



PIZZA PIZZA LIMITED

Consolidated Financial Statements
(Unaudited)
For the thirteen weeks ended March 29, 2009

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

	March 29, 2009	December 28, 2008 (restated – note 2) (audited)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 10,853	\$ 13,767
Accounts receivable	8,720	7,553
Inventories	4,905	5,463
Prepaid expenses and sundry assets	2,793	1,750
Income taxes recoverable	1,912	1,890
Receivables from jointly-controlled companies (note 13)	693	544
Current maturity of notes receivable	3,663	5,035
Recoverable franchisee expenses, net	11,518	11,336
Total current assets	45,057	47,338
Property, plant and equipment	16,598	17,381
Notes receivable	1,679	1,679
Renovation funds	4,582	5,167
Deferred charges	1,056	1,145
Future income tax asset	16,899	19,379
Pizza 73 Rights and Marks (note 2(a))	57,095	57,095
Intangible assets (note 2(a))	2,294	2,398
Goodwill (note 2(a))	17,979	17,979
	\$ 163,239	\$ 169,561
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities		
Accounts payable and accrued liabilities	27,162	30,812
Deposits from franchisees	2,289	1,843
Current maturities of long-term debt (note 5)	521	489
Total current liabilities	29,972	33,144
Long-term debt (note 5)	48,137	48,082
Deferred revenue	5,918	6,318
Loan payable to Pizza Pizza Holdings Trust	30,000	30,000
Advances from related party (note 13)	24,442	24,807
Leasehold inducements	266	214
Cash flow hedge (note 16)	4,092	4,033
Renovation funds	1,527	1,441
Total liabilities	144,354	148,039
Non-controlling interest (note 6)	174,369	174,529
Commitments and Contingencies (notes 7 and 8)		
SHAREHOLDERS' DEFICIENCY		
Common shares and Special voting shares	-	-
Accumulated other comprehensive loss	(1,015)	(867)
Deficit	(154,469)	(152,140)
	(155,484)	(153,007)
	\$ 163,239	\$ 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)
(unaudited)

	For the 13-week period ended March 29, 2009	For the 13-week period ended March 30, 2008 (restated – note 2)
Revenue		
Food sales (note 10)	\$ 44,766	\$ 45,413
Royalties, franchise fees and other related revenue (note 11)	6,150	6,680
Interest and other income	441	319
	<u>51,357</u>	<u>52,412</u>
Expenses		
Cost of food sales and general and administrative expenses (note 12)	44,098	46,117
Amortization of deferred charges	85	79
Amortization of property, plant and equipment	1,109	1,146
Amortization of intangible assets	105	73
Interest on loan from Pizza Pizza Holdings Trust	450	450
Interest on long-term debt	690	731
Loss (gain) on sale of Company-owned restaurants	113	(299)
	<u>46,650</u>	<u>48,297</u>
Earnings before income taxes and non-controlling interest	<u>4,707</u>	<u>4,115</u>
Provision for income taxes		
Current	183	394
Future	2,480	986
	<u>2,663</u>	<u>1,380</u>
Earnings before non-controlling interest	<u>2,044</u>	<u>2,735</u>
Non-controlling interest in earnings of the Partnership (note 6)	4,373	4,804
Net loss for the period	<u>(2,329)</u>	<u>(2,069)</u>
Deficit – beginning of period	(152,140)	(151,042)
Deficit – end of period	<u>\$ (154,469)</u>	<u>\$ (153,111)</u>

See accompanying notes to consolidated financial statements

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

	For the 13-week period ended March 29, 2009	For the 13-week period ended March 30, 2008
Net loss for the period	\$ (2,329)	\$ (2,069)
Other comprehensive loss		
Loss on interest rate swap designated as cash flow hedge (note 16)	(59)	(1,307)
Non-controlling interest in Partnership's other comprehensive income (loss)	(89)	1,012
Other comprehensive loss	(148)	(295)
Comprehensive loss	<u>\$ (2,477)</u>	<u>\$ (2,364)</u>

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

	For the 13-week period ended March 29, 2009	For the 13-week period ended March 30, 2008
Balance, beginning of period	\$ (867)	\$ (81)
Other comprehensive loss	(148)	(295)
Balance, end of period, being Pizza Pizza Limited's share of the fair value of a cash flow hedge	<u>\$ (1,015)</u>	<u>\$ (376)</u>

See accompanying notes to consolidated financial statements

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

	For the 13-week period ended March 29, 2009	For the 13-week period ended March 30, 2008 (restated – note 2)
Operating activities		
Net loss for the period	\$ (2,329)	\$ (2,069)
Amortization of property, plant and equipment	1,405	1,406
Amortization of intangible assets	105	73
Amortization of deferred charges	89	79
Amortization of leasehold inducements	(19)	(17)
Amortization of deferred revenue	(400)	(404)
Non-controlling interest	4,373	4,804
Accretion of interest expense	7	10
Loss (gain) on sale of Company-owned restaurants	113	(299)
Future income tax expense	2,480	986
	5,824	4,569
Changes in non-cash operating elements of working capital (note 15)	(5,209)	(450)
Cash provided by operating activities	615	4,119
Investing activities		
Additions to property, plant and equipment – maintenance	(127)	(81)
Additions to property, plant and equipment – restaurants	(797)	(930)
Proceeds from sale of Company-owned Restaurants	188	695
Repayment of notes receivable	2,707	813
Issuance of notes receivable	(1,335)	(3,180)
Contributions to renovation funds	4,469	6,291
Disbursement from renovation funds	(3,798)	(4,449)
Deferred charges	-	(109)
Cash provided by (used in) investing activities	1,307	(950)
Financing activities		
Proceeds of long-term debt	286	-
Repayments of long-term debt	(206)	(90)
Receipt of leasehold inducements	71	18
Advances from related party	1,670	8,720
Repayment of advances from related party	(2,035)	(4,326)
Distributions by Pizza Pizza Royalty Limited Partnership (note 6)	(4,622)	(4,525)
Cash used in financing activities	(4,836)	(203)
Increase (decrease) in cash and cash equivalents	\$ (2,914)	\$ 2,966
Cash and cash equivalents, beginning of period	13,767	10,044
Cash and cash equivalents, end of period	\$ 10,853	\$ 13,010

See supplementary cash flows information (note 15)

See accompanying notes to consolidated financial statements

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 13-week period ended March 29, 2009 and the 13-week period ended March 30, 2008

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

(Unaudited)

1. Nature of Business

Pizza Pizza Limited (the "Company" or "Pizza Pizza") prepares its interim consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") on a basis consistent with those used and described in the annual consolidated financial statements for the 52-week period ended December 28, 2008. The disclosures contained in these interim consolidated financial statements do not include all requirements of Canadian GAAP for annual financial statements; however, all requirements for interim financial statements have been satisfied.

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.

These interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the 52-week period ended December 28, 2008. These financial statements consolidate the accounts of the Company, its interest in the Pizza Pizza Royalty Limited Partnership (the "Partnership"), 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. The new amalgamated entity will carry on as Pizza Pizza Limited.

During the 13-week period, the Company acquired nil franchises (2008 – 3) and franchised nil (2008 – 2). Below are the number of franchisees and licensees as at:

	March 29, 2009	March 30, 2008
Franchisees and licensees	581	556
Jointly-controlled restaurants	67	56
Company-owned restaurants	4	7

2. Changes in Accounting Policies

- 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 at March 29, 2009 (December 28, 2008 - \$933) and accumulated amortization of \$108 at March 29, 2009 (December 28, 2008 - \$68) from property, plant and equipment to intangible assets. The related amortization expense of \$40 for the 13-week period ended March 29, 2009 (52-week period ended December 28, 2008 - \$50; 13-week period ended March 29, 2008 - \$7) was also reclassified from amortization of property, plant and equipment to amortization of intangible assets. There was no impact on the Company's net earnings.
- 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.

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 13-week period ended March 29, 2009 and the 13-week period ended March 30, 2008

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

3. Royalty Pool Annual Adjustment

a) 2008 Royalty Pool Adjustment – Class B Exchange Multiplier

In early January 2009, adjustments to royalty payments and Pizza Pizza's Class B Exchange Multiplier were 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.

b) 2008 Royalty Pool Adjustment – Class D Exchange Multiplier

In early January 2009, adjustments to royalty payments and Pizza Pizza's Class D Exchange Multiplier were 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 is 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.

c) 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. The second adjustment to the Class B Exchange Multiplier will be adjusted to be effective January 1, 2009, once the actual performance of the new restaurants is determined in early 2010.

d) 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. The second adjustment to the Class D Exchange Multiplier will be adjusted to be effective January 1, 2009, once the actual performance of the new restaurants is determined in early 2010.

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 13-week period ended March 29, 2009 and the 13-week period ended March 30, 2008

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

3. Royalty Pool Adjustment, continued

e) Pizza Pizza Royalty Income Fund Outstanding Units

As of January 1, 2009, in exchange for adding the 28 net, new Pizza Pizza and Pizza 73 restaurants to the Royalty Pool, Pizza Pizza has received 148,690 additional Class B equivalent units and 660,745 Class D equivalent units. These units represent 80% of the full Class B and Class D entitlements (185,863 and 825,932 units, respectively), with the balance to be received when the 2009 sales performance is known with certainty in early 2010.

Including the 809,435 exchangeable units described above, at January 1, 2009, Pizza Pizza owns equivalent, exchangeable units equal to 24.8% 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 March 29, 2009		
Public float		21,818,392
Class B units held by Pizza Pizza	5,430,699	
Pizza Pizza additional Class B units - Holdback as of December 31, 2008	164,542	
Additional Pizza Pizza Class B equivalent units as of January 1, 2009	<u>148,690</u>	5,743,931
Class D units held by Pizza Pizza	558,750	
Pizza Pizza additional Class D units - Holdback as of December 31, 2008	240,860	
Additional Pizza Pizza Class D equivalent units as of January 1, 2009	<u>660,745</u>	1,460,355
Number of fully diluted units		<u>29,022,678</u>
Proportion of all units outstanding available for exchange by Pizza Pizza		24.8%

4. Seasonality of Business

Historically, Pizza Pizza's system sales experience a decrease in the first calendar quarter when compared to the fourth quarter, which has historically been the strongest quarter.

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 13-week period ended March 29, 2009 and the 13-week period ended March 30, 2008

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

5. Long-term Debt

	As at March 29, 2009	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 13-week period ended March 29, 2009 on the \$20,000 and \$27,000 were 4.8% and 6.3%, respectively (March 30, 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 at 8.9%, repayable in varying monthly principal amounts, maturing in 2009. These notes are secured by specific Company-owned restaurant assets. The effective interest rate for the 13-week period was 9.2% (2008 – 9.2%).	59	142
Bank term loans of jointly-controlled companies, bearing interest at prime plus 0.6% to 1.5%, repayable in varying monthly principal amounts, maturing between 2009 and 2014. The effective interest rate for the 13-week period was 4.8% (2008 – 7.2%).	1,693	1,530
	48,752	48,672
Less: deferred financing charges	94	101
Less: current maturities	521	489
	\$ 48,137	\$ 48,082

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 13-week period ended March 29, 2009 and the 13-week period ended March 30, 2008

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

(Unaudited)

6. Non-controlling Interest

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

	March 29, 2009	December 28, 2008
Balance – beginning of period	\$ 174,529	\$ 175,580
Non-controlling interest in earnings of the Partnership	4,373	20,079
Non-controlling interest in other comprehensive loss of the Partnership	89	(2,804)
Distributions received by the Fund from the Partnership	(4,622)	(18,326)
	\$ 174,369	\$ 174,529

7. Commitments

Future minimum lease payments to related parties and non-related entities for each of the next five fiscal years and thereafter are approximately:

	Third Parties	Related Parties
January 3, 2010	\$ 14,292	\$ 1,898
January 2, 2011	17,550	1,588
January 1, 2012	14,213	1,192
December 30, 2012	11,342	627
December 29, 2013	7,916	391
Thereafter	17,228	653

During the 13-week period ended March 29, 2009, lease payments of approximately \$4,383 (March 30, 2008 - \$4,315) were recovered under sub-lease agreements with various franchised restaurants. These recoveries are offset against rent expense.

8. 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 a lender 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 this line of credit facility, 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 facility by providing additional letters of credit.

The Company has guaranteed financing loans of certain franchisees. As at March 29, 2009, this indebtedness was approximately \$1,115 (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.

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 13-week period ended March 29, 2009 and the 13-week period ended March 30, 2008

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

(Unaudited)

8. Contingencies, continued

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 are exchanging documents with examinations to be scheduled. 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.

9. 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 equity (deficiency) other than amounts in accumulated other comprehensive loss relating 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 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 March 31, 2009 and December 31, 2008 was as follows:

	March 31, 2009	December 31, 2008
Debt	\$ 47,000	\$ 47,000
Net earnings (rolling four quarters)	27,235	27,390
Amortization	32	34
Interest, net	2,635	2,667
EBITDA	29,902	30,091
Net debt to EBITDA	1.57	1.56

The Company has provided covenants, as part of its General Security Agreement with the Partnership, that it will retain 75% of its consolidated net earnings (loss) and maintain a fixed charge coverage ratio of 1:0:1. The Company has complied with these covenants as at period end.

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 13-week period ended March 29, 2009 and the 13-week period ended March 30, 2008

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

(Unaudited)

10. Food Sales

Food sales include the following:

	For the 13-week period ended March 29, 2009	For the 13-week period ended March 30, 2008
Food sales	\$ 32,434	\$ 34,224
Company-owned restaurant sales	12,332	11,189
	<u>\$ 44,766</u>	<u>\$ 45,413</u>

11. Royalties, Franchise Fees and Other Related Revenue

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

	For the 13-week period ended March 29, 2009	For the 13-week period ended March 30, 2008
Royalties	\$ 5,032	\$ 5,338
Construction fees	349	564
Initial franchise fees	425	415
Administration and accounting fees	344	363
	<u>\$ 6,150</u>	<u>\$ 6,680</u>

12. Cost of Food Sales and General and Administrative Expenses

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

	For the 13-week period ended March 29, 2009	For the 13-week period ended March 30, 2008
Cost of food sales	\$ 31,748	\$ 33,476
General and administrative	12,350	12,641
	<u>\$ 44,098</u>	<u>\$ 46,117</u>

13. 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 13-week period ended March 29, 2009	For the 13-week period ended March 30, 2008
Rent expense ⁽ⁱ⁾	\$ 863	\$ 757
Food purchases ⁽ⁱ⁾	2,089	2,561
Management fee revenue ⁽ⁱ⁾	390	330
Administration and accounting fee revenue ⁽ⁱⁱ⁾	344	363

⁽ⁱ⁾ Transactions with commonly controlled companies

⁽ⁱⁱ⁾ Transactions with jointly-controlled companies

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 13-week period ended March 29, 2009 and the 13-week period ended March 30, 2008

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

(Unaudited)

13. Related Party Transactions, continued

As at March 29, 2009, the Company had accounts payable of \$707 (December 28, 2008 - \$810) payable to a company under common management control.

As at March 29, 2009, 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 March 29, 2009, the Company had accounts receivable of \$537 (December 28, 2008 - \$504) receivable from a company under common management control.

During the 13-week period ended March 29, 2009, the Company sold notes receivable of \$52 (2008 - \$Nil) to a company under common control for \$52 (2008 - \$Nil).

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

	March 29, 2009	December 28, 2008
Receivables from jointly-controlled companies	\$ 693	\$ 544
Advances from related party	(24,442)	(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.

14. 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 13-week period ended March 29, 2009	Eastern Canada	Western Canada	Total
Food sales	\$ 34,226	\$ 10,540	\$ 44,766
Royalties, franchise fees and other related revenue	5,751	399	6,150
Interest and other income	360	81	441
Amortization of property, plant and equipment	783	326	1,109
Amortization of intangible assets	40	65	105
Amortization of deferred charges	85	-	85
Interest on loan from Pizza Pizza Holdings Trust	450	-	450
Interest on long-term debt	671	19	690
Segment profit (loss)	(4,125)	1,796	(2,329)
Earnings before income taxes and non-controlling interest	2,727	1,980	4,707
Assets	130,441	32,798	163,239
Property, plant and equipment additions	236	688	924
Intangible assets	826	1,468	2,294
Goodwill	-	17,979	17,979

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 13-week period ended March 29, 2009 and the 13-week period ended March 30, 2008

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

(Unaudited)

14. Segment Note, continued

For the 13-week period ended March 30, 2008 (restated – note 2)	Eastern Canada	Western Canada	Total
Food sales	\$ 35,313	\$ 10,100	\$ 45,413
Royalties, franchise fees and other related revenue	6,316	364	6,680
Interest and other income	267	52	319
Amortization of property, plant and equipment	927	219	1,146
Amortization of intangible assets	7	66	73
Amortization of deferred charges	79	-	79
Interest on loan from Pizza Pizza Holdings Trust	450	-	450
Interest on long-term debt	701	30	731
Segment profit (loss)	(3,888)	1,819	(2,069)
Earnings before income taxes and non-controlling interest	1,902	2,213	4,115
Property, plant and equipment additions	866	145	1,011
As at December 28, 2008 (restated – note 2)			
Assets	136,461	33,100	169,561
Intangible assets	865	1,533	2,398
Goodwill	-	17,979	17,979

15. Statement of Cash Flows Information

Additional cash flows information is as follows:

	For the 13-week period ended March 29, 2009	For the 13-week period ended March 30, 2008
Accounts receivable	\$ (1,167)	\$ 585
Inventories	558	(481)
Prepaid expenses and sundry assets	(1,043)	330
Income taxes recoverable	(22)	193
Recoverable franchisee expenses, net	(182)	931
Accounts payable and accrued liabilities	(3,650)	(3,188)
Deposits from franchisees	446	272
Receivables from jointly-controlled companies	(149)	908
	\$ (5,209)	\$ (450)
Interest paid	\$ 1,133	\$ 1,181
Income taxes paid	299	148

16. 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.

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 13-week period ended March 29, 2009 and the 13-week period ended March 30, 2008

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

(Unaudited)

16. Financial Instruments, continued

Fair Values

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 parties, recoverable franchisee expenses and renovation funds receivable as there are no fixed terms of repayment.

The fair value of the long-term debt, notes receivable and loan payable to Pizza Pizza Holdings 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 a quoted market rate.

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

	Carrying Value	Fair Value
Cash and cash equivalents	\$ 10,853	\$ 10,853
Accounts receivable	8,720	8,720
Notes receivable	5,342	5,367
Accounts payable and accrued liabilities	27,162	27,162
Long-term debt	48,658	52,211
Loan payable to Pizza Pizza Holdings Trust	30,000	35,800

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 collectable, with such write-offs charged to earnings (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 March 29, 2009, the balance of allowance for doubtful accounts is \$596 (2008 - \$562) and is comprised of provisions made in the prior year of \$562 and current year provisions of \$34.

The aging of trade receivable balances as at March 29, 2009 are as follows:

Current	\$ 4,523
Past due 0-30 days	896
Past due 31-120 days	3,301
Accounts receivable	\$ 8,720

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 13-week period ended March 29, 2009 and the 13-week period ended March 30, 2008

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

(Unaudited)

16. 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 Pizza Pizza Holdings Trust (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 March 29, 2009:

	Carrying amount	0 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
Long-term credit facility	\$ 48,752	\$ 521	\$ 759	\$ 47,472	\$ -
Other long-term financial liabilities	31,527	-	-	-	31,527
Advances from related party	24,442	-	24,442	-	-
Accounts payable and accrued liabilities	27,162	27,162	-	-	-

The Company's only derivative financial liabilities as at March 29, 2009 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 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 loss would change by approximately plus/minus \$495, respectively, and the interest expense on the statements of operations and deficit would change by approximately plus/minus \$8, respectively.

Cash Flow Risk

	Notional Amount	March 29, 2009 Fair Value	December 28, 2008 Fair Value	Contract Expires
Interest rate swap	\$ 20,000	\$ (554)	\$ (513)	January 6, 2010
Interest rate swap	10,000	(1,311)	(1,303)	July 23, 2012
Interest rate swap	17,000	(2,227)	(2,217)	July 23, 2012

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 13-week period ended March 29, 2009 and the 13-week period ended March 30, 2008

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

(Unaudited)

16. Financial Instruments, continued

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.

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

17. 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.

International Financial Reporting Standards

The CICA plans to converge Canadian GAAP with International Financial Reporting Standards (IFRS) effective January 3, 2011. The impact of the transition to IFRS on the Company's financial statements is not yet determinable.