 31, 2009, being the Partnership's year-end. As at December 31, 2009, the Company owns an effective 24.8% (2008 – 21.5%) interest in the Partnership. The Fund's investment in the Partnership, effectively 75.2% as at the Partnership's year-end of December 31, 2009, and the Pizza Pizza GP, Inc.'s investment, effectively 0.1%, is considered non-controlling and is shown as follows:

	As at January 3, 2010	As at December 28, 2008
Balance – beginning of period	$ 174,529	$ 175,580
Non-controlling interest in earnings of the Partnership	17,883	20,079
Non-controlling interest in other comprehensive income (loss) of the Partnership	1,260	(2,804)
Distributions received by the Fund from the Partnership	(18,491)	(18,326)
	$ 175,181	$ 174,529

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

17. Commitments

a) Future minimum lease payments to related parties, which are companies under common control, and non-related entities for each of the next five fiscal years and thereafter are approximately:

	Third Parties	Related Parties
January 2, 2011	$ 20,260	$ 1,548
January 1, 2012	17,371	1,091
December 30, 2012	14,331	592
December 29, 2013	10,791	391
December 28, 2014	8,354	262
Thereafter	14,395	358

During the 53-week period ended January 3, 2010, lease payments of approximately $18,740 (December 28, 2008 - $17,532) were recovered under sub-lease agreements with various franchised restaurants. These recoveries are offset against rent expense.

b) In July 2005, the Company entered into three-year employment contracts with senior management. During the 52-week period ended December 28, 2008, certain conditions were met resulting in the payment of approximately $2,300 plus interest to senior management. As at December 28, 2008 and January 3, 2010, no further obligation remained with respect to the retention bonuses.

18. Contingencies

The Company is a party to various legal proceedings, mainly related to claims brought against it by former franchisees. It is not possible at this time to determine the outcome of these proceedings and, accordingly, no provisions have been made in the accounts.

The Company has entered into an agreement with certain lenders to establish a line of credit of $39,300 for the purpose of providing certain equipment and leasehold improvement loans to its franchisees. As security under these lines of credit facilities, the Company has provided certain guarantees as described in the agreement including a letter of credit in the amount of $3,930. The Company has the right to increase the limit under this credit facilities by providing additional letters of credit.

The Company has guaranteed financing loans of certain franchisees. As at January 3, 2010, this indebtedness was approximately $930 (December 28, 2008 - $1,177). In the case of default by the franchisee, the Company has various means of recourse relating to the guaranteed amounts.

The Company and the indirect controlling shareholder of the Company have received a formal claim from a former consultant claiming the right to $45,000 in damages and other amounts, including entitlements to receive a portion of the proceeds from the initial public offering received by the indirect controlling shareholder. The parties have exchanged documents with examinations for discovery expected to proceed in the Spring of 2010. The Company and the indirect controlling shareholder believe the demand is without merit. The indirect controlling shareholder has agreed in an indemnity agreement to indemnify the Company and the Fund against any liabilities that either may incur in respect of this matter. It is not possible at this time to determine the outcome of this matter and, accordingly, no provision has been made in the accounts.

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

19. Common Shares and Special Voting Shares

	As at January 3, 2010	As at December 28, 2008
Authorized without limit as to number -		
Common shares		
Special voting shares, non-participating, entitling the holder to one Vote per share		
Issued -		
100 Common shares	$ 100	$ 100
100,000 Special voting shares	100	100
	$ 200	$ 200

20. Capital Disclosures

The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Company evaluates its capital, including the capital of the Partnership, as all components of shareholders' equity (deficiency), other than amounts in accumulated other comprehensive loss, relate to the cash flow hedge.

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Partnership, as part of its credit facility, has agreed to a financial covenant in which, on a four quarter rolling basis, Distributions may not exceed Distributable Cash Flow for such period plus the aggregate amount of Distributable Cash Flow for prior Distribution Periods not distributed. As at December 31, 2009 the Partnership has complied with this covenant.

The primary measure used by the Company to monitor the financial leverage at the Partnership level is the ratio of debt to earnings before interest, taxes, depreciation and amortization ("EBITDA"), which per the Partnership's credit facility is restricted to a maximum of 2.5:1. EBITDA is based on the last four quarters ending on the same date as the balance sheet date used to compute debt. The net debt to EBITDA ratio as at December 31, 2009 and December 31, 2008 was as follows:

	December 31, 2009	December 31, 2008
Debt	$ 47,000	$ 47,000
Net earnings (rolling four quarters)	26,181	27,390
Amortization	29	34
Interest, net	2,661	2,667
EBITDA	28,871	30,091
Net debt to EBITDA	1.63	1.56

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

20. Capital Disclosures, continued

The Company has provided covenants, as part of its General Security Agreement with the Partnership, that it will retain 75% of its consolidated net income (loss), have positive cumulative excess cash flows, limit capital expenditures below a specified threshold, maintain funded debt to EBITDA of less than 2.0:1 and maintain a fixed charge coverage ratio of 1:0:1. The Company has complied with these covenants as at period end.

21. Food Sales

Food sales include the following:

	For the 53-week period ended January 3, 2010	For the 52-week period ended December 28, 2008
Food sales	$ 139,826	$ 143,112
Company-owned restaurant sales	46,637	49,955
	$ 186,463	$ 193,067

22. Royalties, Franchise Fees and Other Related Revenue

Royalties, franchise fees and other related revenue include the following:

	For the 53-week period ended January 3, 2010	For the 52-week period ended December 28, 2008
Royalties	$ 21,012	$ 21,746
Initial franchise fees	1,929	1,804
Construction fees	1,268	1,757
Administration and accounting fees	1,335	1,428
	$ 25,544	$ 26,735

23. Cost of Food Sales and General and Administrative Expenses

Cost of food sales and general and administrative expenses include the following:

	For the 53-week period ended January 3, 2010	For the 52-week period ended December 28, 2008
Cost of food sales	$ 136,104	$ 138,653
General and administrative	47,003	52,581
	$ 183,107	$ 191,234

Included in general and administrative expenses for the 53-week period ended January 3, 2010 is an inventory writedown of $Nil (2008 - $526).

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

24. Related Party Transactions

The following table summarizes the Company's transactions with related parties in the normal course of business measured at the exchange amount:

	For the 53-week period ended January 3, 2010	For the 52-week period ended December 28, 2008
Rent expense[i]	$ 3,440	$ 3,182
Food purchases[i]	9,237	10,281
Management fee revenue[i]	2,160	1,500
Administration and accounting fee revenue[ii]	1,335	1,428

[i] Transactions with commonly controlled companies
[ii] Transactions with jointly-controlled companies

As at January 3, 2010, the Company had accounts payable of $711 (December 28, 2008 - $810) payable to a company under common management control.

As at January 3, 2010, the Company had included in accounts payable and accrued liabilities amounts payable of $1,691 (December 28, 2008 - $1,691) to the Fund, which were paid subsequent to the end of the period.

As at January 3, 2010, the Company had accounts receivable of $465 (December 28, 2008 - $504) receivable from a company under common management control.

During the 53-week period ended January 3, 2010, the Company sold notes receivable of $Nil (2008 - $6,433) to a company under common control for $Nil (2008 - $6,433).

In addition, the Company has the following advances to and from related parties:

	As at January 3, 2010	As at December 28, 2008
Receivables from jointly-controlled companies	$ 908	$ 544
Advances from related party	(28,000)	(24,807)

Advances from related party are due to the parent company. Advances from related party and receivables from jointly-controlled companies are non-interest bearing, have no specified terms of repayment and are unsecured.

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

25. Segmented Information

Operating segments are defined as components of an enterprise about which separate financial information is available and which are evaluated regularly by the chief financial decision makers in deciding how to allocate resources and in assessing performance. Effective July 24, 2007, the operations of Pizza Pizza consist of two reportable segments; "Pizza Pizza" and "Pizza 73". While they both operate in the pizza QSR segment, they are in predominantly different geographic markets in Canada. Pizza Pizza operates mainly in the Ontario and Quebec ("Eastern Canada") pizza QSR segment, whereas Pizza 73 operates mainly in the Alberta ("Western Canada") pizza QSR segment.

For the 53-week period ended January 3, 2010	Eastern Canada	Western Canada	Total
Food sales	$ 146,000	$ 40,463	$ 186,463
Royalties, franchise fees and other related revenue	24,006	1,538	25,544
Interest and other income	1,182	73	1,255
Amortization of property, plant and equipment	2,928	1,586	4,514
Amortization of intangible assets	132	269	401
Amortization of deferred franchise costs	340	-	340
Interest on loan from Pizza Pizza Holdings Trust	1,800	-	1,800
Interest on long-term debt	2,751	100	2,851
Segment profit (loss)	(5,756)	4,759	(997)
Earnings before income taxes and non-controlling interest	15,305	5,572	20,877
Property, plant and equipment additions	4,875	3,838	8,713

As at January 3, 2010	Eastern Canada	Western Canada	Total
Assets	$ 135,370	$ 34,704	$ 170,074
Intangible assets	594	1,264	1,858
Goodwill	-	17,979	17,979

For the 52-week period ended December 28, 2008 (restated – note 3)	Eastern Canada	Western Canada	Total
Food sales	$ 150,633	$ 42,434	$ 193,067
Royalties, franchise fees and other related revenue	25,307	1,428	26,735
Interest and other income	1,114	517	1,631
Amortization of property, plant and equipment	3,615	969	4,584
Amortization of intangible assets	-	315	315
Amortization of deferred franchise costs	354	-	354
Interest on loan from Pizza Pizza Holdings Trust	1,800	-	1,800
Interest on long-term debt	2,725	94	2,819
Segment profit (loss)	(9,889)	8,791	(1,098)
Earnings before income taxes and non-controlling interest	12,053	9,406	21,459
Property, plant and equipment additions	4,258	3,200	7,458

As at December 28, 2008 (restated – note 3)	Eastern Canada	Western Canada	Total
Assets	$ 136,461	$ 33,100	$ 169,561
Intangible assets	865	1,533	2,398
Goodwill	-	17,979	17,979

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

26. Statement of Cash Flows Information

Additional cash flows information is as follows:

	For the 53-week period ended January 3, 2010	For the 52-week period ended December 28, 2008
Accounts receivable	$ 361	$ (1,483)
Inventories	(708)	(1,852)
Prepaid expenses and sundry assets	89	590
Income taxes recoverable	1,687	32
Recoverable franchisee expenses, net	(1,870)	(5,047)
Accounts payable and accrued liabilities	(852)	101
Deposits from franchisee	(172)	730
Receivables from jointly-controlled companies	(364)	458
	$ (1,829)	$ (6,471)
Interest paid	$ 4,651	$ 4,585
Income taxes paid (recovered)	(905)	1,320

27. Financial Instruments

Financial Risk Management

The Company's objective is to minimize risk with respect to financial instruments by monitoring the performance of its franchisees and jointly-controlled companies, hedging the majority of the Partnership's long-term debt, maintaining restaurants in different geographic regions and having the ability to assume the operations of franchisees for inadequate financial performance and/or default under the franchisee agreement.

Fair Values

Fair value measurements recognized in the balance sheet must be classified in accordance with the fair value hierarchy established by CICA Handbook Section 3862, which reflects the significance of the inputs used in determining the measurements. The inputs can be either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity's pricing based upon its own market assumptions.

The fair value hierarchy consists of the following three levels:

Level 1: Inputs are quoted, unadjusted prices in active markets for identical assets or liabilities;
Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly;
Level 3: Inputs for the asset or liability that are not based on observable market data.

The carrying amounts of cash and cash equivalents, accounts receivable, current maturity of notes receivable and accounts payable and accrued liabilities approximate fair values given the short-term maturity of these instruments.

A reasonable estimate of fair value could not be made for receivables from jointly-controlled companies, advances from related party, recoverable franchisee expenses and renovation funds receivable as there are no fixed terms of repayment.

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

27. Financial Instruments, continued

The fair value of the long-term debt, notes receivable and loan payable to the Trust are based on the estimated future discounted cash flows using a comparable market rate of interest.

The cash flow hedge is recorded in the financial statements at fair value using observable inputs available for similar assets and liabilities in the active markets at the measurement date, as provided by sources independent from the Company (Level 2).

The carrying value and fair value of the financial instruments are as follows:

	Carrying Value	Fair Value
Cash and cash equivalents	14,530	14,530
Accounts receivable	7,192	7,192
Notes receivable	8,700	7,606
Accounts payable and accrued liabilities	29,960	29,960
Long-term debt	50,312	51,960
Loan payable to Pizza Pizza Holdings Trust	30,000	36,830

Credit Risk

The Company is exposed to credit risk as all of the franchisees and jointly-controlled companies operate within the same segment: commercial food service. The Company is also exposed to credit risk in the event of non-payment by its franchisees and jointly-controlled companies of its accounts receivables, recoverable franchisee expenses, notes receivable, receivables from jointly-controlled companies and renovation funds receivable. The Company's credit risk is mitigated by the large number of franchisees and jointly-controlled companies operating in different geographical markets and by the Company's ultimate ability to assume operations of the franchisees if there is inadequate financial performance and/or default under the franchisee agreement.

The Company writes off receivable accounts to expected realizable value as soon as the account is determined not to be fully collectible, with such write-offs charged to income (loss), unless the loss has been provided for in prior periods, in which case the write-off is applied to reduce the allowance for doubtful accounts. The Company updates its estimate of the allowance for doubtful accounts, based on a customer-by-customer evaluation of the collectibility of receivable balances at each balance sheet reporting date, taking into account amounts which are past due, and any available information indicating that a customer could be experiencing liquidity or going concern problems. As at January 3, 2010, the balance of allowance for doubtful accounts is $609 (December 28, 2008 - $562) and is comprised of provisions made in the prior year of $562, current year-to-date provisions of $685 and write-offs of $638, which are relieved from the allowance.

The aging of trade receivable balances are as follows:

	As at January 3, 2010	As at December 28, 2008
Current	$ 5,614	$ 5,157
Past due 0-30 days	883	1,059
Past due 31-120 days	695	1,337
Accounts receivable	$ 7,192	$ 7,553

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

27. Financial Instruments, continued

Liquidity Risk

The Company is subject to liquidity risk with respect to the advances from related party, long-term debt and loan payable to the Trust. The risk is mitigated as the majority of the Company's revenue is earned from franchisees and jointly-controlled companies, which have agreements with the Company and whose activities are closely monitored by the Company. In the case of franchisees, the majority of the Company's business, the Company is able to assume operations of the franchises if there is inadequate financial performance and/or default under the franchise agreement. Liquidity requirements are monitored by the Company's head office functions in order to guarantee effective access to financial resources.

Management believes that currently available funds and credit facilities, apart from those which will be generated by operating and financing activities, will allow the Company to satisfy its requirements for investment, working capital management, and debt repayment at maturity.

The following are the contractual maturities of financial liabilities, excluding derivative financial instruments and future interest payments but including interest accrued to January 3, 2010:

	Carrying amount	0 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
Long-term credit facility	$ 50,312	$ 1,380	$ 966	$ 47,966	$ -
Other long-term financial liabilities	31,484	-	-	-	31,484
Advances from related party	28,000	-	28,000	-	-
Accounts payable and accrued liabilities	29,960	29,960	-	-	-

The Company's only derivative financial liabilities as at January 3, 2010 were interest rate swaps, for which notional amounts, maturities, average exchange rates and the carrying and fair values are presented below.

Interest Rate Risk

The fair value of notes receivable, long-term debt and the loan payable to the Trust will fluctuate based on the general level of interest rates in the Company and the credit worthiness of the Company.

If the interest rate was to change by plus/minus 10% of the existing rate, the other comprehensive income (loss) would change by approximately plus/minus $86 (2008 -$519), and the interest expense on the statements of operations and deficit would change by approximately plus/minus $13 (2008 - $8).

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

27. Financial Instruments, continued

Cash Flow Risk

	Notional Amount	January 3, 2010 Fair Value	December 28, 2008 Fair Value	Contract Expires
Interest rate swap	$ 20,000	$ (157)	$ (513)	January 6, 2010
Interest rate swap	10,000	(880)	(1,303)	July 23, 2012
Interest rate swap	17,000	(1,497)	(2,217)	July 23, 2012

The Partnership has entered into three Interest Rate Swap Agreements to mitigate the risk associated with the fact that the $47,000 bank loan bears interest at floating rates. The notional amounts of the swaps are $20,000, $10,000 and $17,000 which total the $47,000 outstanding principal bank loan balance. On the $20,000 swap, the Partnership is obligated to pay the Swap Counterparty an amount based upon a fixed interest rate of 3.55% per annum plus a fee of 1.25% and the Swap Counterparty is obligated to pay the Partnership an amount equal to the Canadian Banker's Acceptance rate. On the $10,000 and $17,000 swaps, the Partnership is obligated to pay the Swap Counterparty an amount based upon a fixed interest rate of 5.05% plus a fee of 1.25% and the Swap Counterparty is obligated to pay the Partnership an amount equal to the Canadian Bankers' Acceptance rate.

During the 53-week period ended January 3, 2010, the Partnership has also entered into a new Interest Rate Swap Agreement to mitigate the risk associated with the fact that the existing swap on the $20,000 bank loan expires in January 2010. This swap agreement is a forward swap which will replace the January 6, 2010 swap of $20,000 and became effective on January 6, 2010, and obligates the Partnership to pay the Swap Counterparty an amount based upon a fixed interest rate of 2.68% per annum plus a fee of 1.25% and the Swap Counterparty is obligated to pay the Partnership an amount equal to the Canadian Banker's Acceptance rate. As of January 3, 2010, the Partnership is obligated to pay $393 if the forward swap agreement is terminated prior to the expiry date.

The Company is subject to cash flow risk on its notes receivable, recoverable franchisee expenses and renovation funds receivable as repayment to the Company is dependent on sales generated by franchisees. The Company mitigates this risk by having the ability to assume operations of the franchisees if there is inadequate financial performance and/or default under the franchisee agreement.

The Company is not subject to cash flow risk on the loan payable to the Trust as interest is at a fixed rate nor on the advances from related party as it is non-interest bearing. The Company is subject to interest rate price risk on the loan payable to the Trust but the risk is offset by distributions received on the Class C Partnership units.

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

28. Consolidation

Below is a breakdown of the Company's consolidation, including adjustments for the period ended January 3, 2010. The Pizza Pizza Limited Entities include Pizza Pizza, its interest in Pizza 73 restaurant, and the Company's proportionate share of jointly-controlled companies; all significant intercompany transactions have been eliminated.

	Pizza Pizza Limited Entities	Pizza Pizza Royalty Limited Partnership	Adjustments	Note	Pizza Pizza Limited (per GAAP)(7)
Current assets	$ 42,980	$ 4,594	$ (1,403)	(1)	$ 46,171
Investment in Pizza Pizza Royalty Limited Partnership	54,982	-	(54,982)	(2)	-
Long-term assets	66,807	313,238	(256,142)	(3)	123,903
Total Assets	**164,769**	**317,832**	**(312,527)**		**170,074**
Current liabilities	32,242	2,172	(1,403)	(1)	33,011
Long-term debt and loan payable to Pizza Pizza Holdings Trust, net of deferred financing	31,932	46,928	-		78,860
Deferred gain	191,637	-	(191,637)	(2)	-
Other long-term liabiltiies	34,253	2,534	-		36,787
Non-controlling interest	-	-	175,181	(2)	175,181
Equity (deficiency)	(125,295)	266,198	(294,668)	(2)	(153,765)
Total Liabilities and Equity	**164,769**	**317,832**	**(312,527)**		**170,074**
Food sales	186,463	-	-		186,463
Royalties, franchise fees and other related revenue	25,544	29,524	(29,524)	(4)	25,544
Interest and other income	1,227	28	-		1,255
Class B and C distributions	8,545	-	(8,545)	(2)	-
Total revenue	221,779	29,552	(38,069)		213,262
Cost of goods sold and general and administrative expenses	182,397	710	-		183,107
Amortization of deferred franchise costs	340	-	-		340
Amortization of property, plant and equipment	4,514	-	-		4,514
Amortization of intangible assets	401	-	-		401
Amortization of deferred gain	(1,917)	-	1,917	(2)	-
Interest on loan from Pizza Pizza Holdings Trust	1,800	-	-		1,800
Interest on long term debt	190	2,661	-		2,851
Licence and royalty payment to the Partnership	29,524	-	(29,524)	(4)	-
Gain on sale of Company-owned restaurants	(628)	-	-		(628)
Gain on sale of royalty stream at January 1 vend-in	(8,579)	-	8,579	(5)	-
Total expenses	208,042	3,371	(19,028)		192,385
Earnings before non-controlling interest and income taxes	13,737	26,181	(19,041)		20,877
Non-controlling interest	-	-	17,883	(6)	17,883
Current and future income taxes	3,991	-	-		3,991
Net income (loss) for the Period	**$ 9,746**	**$ 26,181**	**$ (36,924)**		**$ (997)**

(1) Eliminate receivable/payable balance between Pizza Pizza and the Partnership.
(2) Eliminate Pizza Pizza's investment in the Partnership and distributions from the Partnership to Pizza Pizza.
(3) Eliminate the Pizza Pizza Rights on the Partnership's balance sheet.
(4) Eliminate royalty income and expense.
(5) Eliminate gain recognized at the time of vending in restaurants by Pizza Pizza to the Partnership.
(6) To record Fund's interest in the Partnership.
(7) As publicly filed and audited.

29. Recent Accounting Pronouncements

Recent accounting pronouncements issued and not yet effective:

Business Combinations

CICA Handbook Section 1582, Business Combinations, which replaces CICA Handbook Section 1581, Business Combinations, establishes standards for the accounting for a business combination. It is the Canadian equivalent to International Financial Reporting Standard IFRS 3, Business Combinations. This standard is effective for the Company for interim and annual financial statements beginning on January 3, 2011. The Company has not yet determined the impact of the adoption of this change on its financial statements.

Consolidated Financial Statements and Non-controlling Interests

CICA Handbook Sections 1601, Consolidated Financial Statements and 1602, Non-controlling Interests replace CICA Handbook Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Section 1602 is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27, Consolidated and Separate Financial Statements. These standards are effective for the Company for interim and annual financial statements beginning on January 3, 2011. The Company has not yet determined the impact of the adoption of these changes on its financial statements.

Comprehensive Revaluation of Assets and Liabilities

CICA Handbook Section 1625, Comprehensive Revaluation of Assets and Liabilities, has been amended as a result of issuing Sections 1582, 1601 and 1602. The amendments are effective for the Company for its interim and annual financial statements beginning on January 3, 2011. The Company has not yet determined the impact of the adoption of these changes on its financial statements.

Equity

CICA Handbook Section 3251, Equity, has been amended as a result of issuing Section 1602 to require disclosure of non-controlling interests in equity. This amendment is effective for the Company for its interim and annual financial statements beginning on January 3, 2011. The Company has not yet determined the impact of the adoption of this change on its financial statements.

Financial Instruments – Recognition and Measurement

CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement has been amended to clarify the application of the effective interest method after a debt instrument has been impaired and when an embedded prepayment option is separated from its host debt instrument for accounting purposes. These changes are effective for the Company for its interim and annual financial statements beginning on January 3, 2011. The Company has not yet determined the impact of the adoption of these changes on its financial statements.

29. Recent Accounting Pronouncements, continued

Multiple Deliverable Revenue Arrangements

EIC 175, Multiple Deliverable Revenue Arrangements, has been issued to address some aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. EIC 175 provides guidance on how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and how arrangement consideration should be measured and allocated to the separate units of accounting in the arrangement. Also, there are new disclosure requirements. These changes are effective for the Company for its annual financial statements beginning on January 3, 2011. The Company has not yet determined the impact of the adoption of these changes on its financial statements.

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed its plan to converge with International Financial Reporting Standards (“IFRS”). The Company must prepare its interim and annual consolidated financial statements in accordance with IFRS for the periods beginning on or after January 1, 2011. The Company has formally established an IFRS project team consisting of members of its finance group and is led by the Chief Financial Officer. The team has performed a review of the impacts of IFRS on the Company’s accounting policies, information systems, internal controls over financial reporting, and contractual arrangements and covenants. While the effects of IFRS have not fully been determined, the team has identified that the key areas expected to be impacted are the accounting for joint ventures, componentization of property, plant and equipment, and the method of calculation of future income taxes.