Pizza Pizza Limited
Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") of financial conditions and results of operations of Pizza Pizza Limited (the "Company") covers the 14-week quarter ended January 3, 2010 (the "Quarter") and the 53-week period ended January 3, 2010 (the "Year"). The MD&A should be read in conjunction with the Company's 2009 annual consolidated financial statements and notes thereto. The financial information presented has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The MD&A has been prepared as of March 23, 2010.

This document, along with other information about the Company and the Pizza Pizza Royalty Income Fund (the "Fund"), including the Annual Information Form, can be accessed on the investor relations section of the website www.pizzapizza.ca or on the SEDAR website for Canadian regulatory filings at www.sedar.com.

OVERVIEW

The Company, a privately-owned Canadian corporation, operates two brands, Pizza Pizza and Pizza 73. The Company acquired 100% of the shares of Pizza 73, Inc. ("Pizza 73") on July 24, 2007. Immediately following the acquisition, the Company and Pizza 73 amalgamated, continuing to operate as Pizza Pizza Limited.

About the Pizza Pizza Brand
Pizza Pizza restaurants operate primarily in the province of Ontario, where it dominates the pizza quick service restaurant ("QSR") segment and is a franchise-oriented restaurant business. Of the 590 Pizza Pizza restaurants at January 3, 2010, 581 are franchised or licensed, 5 are jointly-controlled, and 4 are owned and operated as corporate restaurants. Of the five jointly-controlled Pizza Pizza locations, 2 are in British Columbia, 1 in Saskatchewan, and 2 in Manitoba. Each is a corporation jointly-owned by an independent owner/operator and the Company.

The Company provides a high level of service and operational support to its partners, including turn-key restaurants, a central food distribution centre which supplies all food and non-food items used in Pizza Pizza restaurant operations, and monitoring systems intended to ensure product and service quality and operational consistency across the chain.

Pizza Pizza has a modern restaurant system, with approximately 99% of the restaurants either new or substantially renovated. The centrally managed renovation or re-imaging program, funded by our franchisees, allows for the continuous renewal of the Pizza Pizza concept.

About the Pizza 73 Brand
Our second brand, Pizza 73, operates in the QSR segment, principally in the province of Alberta. The majority of the Pizza 73 restaurants are not franchised, but instead owned and operated as independent businesses. Each restaurant is a corporation jointly-owned by an independent owner/operator and the Company. Of the 81 Pizza 73 locations, 71 are jointly-owned and one is franchised. Nine are licensed and operated as non-traditional locations having limited operating hours and a limited menu. Pizza 73 currently has 5 locations outside of Alberta; 4 in Saskatchewan and 1 in British Columbia. Sales through its centralized call centre and on-line ordering, together, account for approximately 91% of Pizza 73's system sales. The Pizza 73 business also includes two central food distribution centres and a call centre.

Background
The Company's three distinct revenue sources, food sales, royalty payments and profits from the 50% ownership in the Pizza 73 restaurants, are driven by changes in retail system sales at franchised and company restaurants. Changes in system sales are driven by changes in same stores sales and store counts. We monitor both of these metrics closely, as they directly impact our revenues and profits, and we strive to consistently increase the related amounts.

We devote significant attention to our innovative marketing programs which are funded by the restaurant operators' contribution to a marketing fund that is administered by the Company. In accordance with their franchise or operating agreements, each traditional Pizza Pizza restaurant contributes approximately 6% of system sales (in addition to the base royalty and other franchise fees) and each Pizza 73 restaurant contributes approximately 8% of system sales. The marketing fund is used to pay for the production of advertising and promotional material and media purchases.

In 2005, the Fund completed its initial public offering and used the proceeds to indirectly acquire the trademarks and other intellectual property owned by the Company used in connection with the operation of all Pizza Pizza restaurants (together the "PPL Rights"). The Fund also acquired, indirectly from a bank, a loan outstanding to the Company in the principal amount of $30 million (the "PPL Loan").

The Fund, indirectly through the Pizza Pizza Royalty Limited Partnership (the "Partnership"), has licensed the PPL Rights to the Company, for which the Company pays a 6% royalty on the system sales of those Pizza Pizza restaurants included in the specific Royalty Pool (the "Royalty Pool"). There are 568 Pizza Pizza restaurants in the Royalty Pool for 2009.

In July 2007, the Partnership acquired the Pizza 73 trademarks and other intellectual property associated with Pizza 73 (together, "Pizza 73 Rights"). The purchase was funded by the net proceeds from the Fund's public offering, a private placement, and the net borrowings under the Partnership's credit facility (see Liquidity and Capital Resources). The Partnership licensed the Pizza 73 Rights to the Company for a 9% royalty on system sales of the Pizza 73 restaurants. On July 24, 2007, 41 Pizza 73 restaurants were added into the Royalty Pool. For 2009, there are 69 Pizza 73 restaurants in the Royalty Pool.

As at January 3, 2010, the Company owned an effective 26.3% interest in the Fund. Pizza Pizza's 24.8% interest in the earnings of the Partnership at December 31, 2009, being the Partnership's year-end, is from its ownership of Class B, Class C and Class D Partnership units. Each of the Class B and Class D Units can be exchanged indirectly for that number of Fund units equal to the Class B and Class D Exchange Multiplier, respectively (as defined in the Partnership's Limited Partnership Agreement) applicable at the date of the exchange. Class C Units can be exchanged by requiring the Pizza Pizza Holdings Trust (the "Trust") to purchase those Class C Units in consideration of the assumption by the Trust of an amount of the indebtedness under the PPL Loan equal to $10.00 per Class C Unit to be transferred.

The Royalty Pool

Annually, on January 1 (the "Adjustment Date"), Pizza Pizza restaurants in the Royalty Pool are adjusted to include the forecasted system sales from new Pizza Pizza restaurants opened on or before December 31 of the prior year, less system sales from any Pizza Pizza restaurants permanently closed during the year. The change in the amount of the Pizza Pizza Royalty to be received by the Partnership as a result of changes in the system sales of the Royalty Pool will affect the extent of the Company's retained interest through the adjustment to the exchange rate at which the Class B Partnership units may ultimately be exchanged for units of the Fund, referred to as the "Class B Exchange Multiplier", as defined in the Limited Partnership Agreement governing the Partnership (the "Partnership Agreement"). On the Adjustment Date, the adjustment to the Class B Exchange Multiplier involves first calculating the "Determined Amount", which is defined as 92.5% of the royalty revenue added to the Royalty Pool, divided by the yield of the Fund units. The Determined Amount is multiplied by 80%, then divided by the current market price of the units, and then further divided by the Class B Partnership units outstanding. This fraction is added to the Class B Exchange Multiplier from the preceding year, which was "one" on the closing of the initial public offering. On the following Adjustment Date, a second adjustment to the Class B Exchange Multiplier will be made in the same manner as the first adjustment once the actual system sales for new restaurants are known with certainty. The adjustment for new restaurants added to the Royalty Pool is designed to be accretive for current unitholders.

The Pizza 73 restaurants in the Royalty Pool are adjusted annually on the Adjustment Date, commencing January 1, 2008, to include Pizza 73 Restaurants that were open on or prior to September 1 of the previous year and not permanently closed prior to the current Adjustment Date and which were not previously included in the Pizza 73 Royalty Pool. At the same time, the Pizza 73 Royalty Pool will be adjusted to remove restaurants that were included in the Pizza 73 Royalty Pool during the immediately preceding fiscal year but which have been permanently closed prior to the Adjustment Date. The change in the amount of the Pizza 73 Royalty to be received by the Partnership as a result of changes in the restaurants included in the Pizza 73 Royalty Pool will affect the extent of the Company's retained interest through the adjustment to the exchange rate at which the Class D Units may ultimately be exchanged for Units of the Fund, referred to as the ''Class D Exchange Multiplier'', as defined in the Amended Partnership Agreement. On the closing of the Pizza 73 acquisition, Class D Units were not exchangeable for Fund units, thus the Class D Exchange Multiplier began at zero. The Class D Exchange Multiplier is adjusted on two occasions similar to adjustments of the Class B Exchange Multiplier.

During 2009, the Fund obtained unitholder approval to amend the Partnership Agreement to provide the Partnership and holders of all the outstanding Class B units and Class D units of the Partnership the option to agree to a cash payment in lieu of a multiplier change.

As mentioned earlier, each year the exchange multipliers are adjusted by a true-up calculation to the prior year's Adjustment and also adjusted by the current year's Adjustment Date. 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 in the prior year on January 1, 2008. As a result of the adjustments, the Class B Exchange Multiplier effective for 2008 was adjusted to 1.3737 and the number of Fund units issuable to the Company on exchange of the Class B exchangeable units increased by 164,542 to 5,595,241. An adjustment was also made to the royalty payments and Pizza Pizza's Class D Exchange Multiplier 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 Class D Exchange Multiplier effective for 2008 was 7.9961 and the number of Fund units issuable to the Company on exchange of the Class D exchangeable units increased by 240,860 to 799,610.

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 during 2008. The additional system sales from the nine net, new restaurants were estimated at $3.1 million annually. The total number of Pizza Pizza restaurants in the Royalty Pool 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 was estimated to be 1.4102. This adjustment also increased the entitlement of the holders of the Class B Units to distributions of cash and allocations of income from the Partnership. On January 1, 2009, as a result of the Adjusted Class B Exchange Multiplier, Pizza Pizza held Class B exchangeable units exchangeable into 5,743,931 Fund units. In early 2010, the second adjustment to the Class B Exchange Multiplier has been confirmed and made effective January 1, 2009, with the actual performance of the new restaurants known. See "2009 Vend-in Adjustment" below.

On January 1, 2009, 19 new Pizza 73 restaurants opened between September 2, 2007 and September 1, 2008 were added to the Royalty Pool. The additional system sales from the 19 new restaurants were estimated at $14.1 million annually, which was reduced by $4.9 million in system sales attributable to certain of the restaurants now added to the Royalty Pool whose territory adjusted a previously existing restaurant. The total number of Pizza 73 restaurants in the Royalty Pool increased to 69. The yield of 15.3% and weighted average unit price of $6.04 used in the calculation of the multiplier is the same as that of the Class B adjustment. 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 was estimated to be 14.6036. 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. On January 1, 2009, as a result of the Adjusted Class D Exchange Multiplier, Pizza Pizza holds Class D exchangeable units that are exchangeable into 1,460,355 Fund units. The second adjustment to the Class D Exchange Multiplier has been made effective January 1, 2009, with the actual performance of the new restaurants known. See "2009 Vend-in Adjustment" below.

2009 Vend-in Adjustment

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 Pizza Pizza restaurants added to the Royalty Pool on January 1, 2009. As a result of the adjustments, the Class B Exchange Multiplier effective for 2009 was 1.4240 and Pizza Pizza's Class B exchangeable units increased by 56,141 to 5,800,072. An adjustment was also made to the royalty payments and Pizza Pizza's Class D Exchange Multiplier based on the actual performance of the 19 Pizza 73 restaurants added to the Royalty Pool on January 1, 2009. As a result of the adjustments, the Class D Exchange Multiplier effective for 2009 was 15.4543 and Pizza Pizza's Class D exchangeable units increased by 85,077 to 1,545,432.

2010 Vend-in 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 during 2009. The additional system sales from the 22 net, new restaurants are estimated at $6.9 million annually. 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 20 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 0.081; 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, 2011, once the actual performance of the new restaurants is determined in early 2011. As a result of the Adjusted Class B Exchange Multiplier, Pizza Pizza will hold Class B Partnership units exchangeable into 6,129,982 Fund units.

2010 Vend-in Adjustment – Class D Exchange Multiplier

On January 1, 2010, 12 new Pizza 73 restaurants opened between September 2, 2008 and September 1, 2009 were added to the Royalty Pool. The additional system sales from the 12 new restaurants are estimated at $8.2 million annually, which was reduced by $6.8 million in system sales attributable to certain of the restaurants now added to the Royalty Pool whose territory adjusted a previously existing restaurant,. The total number of Pizza 73 restaurants in the Royalty Pool has increased to 81. The yield and weighted average unit price used in the calculation of the multiplier is the same as that of the Class B adjustment previously discussed of 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, 2011, once the actual performance of the new restaurants is determined in early 2011. As a result of the Adjusted Class D Exchange Multiplier, Pizza Pizza will hold Class D Partnership units exchangeable into 1,647,344 Fund units.

Pizza Pizza's Ownership of the Fund

In exchange for adding the 34 net, new 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, represent 100%), with the balance to be received when the 2010 sales performance is known with certainty.
Including the 431,822 exchangeable units described above, Pizza Pizza owns equivalent, exchangeable units equal to 26.3% of the Fund's fully diluted units.

Units outstanding & issuable on January 3, 2010		Issued & Outstanding units, and Exchangeable Equivalent units
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%

SELECTED FINANCIAL DATA

The selected financial data set forth below should be read in conjunction with the consolidated financial statements and related notes of the Company for the 14 and 53-week periods ended January 3, 2010 compared with the 13 and 52-week periods ended December 28, 2008. 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 which has been the case in the current year.

Consolidated Annual Financial Data and Adjusted EBITDA[(1)] Calculation

	For the 53-week period ended January 3, 2010	For the 52-week period ended December 28, 2008	For the 52-week period ended December 30, 2007
	(in thousands of dollars except for number of restaurants)		
System Sales[(2)]	460,643	$ 475,916	$ 416,186
Same Store Sales (SSS)	-5.9%	1.7%	4.6%
Number of Restaurants:			
Traditional	446	434	423
Non-traditional	225	206	193
New restaurants opened	42	33	45
Restaurants closed	11	9	8
Revenues	$ 213,262	$ 221,433	$ 189,302
Cost of food sales and general & administrative	$ 183,107	$ 191,234	$ 167,536
Earnings before income taxes, issuance costs and non-controlling interest[(4)]	$ 20,877	$ 21,459	$ 14,461
Provision for income taxes	3,991	2,478	2,811
Net loss	$ (997)	$ (1,098)	$ (5,070)
Add (deduct)			
Issuance costs	-	-	207
Non-recurring retention payment	-	2,458	3,622
Non-controlling interest in Partnership earnings[(3)]	17,883	20,079	16,650
Amortization	5,255	5,253	4,865
Interest expense, net of interest income	3,647	3,774	2,535
Gain on sale of Company restaurants	(628)	(1,132)	(1,329)
Provision for (recovery of) income taxes			
Current	724	1,238	(1,292)
Future	3,267	1,240	4,173
Adjusted EBITDA [(1)]	**$ 29,151**	**$ 31,812**	**$ 24,361**

	January 3, 2010	December 28, 2008	December 30, 2007
Total assets	$ 170,074	$ 169,561	$ 156,323
Total liabilities	$ 148,658	$ 148,039	$ 131,866
Total dividends declared	$ -	$ -	$ 16,750

Consolidated Quarterly Financial Data and Adjusted EBITDA[1] Calculation

	For the 14-week period ended January 3, 2010	For the 13-week period ended December 28, 2008	For the 13-week period ended December 30, 2007
	(in thousands of dollars except for number of restaurants)		
System Sales[2]	$ 127,670	$ 123,544	$ 121,624
Same Store Sales (SSS)	-4.03%	-0.6%	4.9%
Number of Restaurants:			
Traditional	446	434	423
Non-traditional	225	206	193
New restaurants opened	3	5	24
Restaurants closed	1	3	1
Revenues	$ 58,488	$ 56,280	$ 55,745
Cost of food sales and general & administrative	$ 50,053	$ 47,648	$ 48,575
Earnings before income taxes, issuance costs and non-controlling interest[4]	$ 6,278	$ 7,020	$ 5,457
Provision for income taxes	3,768	2,915	800
Net loss	$ (2,211)	$ (1,181)	$ (538)
Add (deduct)			
Non-recurring retention payment	-	-	454
Non-controlling interest in Partnership earnings[3]	4,721	5,286	5,195
Amortization	1,328	1,314	1,315
Interest expense, net of interest income	937	871	1,354
Gain on sale of Company restaurants	(390)	(794)	(780)
Provision for (recovery of) income taxes			
Current	202	860	(1,832)
Future	3,566	2,055	2,632
Adjusted EBITDA [1]	**$ 8,153**	**$ 8,411**	**$ 7,800**

Notes:

(1) "EBITDA" is not a recognized measure under Canadian GAAP. References to EBITDA are to earnings determined in accordance with GAAP applicable to the financial statements before amounts for interest, taxes and depreciation and amortization are included in the earnings. In addition, Pizza Pizza has adjusted EBITDA for unusual charges including non-recurring retention bonuses, gains and losses on sales of assets and non-controlling interest. Pizza Pizza believes that, in addition to net earnings, Adjusted EBITDA is a useful supplemental measure in evaluating its performance as it provides investors with an indication of cash available for debt service, working capital needs and capital expenditures. Investors are cautioned, however, that adjusted EBITDA should not be construed as an alternative to the statement of cash flows as a measure of liquidity and cash flows. The method of calculating adjusted EBITDA for the purposes of this report may differ from that used by other issuers and, accordingly, adjusted EBITDA in this report may not be comparable to adjusted EBITDA used by other issuers.

(2) 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. A 53rd week was added to fiscal 2009 resulting in the year ending on January 3, 2010. System sales, as defined in the Licence and Royalty Agreements between Pizza Pizza and the Partnership, reported by Pizza Pizza and Pizza 73 restaurants include the gross sales of Pizza Pizza company-owned, jointly-controlled and franchised restaurants.

(3) The Fund's 75.2% (2008 – 78.5%) interest in the Partnership at December 31, 2009 is reported on the equity basis as "non-controlling interest" upon consolidation.

(4) "Earnings before income taxes, issuance costs and non-controlling interest" is not a recognized measure under Canadian GAAP. References to Earnings before income taxes, issuance costs and non-controlling interest are to earnings determined in accordance with GAAP applicable to the financial statements before amounts for taxes and non-controlling interest and the issuance costs of the Partnership. Pizza Pizza believes that, in addition to net earnings, earnings before income taxes, issuance costs and non-controlling interest is a useful supplemental measure in evaluating its performance as it provides investors with an indication of operating earnings. Investors are cautioned, however, that this should not be construed as an alternative to net earnings (loss) as a measure of profitability. The method of calculating earnings before income taxes,

issuance costs and non-controlling interest for the purposes of this report may differ from that used by other issuers and, accordingly, it may not be comparable to that used by other issuers.

RESULTS OF OPERATIONS

The following should be read in conjunction with the Selected Financial Data provided herein and in conjunction with the Consolidated Financial Statements of Operations and Deficit and related notes of the Company for the 14-week and 53-week periods ended January 3, 2010 and the 13-week and 52-week periods ended December 28, 2008.

As previously discussed, the Company operates two brands. While each brand operates in a similar market segment, the pizza QSR segment, they are in different geographic markets of 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.

Analysis of System Sales
System sales for the 14-week quarter ended January 3, 2010 increased 3.4% to $127.7 million from $123.5 million for the 13-week quarter ended December 28, 2008. By brand for the quarter, the system sales include $106.7 million in Pizza Pizza retail sales and $21 million in Pizza 73 retail sales, as compared with system sales of $101.2 million and $22.3 million for Pizza Pizza and Pizza 73, respectively, for the comparable period in 2008. System sales for the 53-week period ended January 3, 2010 decreased 3.2% to $460.6 million from $475.9 million for the 52-week period in 2008. By brand systems sales include $381.2 million in Pizza Pizza retail sales and $79.4 million in Pizza 73 retail sales, as compared with system sales of $390.3 million in Pizza Pizza retail sales and $85.6 million in Pizza 73 retail sales for the comparable periods in 2008. The increase in system sales for the quarter ended January 3, 2010 is primarily attributed to the fact that the current quarter contained 14-weeks, compared to only 13-weeks for the same quarter in 2008. This additional week contributed approximately $9.7 million in system sales, or 7.6% of total system sales for the quarter. The sales generated from this 14th week are offset by a 4% decline in SSS compared to the same quarter in 2008. The 3.2% decline in system sales for the 53-week period ended January 3, 2010 is due to a 5.9% drop in SSS for the period, offset by the favorable impact that the 53rd week had on system sales as well as sales generated from the net new restaurants that were opened since the beginning of 2009. The system sales generated from the 53rd week of activity represent 2.1% of total system sales for the full year.

Same store sales ("SSS") decreased 4% (-0.6% - 2008) for the quarter ended January 3, 2010 and decreased by 5.9% (+1.7% - 2008) for the 53-week period ended January 3, 2010 compared to the same periods in 2008. (The SSS calculation used the 13-week and 52-week periods ended December 27, 2009 when comparing to the 13-week and 52-week periods in 2008.) For the quarter ended January 3, 2010, SSS for the Pizza Pizza restaurants decreased 2.9%, and decreased 9.1% for Pizza 73 restaurants (-1.3% and +2.5%, respectively - 2008). For the year ended January 3, 2010, SSS for the Pizza Pizza restaurants was -5.5% and was -8.1% for the Pizza 73 restaurants (+0.8% and +6.0%, respectively – 2008). Compared to the same quarter in 2008, restaurant traffic was flat during the current quarter which was an improvement over the second and third quarters in 2009. The average cheque amount decreased 4% during the quarter ended January 3, 2010 compared to the fourth quarter of 2008. For the year 2009, traffic decreased over 5%, while the average ticket was flat compared to 2008.

Deteriorating economic conditions in Pizza Pizza's core markets have negatively impacted system sales and SSS for the current quarter and year-to-date. The majority of Pizza Pizza's restaurants operate in Ontario and Alberta, which continued to experience a decline in employment and tourism throughout the period, both attributable to an economic slowdown in the United States and weak global growth.

New Restaurant Development

As at January 3, 2010, there were 374 traditional Pizza Pizza restaurants and 72 traditional Pizza 73 restaurants; there were 216 non-traditional Pizza Pizza locations and 9 non-traditional Pizza 73 locations. During the quarter ended January 3, 2010, the Company opened 3 non-traditional Pizza Pizza restaurants and closed 1 non-traditional restaurant, bringing the total number of Pizza Pizza restaurants to 590. There were no Pizza 73 restaurants opened or closed during the quarter ended January 3, 2010 and therefore the total number of Pizza 73 restaurants remained unchanged at 81. During the comparable 13-week period in 2008, Pizza Pizza opened 3 Pizza Pizza restaurants, consisting of 2 traditional and 1 non-traditional, while closing 2 traditional locations. There were 2 traditional Pizza 73 restaurants opened during the comparable period in 2008.

For the 53-week period ended January 3, 2010, 32 Pizza Pizza restaurants were opened, consisting of 11 traditional and 21 non-traditional locations, and 4 non-traditional and 6 traditional Pizza Pizza locations were closed. During the same period, 10 Pizza 73 locations were opened, consisting of 7 traditional and 3 non-traditional locations, while 1 non-traditional location closed. During the comparable 52-week period of 2008, there were 18 Pizza Pizza restaurants opened, 6 traditional and 12 non-traditional, and 4 traditional and 5 non-traditional Pizza Pizza locations closed; in addition 15 Pizza 73 restaurants opened, consisting of 9 traditional and 6 non-traditional locations.

Revenues

Food sales, royalties, franchise fees and related revenue for the 14-week quarter ended January 3, 2010 were $58.1 million, compared with $55.9 million for the 13-week quarter ended December 28, 2008. Food sales for the current quarter increased $2.3 million to $51.3 million from $49.0 million for the quarter ended December 28, 2008. Royalties, franchise fees and other revenue from restaurants were $6.8 million for the quarter ended January 3, 2010 and were $6.9 million for the quarter ended December 28, 2008.

By geographic market, for the quarter ended January 3, 2010, food sales, royalties and franchise fees in Eastern Canada were $47 million as compared with $44.4 million for the comparable period in 2008, and were $11.1 million as compared with $11.5 million in Western Canada. Food sales in Eastern Canada for the quarter ended January 3, 2010 were $40.7 million compared to $37.8 million for 2008. Royalties, franchise fees and other revenue for Eastern Canada were $6.3 million as compared to $6.6 million for the same period in 2008. For the quarter ended January 3, 2010, food sales in Western Canada were $10.7 million, or a 4.5% decrease from $11.2 million in the comparable 2008. Administration and accounting fee income was $0.3 million for the quarter ended January 3, 2010 compared to $0.3 million in the comparable quarter of 2008.

The increase in food sales and royalty revenue for both geographic markets for the 14-week period ended January 3, 2010 is primarily driven by the fact that the current period contained one additional week of system sales, translating into higher food sales and royalty revenue, coupled with the increase in the number of restaurants generating sales. The impact of the 14th week and additional sales from new restaurants is offset by a decrease in SSS for the quarter.

Food sales, royalties, franchise fees and related revenue for the 53-week period ended January 3, 2010 were $212 million, compared with $219.8 million for the 52-week comparable period of 2008. Food sales for the current 53-week period decreased $6.6 million to $186.5 million from $193.1 million for the 52-week period ended December 28, 2008. Royalties, franchise fees and other revenue from restaurants were $25.5 million for the 53-week period ended January 3, 2010 and were $26.7 million for the comparable 52-week period of 2008.

By geographic market, for the 53-week period ended January 3, 2010, food sales, royalties and franchise fees in Eastern Canada were $170 million as compared with $175.9 million for the comparable 52-week period in 2008, and were $42 million as compared with $43.8 million in Western Canada. Food sales in

Eastern Canada for the 53-week period ended January 3, 2010 were $146 million compared to $150.6 million for 2008. Royalties, franchise fees and other revenue for Eastern Canada were $24 million as compared to $25.3 million for the same period in 2008. For the 53-week period ended January 3, 2010, food sales in Western Canada were $40.4 million, or a 4.7% decrease from $42.4 million in the 52-week period of 2008. Administration and accounting fee income was $1.3 million for the 53-week period ended January 3, 2010 compared to $1.4 million in the 52-week period of 2008.

The decrease in food sales and royalty revenue for both geographic markets for the 53-week period ended January 3, 2010 is attributed to the 5.9% decline in SSS, partially offset by the positive impact of the 53rd week in 2009, as well as sales generated from the net new restaurants that were opened during 2009.

Cost of Food Sales and General and Administrative Expenses
Cost of food sales and general and administrative expenses net of amortization were $50.1 million for the 14-week quarter ended January 3, 2010, and were $47.6 million for the 13-week quarter ended December 28, 2008.

The cost of food increased to $37.9 million during the quarter from $34.3 million in the 13-week period of 2008 largely due to an additional week during the current quarter compared to 2008. By geographic market, the cost of food for Eastern Canada was $33.3 million for the quarter as compared to $29.9 million in the comparable quarter of 2008; Cost of food for Western Canada for the quarter was $4.6 million as compared to $4.4 million in 2008. The ratio of food costs as a percentage of food sales in Eastern Canada increased due to a decline in Corporate store retail sales whereas in Western Canada this ratio has increased due to a slight increase in the cost of goods.

The general and administrative expenses ("G&A") decreased quarter over quarter to $12.2 million from $13.4 million. The current quarter's G&A expense for Eastern and Western Canada, including company store expenses, were $7.3 million and $4.9 million, respectively, as compared to the prior year's comparable quarter of $8.9 million and $4.4 million, respectively. G&A expenses for Eastern Canada have decreased over the prior year's comparable period due to increased management fee income and lower corporate store expenses.

Cost of food sales and general and administrative expenses net of amortization were $183.1 million for the 53-week period ended January 3, 2010, and were $191.2 million for the 52-week comparable period of 2008.

The cost of food decreased to $136.1 million for the 53-week period ended January 3, 2010, compared to $138.7 million for the comparable period of 2008. This decline is attributed to the decrease in system sales, offset by an additional week of sales during the current year compared to 2008. By geographic market, cost of food for Eastern Canada was $119.3 million for the current period, as compared to $122.0 million in the comparable period of 2008; Cost of food for Western Canada for the 53-week period ended January 3, 2010 was $16.8 million as compared to $16.7 million in 2008. The ratio of food costs as a percentage of food sales in Eastern Canada has increased slightly due to a decline in Corporate store retail sales whereas in Western Canada this ratio has increased due to a rise in the cost of inputs.

The general and administrative expenses ("G&A") decreased during the 53-week period ended January 3, 2010 by $5.6 million, to $47 million, as compared to G&A expense of $52.6 million for the 52-week period ended December 28, 2008. The current period's G&A expense for Eastern and Western Canada, including company store expenses, were $29.2 million and $17.8 million, respectively, as compared to the prior year's comparable period of $35.4 million and $17.2 million, respectively. The decrease in Eastern Canada G&A expense is largely a result of the prior year containing $2.5 million in management retention bonuses and $500,000 of product spoilage incurred during the testing of new products.

Non-controlling Interest in Partnership Earnings
The Partnership is considered a VIE (variable interest entity) and the Company is the primary beneficiary of the Partnership. Accordingly, the Company is required to consolidate the Partnership. In the consolidation, the Fund's 75.2% interest in the Partnership at December 31, 2009, being the Partnership's year-end, is considered non-controlling.

For the 14-week quarter ended January 3, 2010, the non-controlling interest in Partnership earnings reduced Pizza Pizza's consolidated earnings by $4.7 million; for the 53-week period, income was reduced by $17.9 million. For the 13 and 52-week periods ended December 28, 2008, the consolidated income was reduced by $5.3 million and $20.1 million, respectively, for the, then, 78.5% interest in the Partnership.

The decrease in non-controlling interest in the Partnership for the quarter and 53 week period ended January 3, 2010 is the result of a decrease in Partnership earnings, attributable to the decrease in SSS of the chain, coupled with a 3.7% decline in the Fund's non-controlling ownership of the Partnership and the fact that the current year contained one less day than the prior year, as the Partnership earnings are based on a calendar year.

Interest Expense
Interest expense was $1.2 million for the 14-week period largely as a result of the Company paying $450,000 in interest on the $30 million loan from the Fund as well as the Partnership paying $770,000 in interest on the $47 million bank credit facility. For the comparable 13-week period ended December 28, 2008, interest expense was $1.1 million largely as a result of the Company paying $450,000 in interest on the $30 million loan from the Fund as well as the Partnership paying $612,000 in interest on its bank credit facility.

Interest expense was $4.6 million for the 53-week period ended January 3, 2010 largely as a result of the Company paying $1.8 million in interest on the $30 million loan from the Fund as well as the Partnership paying $2.8 million in interest on the $47 million bank credit facility. For the comparable 52-week period of 2008, interest expense was $4.6 million largely as a result of the Company paying $1.8 million in interest on the $30 million loan from the Fund as well as the Partnership paying $2.8 million in interest on its bank credit facility.

During July 2007, the interest rate on the $47 million facility was fixed with three interest rate swaps. A $20 million swap will mature January 6, 2010 and the other two swaps will mature July 23, 2012. In June 2009, the Partnership entered into an additional forward swap arrangement. The forward swap is on the $20 million facility and fixes the interest from its existing maturity date of January 6, 2010 to July 23, 2012. The interest rate on the initial $20 million facility decreased during the third quarter of 2007 from 3.55% plus 1.50% credit spread to 3.55% plus 1.25% credit spread. The remaining $27 million is initially fixed with two swaps at 5.05% plus 1.25% credit spread. The fourth swap, relating to the extension of the $20 million facility swap term, is fixed at 2.68% plus 1.25% credit spread. Interest rates may decrease should the debt-to-EBITDA ratio decrease to certain thresholds.

Gain/Loss on Sale of Company Restaurants
For the 14-week period ended January 3, 2010, four Pizza Pizza company restaurants were sold for a gain on sale of $390,000 compared with a gain of $794,000 earned in the comparable 13-week period of 2008 on the sale of four company restaurants. For the 53-week period ended January 3, 2010, nine Pizza Pizza company restaurants were sold for a gain on sale of $628,000 compared with a gain of $1.1 million earned in the comparable 52-week period of 2008 on the sale of nine company restaurants. Pizza Pizza continues to own 24 restaurants, operating 4 corporately and licensing 20 to associate franchisees. Pizza Pizza expects to continue selling its remaining company-owned restaurants.

Adjusted EBITDA

As a result of the above, adjusted EBITDA was $8.2 million for the 14-week period ended January 3, 2010 compared with $8.4 million for the comparable 13-week period of 2008. For the 53-week period ended January 3, 2010 the adjusted EBITDA was $29.2 million, compared with $31.8 million for the comparable 52-week period in 2008, driven primarily by the decrease in system sales, resulting in reduced corporate revenues earned on food sales to the restaurants and in reduced royalty revenues.

Net Loss

The net loss for the 14-week quarter ended January 3, 2010, was $2.2 million; the net loss for the 13-week quarter ended December 28, 2008 was $1.2 million. The net loss for the 53-week period was $1 million; the net loss for the comparable period of 2008 was $1.1 million. The increase in the loss compared to the prior quarter is the result of a larger tax provision.

Shareholders' Deficiency

The $153.8 million shareholders' deficiency shown in the consolidated balance sheet at January 3, 2010 is largely a result of the Company having paid $107.5 million in capital dividends to shareholders in 2005 and $16.8 million in capital dividends during 2007. The source of dividends to shareholders was the proceeds received from the Partnership in payment for the PPL Rights. The Company has a deferred gain on the sale of the PPL Rights and on the "vend-in" of restaurants to the Royalty Pool of $191.6 million, which is not reflected in the consolidated shareholders' deficiency.

SUMMARY OF QUARTERLY RESULTS

	14 weeks ended January 3, 2010 (unaudited)	13 weeks ended September 27, 2009 (unaudited)	13 weeks ended June 28, 2009 (unaudited)	13 weeks ended March 29, 2009 (unaudited)	13 weeks ended December 28, 2008 (unaudited)	13 weeks ended September 28, 2008 (unaudited)	13 weeks ended June 29, 2008 (unaudited)	13 weeks ended March 30, 2008 (unaudited)
	(in thousands of dollars)							
Revenues	$ 58,488	$ 52,666	$ 50,751	$ 51,357	$ 56,280	$ 58,475	$ 54,266	$ 52,412
Net Income (Loss)	$ (2,211)	$ 241	$ 3,302	$ (2,329)	$ (1,181)	$ 407	$ 1,745	$ (2,069)
Adjusted EBITDA(1)	$ 8,153	$ 6,759	$ 7,206	$ 7,033	$ 8,411	$ 9,409	$ 7,914	$ 6,078

(1) A reconciliation of Adjusted EBITDA to Net Income (Loss) appears in the Company's MD&A filed in respect of the periods presented above.

The Pizza Pizza and Pizza 73 restaurants are subject to seasonal variations in their business; system sales for the quarter ended March 31 have generally been the softest and the December 31 quarter system sales have been the strongest.

LIQUIDITY & CAPITAL RESOURCES

The following table provides an overview of the cash flows for the periods:

	For the 14-week period ended January 3, 2010 (Unaudited)	For the 13-week period ended December 28, 2008 (Unaudited)	For the 53-week period ended January 3, 2010	For the 52-week period ended December 28, 2008
	(in thousands of dollars)			
Operating activities	$ 8,307	$ 5,907	$ 22,317,	$ 23,832
Investing activities	(3,533)	(789)	(8,037)	(8,129)
Financing activities	(3,489)	(6,135)	(13,517)	(11,980)
Increase (decrease) in cash	$ 1,285	$ (1,017)	$ 763	$ 3,723

As of January 3, 2010, the Company had working capital of $13.2 million and cash and cash equivalents were $14.5 million. Historically, the Company has, at times, operated with negative working capital primarily because its receivable collection periods and inventory turn rates are faster than the normal payment terms of current liabilities. We collect most of our receivables within seven days from the date of the related sale and pay the payables within 30 days; we generally experience over 100 turns of inventory per year. These factors, coupled with significant and ongoing cash flows from operations, which are used primarily to pay the Partnership the royalty on the Royalty Pool system sales, may reduce our working capital amounts. Our primary sources of liquidity are cash flows from operations and distributions received on the Company's interest in the Fund. We have historically funded capital expenditures and debt repayments from cash flows from operations and proceeds from the disposal of Company-owned restaurants. We did not have any material commitments for capital expenditures as of January 3, 2010.

Cash provided by operating activities for the 14-week period ended January 3, 2010 was $8.3 compared with $5.9 million for the 13 weeks ended December 28, 2008. The $2.4 million increase in cash from operations, when compared to the prior year, is primarily due to an increase of $3.2 million in the change in non-cash working capital coupled with a $1.5 million increase in the future tax expense. These cash inflows were, off-set by outflows resulting from a $1 million decline in proceeds of deferred revenue, a $1 million increase in the net loss, and a $300,000 decline in the amortization of capital assets. On a year-to-date basis, cash provided by operating activities was $22.3 million for the 53-week period ended January 3, 2010 compared with $23.8 million for the 52-week period ended December 28, 2008. The decrease in the cash provided by operating activities is largely attributable to a $7 million reduction in proceeds received from deferred revenue, offset by the $4.6 million increase in the change in non-cash working capital. The change in the current year's non-cash working capital is primarily driven by cash outflows caused by increases in recoverable franchisee expenses and inventory, a decrease in accounts payable and accrued liabilities, off-set by a reduction in income taxes recoverable.

Cash used in investing activities for the 14-week period ended January 3, 2010 was $3.5 million compared to $789,000 for the 13-week period ended December 28, 2008. When compared to the prior year, the $2.7 million increase in cash used in investing activities is attributed to a variety of factors which include a net increase in notes receivable issued of $1 million, a decline in the net contributions to renovation fund of $1.9 million, and a decline in the proceeds from the sale of company restaurants of $469,000, off-set by a decline in capital asset additions of $500,000 and a decline in deferred franchise costs of $160,000. On a year-to-date basis, the cash used in investing activities was $8 million, compared with $8.1 million used for the 52-week period ended December 28, 2008. The current year's cash used is due largely to capital asset additions net of proceeds from sale of Company-owned restaurants of $7 million, a $2 million net increase in issuances of notes receivable, offset by a $900,000 increase in net contributions made to renovation funds by franchisees.

Cash used in financing activities for the 14-week period ended January 3, 2010 was $3.5 million, compared to $6.1 million for the comparable period in 2008. The decrease in cash used by financing activities is due to a $1.7 million net decrease in the repayments made on advances received from related party coupled with a $900,000 increase in proceeds of long-term debt. For the 53-week period ended January 3, 2010, the cash used in financing activities was $13.5 million compared with $12.0 million used for the comparable period of 2008. The increase in the cash used in financing activities from the prior year is caused by a net decrease in the advances received from related party of $2.3 million, offset by a net increase in proceeds of long-term debt of $800,000.

As of January 3, 2010, the Partnership's credit facilities have not changed since the end of the previous fiscal year. In 2007, the Partnership amended its, then existing, credit facility to increase the committed, non-revolving facility from $20 million to $47 million and to extend the term by five years to 2012. As security for repayment of the facility, the Partnership has provided the Bank with a first ranking general security agreement charging all tangible and intangible assets of the Partnership, as well as an assignment of all security supporting the Licence and Royalty Agreements. In addition, the Company granted to the Partnership a continuing, general security interest, subject to certain exceptions, in all present and acquired property of the Company. The facilities bear interest at Prime plus 0% to 0.25% or the Bankers' Acceptance rate plus 1.00% to 1.75%, depending on the level of debt to EBITDA. The Partnership continued its existing interest rate swap and entered into two additional interest rate swaps to mitigate the risk associated with the credit facilities bearing interest at a floating rate. The interest rate on the existing $20 million interest swap decreased to 4.8% from 5.3% until January 2010 and the incremental facility of $27 million will be initially fixed at 5.05% plus a 1.25% spread for a total rate of 6.3% until July 2012; rates may change based on the level of debt to EBITDA. In June 2009, the Company entered into a fourth swap agreement to extend the $20 million interest swap until July 2012 at a rate of 2.69% plus a 1.25% spread for a total rate of 3.94% from January 2010 until July 2012.

Certain covenants must be maintained by the Partnership and the Company for the credit facility to be in good standing, all of which were met as of January 3, 2010. As part of the amended credit agreement, the Partnership 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, which as at December 31, 2009 was $3.1 million. (December 31, 2008 - $4.0 million). In addition, the Partnership is required to maintain a funded debt to EBITDA ratio not to exceed 2.5:1 on a four quarter rolling average. The Debt to EBITDA ratio for the last four quarters rolling average is 1.63:1. The Partnership is presently making interest-only payments on the non-revolving credit facility. Should the debt-to-EBITDA ratio for the last four quarters rolling average decrease below 1.5:1 or increase above 2.0:1, then the interest rate on the credit facility will be adjusted accordingly by 25 basis points.

Based upon our current level of operations and anticipated growth, we believe that the cash generated from our operations will be adequate to pay the Partnership a 6% royalty on the Pizza Pizza Royalty Pool system sales and a 9% royalty on the Pizza 73 Royalty Pool system sales, and meet our anticipated debt service requirements, our capital expenditures and our working capital needs. Our ability to continue to fund these items could be adversely affected by the occurrence of any of the events described in the Risks and Uncertainties section that follows herein and the matters described in the Fund's Annual Information Form under the heading "Risk Factors". Our future operating performance and our ability to pay the Partnership a 6% royalty on the Royalty Pool system sales, a 9% royalty on the Pizza 73 Royalty Pool system sales and meet our anticipated debt service requirements will be subject to future economic conditions and to financial, business and other factors, many of which may be beyond our control. However, to offset the factors that are beyond our control, Pizza Pizza has the ability to convert its current Class B and Class D units into Fund units and sell them to the public to generate cash proceeds.

OFF-BALANCE SHEET ARRANGEMENTS

The Company is a sublessor under the head lease for all restaurant locations, other than locations operated by certain licencees. Should franchisees fail to meet their obligations under the terms of their sublease, the Company would become liable for the obligations under the related head leases. The gross lease obligations are summarized in the following table:

	Payments due by Period					
	2010	2011	2012	2013	2014	Thereafter
	(in thousands of dollars)					
Minimum lease obligation	$ 21,809	$ 18,462	$ 14,923	$ 11,182	$ 8,616	$ 14,754
Less: Sublease to franchisees	18,133	15,701	13,181	9,753	7,536	12,715
Net lease obligation	$ 3,676	$ 2,761	$ 1,742	$ 1,429	$ 1,080	$ 2,039

The Company has provided certain guarantees as disclosed in note 18 of the consolidated financial statements with respect to certain franchisee loans. We believe that guarantees of franchisee loans are a low risk since the Company has, historically, been able to replace a defaulting franchisee with a new franchisee who has assumed the obligations of the defaulting franchisee.

OUTLOOK

The Specified Investment Flow-Through (SIFT") tax legislation that was enacted in 2007 and that will apply to the Fund commencing on January 1, 2011, has raised a number of organizational and tax planning issues for consideration by the Fund's Trustees. The SIFT Legislation will impose a tax (the "SIFT Tax") on certain income earned by the Fund and will treat the distribution of such income to investors as a dividend from a taxable Canadian corporation. In preparation for the application of the SIFT Legislation, in 2007 the Fund began executing a tax planning strategy to conserve the significant, discretionary tax deductions that are available to it. Although the SIFT Tax is expected to result in an adjustment to the Fund's monthly distributions commencing in 2011, as a result of this tax planning strategy, the Trustees expect that the Fund's earnings that would otherwise be subject to the SIFT Tax will be partially sheltered from the SIFT Tax.

In addition, the Trustees have been researching and considering options available to the Fund to convert from its current structure as a trust to a corporation. In 2008, as part of the SIFT Legislation, the federal government enacted rules that permit the Fund to convert to a corporation on a tax-deferred rollover basis, provided that the conversion is completed prior to January 1, 2013. The Trustees continue to consider whether to convert to a corporate structure prior to 2011 but should they decide not to convert prior to 2011 the Trustees recognize that they have until the end of 2012 to complete the conversion using the tax-deferred rollover provisions.

Regarding 2009 business operations, Pizza Pizza grew the total restaurants by 31, or 4.8%, expanding nationally to 671 locations. In 2010, Pizza Pizza management expects to increase the chain by 3% with the majority of new restaurants to be opened as part of our continued, national expansion plan.

During 2009 deteriorating economic conditions in Pizza Pizza's core markets negatively impacted same store sales. The majority of Pizza Pizza's restaurants operate in Ontario and Alberta, both experiencing a decline in employment attributable to the global economic slowdown. In comparison to the second and third quarters of 2009, Ontario SSS improved significantly during the fourth quarter while the Alberta SSS improved only slightly. Recent signs of a turnaround have emerged in the Alberta oil sands, due to rising oil prices and plans to boost spending on new projects in the upcoming year. Residential construction is also expected to increase, as the resale housing market has greatly improved. As of late-2009, there is still little evidence of a meaningful recovery taking place in the Alberta job market, but that could gradually turn around if the economic recovery gains traction.

In 2010, Pizza Pizza will continue to focus on reinforcing value-oriented menu offerings, launching new relevant products, and reinvesting in activities which have driven sales growth by an average of almost 5% for the last ten years.

CRITICAL ACCOUNTING POLICIES & ESTIMATES

The preparation of the consolidated financial statements of Pizza Pizza requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. On an ongoing basis, management evaluates its estimates, including those related to basis of consolidation, revenue recognition, non-controlling interest, long-lived and intangible assets and income taxes. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates. Changes in our estimates could materially impact our results of operations and financial condition for any particular period. We believe that our most critical accounting policies are:

Basis of Consolidation. As "consolidation" applies to the period-ended January 3, 2010, it means that the 53-week period of operations of the Company and its 50% ownership interest in the jointly-owned Pizza 73 and Pizza Pizza restaurants have been consolidated with the Partnership's operations for 2009.

Revenue Recognition. Food sales are recognized when the products are delivered to the traditional and non-traditional restaurants. Franchise royalties are recognized as earned and are based on a percentage of the franchisees' sales as provided for in individual franchise agreements. Initial franchise fees are recognized when the franchised outlet becomes operational. Renewal fees are recognized when the franchise renewal agreement is signed. Administration fees are recognized as earned and are based on a percentage of the Pizza 73 restaurant sales as provided for in the Unanimous Shareholder Agreements. Company store sales are recognized when the services are rendered and the products are sold to the public. Construction fees are recognized when the related franchise location becomes operational. Interest and other income are recognized and accrued when earned.

Non-controlling Interest. The Partnership is considered to be a variable interest entity and the Company is the primary beneficiary of the Partnership, accordingly, the Company consolidates the Partnership. The Fund's interest in the Partnership is shown as non-controlling interest in the balance sheet and the non-controlling interest equity allocation is shown in the statement of operations and deficit.

The following major assets and liabilities were eliminated upon consolidation:

Pizza Pizza:

	(in thousands of dollars)
Investment in LP Units	$ 54,982
Deferred gain on Pizza Pizza Rights	191,637

The Partnership:

	(in thousands of dollars)
Rights and Marks	$ 256,142
Class B LP Units issued	36,712
Class C LP Units issued	30,000
Class D LP Units issued	(250)

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.

Renovation Funds. The Company maintains a long-term renovation program whereby franchisees contribute towards future store 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.

CHANGES IN ACCOUNTING POLICIES, INCLUDING INITIAL ADOPTION

Goodwill and Intangible Assets: 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 income.

Financial Instruments – Recognition and Measurement – 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

Financial Instrument – Disclosures: 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 effect on its financial statements. The disclosures required by these changes can be found in note 27 of the consolidated financial statements

Credit Risk and Fair Value of Financial Assets and Financial Liabilities: 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.

RECENT ACCOUNTING PRONOUNCEMENTS

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.

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 (IFRS)

The Canadian Accounting Standards Board announced in February 2008 that publicly accountable enterprises will be required to adopt IFRS in place of Canadian generally accepted accounting principles for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. The Company's transition from Canadian GAAP to IFRS will take place in the first quarter of 2011 at which time the Company will report both the current and comparative financial information using IFRS.

The Company's IFRS transition project consists of three phases: diagnostic assessment, detailed assessment, and policy design and implementation. In 2008, the Company, with the assistance of its external consultants, completed the diagnostic phase, which involved a high level review of the major differences between current Canadian GAAP and IFRS. During 2009, comprehensive assessment of the differences between IFRS and the Fund's current accounting policies was produced. The detailed assessment was completed in October 2009, at which time the potential changes to existing accounting policies were identified.

The following summarizes progress to date and differences:

Key Activity	Milestones	Progress at January 3, 2010
Project Management: • Selection and training of internal project team. • Ensure appropriate training for project team members. • Audit committee engagement • Engagement of external consultants • On-going communication on project status to external stakeholders.	• Project team in place by beginning of fiscal 2009. • Ensure appropriate training to key members is provided on an on-going basis. • Update audit committee on progress on a quarterly basis. • Have external consultants in place during 2008 to assist in the conversion process. • Communication to external stakeholders on a quarterly basis.	• Project team assembled by end of fiscal 2008. • Key members of team have completed IFRS related training. • Audit committee updated on progress during quarterly meetings. • Engaged external consultant during 2008 to assist in the process. • Communication to external stakeholders done quarterly through MD&A and quarterly disclosures.
Preparation / Accounting Policies: • Identification of differences between Canadian GAAP and IFRS accounting policies applicable to the Fund. • Selection of the Fund's IFRS 1 optional exemptions and IFRS accounting policies.	• Identify and summarize significant differences between current Canadian GAAP accounting policies and IFRS during 2009.	• During 2009 a full diagnostic was completed • Selection of policy choices and quantification is on-going.

Key Activity	Milestones	Progress at January 3, 2010
Preparation / Accounting Policies, continued • Quantification of impact of policy choices on 2010 financial statements.	• Selection of accounting policies and preparation of Q1 2010 comparatives by mid 2010	
Information Technology: • Ensure that the appropriate system is in place to support the new IFRS accounting policies and the compilation of the related data.	• System should be in place to facilitate parallel process of 2010 accounts by May 2010.	• Process is on-going, as potential issues and resource needs have been identified.
Control Environment: *Internal Controls over Financial Reporting (ICFR):* • Identify, assess, and implement changes to the ICFR based on the design and effectiveness implications that the new accounting policies will have. Ensure all changes to systems and processes are fully documented. *Disclosure Controls and Procedures (DC&P):* • Identify and assess impact of new accounting policies on DC&P. • Ensure that all investor communications are IFRS compliant.	• Determine impact of new policy selections on ICFR and DC&P and update CEO/CFO certification process by Q4 2010.	• Key accounting policy differences have been identified. • Impact on ICFR and DC&P is currently being investigated.
Business Impacts • Identification of impact of differences under IFRS on bank covenants, hedging contracts, and the 2011 budgeting process.	• Complete required changes in debt agreements and bank covenants throughout 2010. • Complete required changes to the 2011 budget process throughout 2010. • Evaluate whether the interest rate swaps qualify for hedge accounting as at January 1, 2011 and maintain required documentation and testing of hedge effectiveness throughout 2010.	• Management is currently assessing the impact on bank covenants, budget process, and hedging contracts.

Based on the work performed in the scoping and diagnostic phase of the IFRS conversion process, the Company has identified the following as having the greatest potential to impact its current accounting policies:

Standard	Difference from Canadian GAAP	Potential Impact
IAS 1 – Presentation of financial statements	Standard enhances disclosure requirements as well as classification and presentation within the balance sheet and income statement.	The Company is currently developing a financial statement template under IFRS to address the enhanced disclosure and classification requirements of IAS 1.
IFRS 1 – First Time Adoption of IFRS	Requires the quantification and disclosure of the transitional impact the conversion to IFRS had on the Company's reported financial position, financial performance and cash flows. Provides first time adopters with the choice to be exempt from applying IFRS 3 Business Combinations retrospectively. IAS 39 sets out specific conditions that must be met on the transition date to designate a transaction for hedge accounting. The Company will discontinue the use of hedge accounting if conditions are not met.	The Company is currently evaluating the impact of the additional disclosure and whether the current IT environment is capable of producing such information. The Company is currently evaluating the benefit of the IFRS 3 exemption upon adoption The Company is currently evaluating existing hedge transactions to ensure that the conditions set out in IAS 39 are met.
IAS 27, SIC 12 – Consolidated and Separate Financial Statements IAS 28 – Investments in Associates	IFRS provides a subtle change in the definition of control when assessing whether an entity should be consolidated.	The Company accounts for its interests in joint venture restaurants using proportionate consolidation. Management is currently investigating whether the definition of "control" under IFRS would require the Company to consolidate its joint venture restaurants. The Company consolidates Pizza Pizza Royalty Limited Partnership as it is considered a variable interest entity under Canadian GAAP. Management is currently investigating whether this will change under IFRS.
IAS 9 – Joint arrangements	Under the exposure draft of IAS 9, a joint venture must be accounted for using the equity method. The Company must record its interest in the joint venture at cost and then adjust thereafter for its share in the profits, losses, and distributions of the jointly held entity.	Canadian GAAP requires the Company proportionately consolidates its jointly controlled restaurants. Upon adoption of IFRS, the equity method will be implemented if this exposure draft becomes a standard prior to December 31, 2011.

Standard	Difference from Canadian GAAP	Potential Impact
IAS 12 – Income Taxes	There are future tax liabilities and assets that are accounted for under IFRS but not recognized under Canadian GAAP and vice versa.	The Company is currently investigating how these differences will impact its future tax calculations.
IAS 16 – Property, Plant and Equipment - Componentization	Under IFRS, each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.	The Company is currently assessing the impact of IAS 16, however notes that it will likely result in different useful lives which will therefore impact the amortization for the period and carrying value of the assets.
IAS 24 – Related Party Disclosures	IAS 24 does not prescribe accounting for related party transactions. Instead, the measurement of the transaction will follow the particular section pertaining to the transaction. Therefore measurement differences can arise depending on the specific transaction	The Company will have to assess the measurement for related party transaction on a case by case basis. Management is currently investigating what impact, if any, IAS 24 will have on the way related party transactions are currently accounted for.
IAS 36 – Impairment of Assets	IAS 36 states that at the end of each reporting period, a Company must assess whether there is any indication that an asset may be impaired. In addition, the model used to determine and quantify an impairment loss differs under IAS 36.	The Company will be required to test for impairment of assets on an annual basis.
IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations	IFRS 5 requires that an entity measure a non-current asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell.	The Company will have to address the intention and state of all the corporate owned stores at each reporting period to ascertain whether they should be classified as held for sale.
IAS 10 – Events After the Reporting Period	The date up to which a subsequent event can be recognized will most likely be a longer period than under Canadian GAAP.	The Company will have to ensure that all events and circumstances are reviewed up to the new date and adjustments to the financial statements are made where necessary.

Further analysis will continue to finalize the impact and potential changes to existing policies. In addition, several IFRS standards are in the process of being amended by the International Accounting Standards Board (IASB) and amendments are expected to continue until the reporting date December 31, 2011. These amendments may also have an impact on future financial results.

As the IFRS transition project progresses, the Company will continue to report on the status of the plan, and will provide increased clarity into the anticipated consequences of accounting policy changes. The Company's goal is to make policy changes that are compliant but also provide the most meaningful information to our unitholders.

TRANSACTIONS WITH RELATED PARTIES

Pizza Pizza and the Partnership have entered into related party transactions with companies under common control. These transactions are entered into in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Significant related party transactions include rent expense, distributions on Class B and Class D exchangeable units, management fees and food purchases as disclosed in note 24 of the consolidated financial statements of Pizza Pizza Limited. Distributions payable and advances to or from related parties and receipt of or repayments of advances from related parties are summarized in note 24 of the consolidated financial statements of Pizza Pizza Limited.

RISKS & UNCERTAINTIES

The Restaurant Industry

The performance of Pizza Pizza Limited is primarily dependent upon its ability to maintain and increase system sales at the Pizza Pizza and Pizza 73 restaurants, add new profitable restaurants to the network and attract qualified restaurant operators. Sales are subject to a number of factors that affect the restaurant industry generally and the quick service segment of this industry, in particular, which is highly competitive with respect to price, service, location and food quality. In addition, factors such as the availability of experienced management and hourly employees may also adversely affect the system sales. Competitors include national and regional chains, as well as independently-owned restaurants and retailers of frozen pizza. If Pizza Pizza Limited and the Pizza Pizza and Pizza 73 restaurants are unable to successfully compete in the quick service sector, system sales may be adversely affected. Changes in demographic trends, traffic patterns and the type, number and location of competing restaurants also affect the restaurant industry. In addition, factors such as government regulations, inflation, publicity from any food-borne illnesses and increased food, labour and benefits costs may adversely affect the restaurant industry in general and therefore, potentially, system sales. Pizza Pizza's success also depends on numerous factors affecting discretionary spending, including economic conditions, disposable consumer income and consumer confidence. Adverse changes in these factors could reduce guest traffic or impose practical limits on pricing, either of which could reduce revenue and operating income, which could adversely affect system sales and the ability of Pizza Pizza to pay the royalty to the Partnership or interest on the PPL Loan.

Litigation

A claim was formally served on Pizza Pizza and certain of its associates by Lawrence Austin, a former consultant to Pizza Pizza. In the claim, which does not name the Fund or its subsidiaries, Mr. Austin asserts a right to $45 million in damages and other amounts, including entitlements to a portion of the proceeds of the Fund's IPO that were directly or indirectly received by Pizza Pizza and its associates.

The parties have exchanged documents with examinations for discovery expected to proceed in the spring of 2010. Pizza Pizza has advised the Fund it believes the demand to be without merit and it will vigorously defend the claim. Pizza Pizza notes that Michael Overs, the Chairman and CEO of Pizza Pizza, has agreed in an indemnity agreement to indemnify Pizza Pizza and the Fund against any liabilities they may incur in this matter.

Other

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

FORWARD-LOOKING STATEMENTS

Certain statements in this report including those concerning our plans and strategies described under "Outlook", may constitute "forward-looking" statements, which involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this report, such statements include such words as "may", "will", "expect", "believe", "plan", and other similar meaning in conjunction with a discussion of future operating or financial performance. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this report. These forward-looking statements involve a number of risks and uncertainties. The following are some factors that could cause actual results to differ materially from those expressed in or underlying such forward-looking statements: competition, changes in demographic trends, changing consumer preferences and discretionary spending patterns, changes in national and local business and economic conditions, legislation and governmental regulation, accounting policies and practices, and the results of operations and financial condition of Pizza Pizza. The foregoing list of factors is not exhaustive and should be considered in conjunction with the other risks and uncertainties described in the Fund's Annual Information Form. The Company assumes no obligation to update these forward looking statements, except as required by applicable securities laws.