## PIZZA PIZZA ROYALTY INCOME FUND
## MANAGEMENT'S DISCUSSION AND ANALYSIS

### FINANCIAL HIGHLIGHTS

The following tables set out selected financial information and other data of the Pizza Pizza Royalty Income Fund (the "Fund") and should be read in conjunction with the consolidated financial statements of the Fund. Readers should note that the 2009 results are not directly comparable to the 2008 results due to the fact that there are 637 restaurants in the Royalty Pool for 2009 compared to 609 restaurants in the Royalty Pool for 2008.

Equity income earned by the Fund through its interest in the Pizza Pizza Royalty Limited Partnership (the "Partnership") and interest income from the Pizza Pizza Limited Loan have been derived as shown in the table below:

| (in thousands of dollars, except number of restaurants, days in the quarter and per unit amounts) | 3 months ended March 31, 2009 | 3 months ended March 31, 2008 |
|---|---|---|
| Restaurants in Royalty Pool | 637 | 609 |
| Same store sales | -4.3% | 3.7% |
| Days in the Quarter | 90 | 91 |
| System sales reported by Pizza Pizza restaurants in the Royalty Pool | $ 88,033 | $ 93,970 |
| System sales reported by Pizza 73 restaurants in the Royalty Pool | 21,352 | 19,550 |
| | $ 109,385 | $ 113,520 |
| Royalty – 6% on Pizza Pizza system sales | $ 5,282 | $ 5,638 |
| Royalty – 9% on Pizza 73 system sales | 1,922 | 1,760 |
| Total Royalty on System Sales | 7,204 | 7,398 |
| Partnership expenses(1) | (788) | (825) |
| Earnings available for distribution to the Fund and Pizza Pizza Limited | 6,416 | 6,573 |
| Pizza Pizza Limited's interest(2) | (2,043) | (1,769) |
| Equity income | 4,373 | 4,804 |
| Interest income(3) | 450 | 450 |
| Net earnings before non-cash future income tax expense(4) | $ 4,823 | $ 5,254 |
| Provision for (recovery of) future income taxes | (293) | 856 |
| Net earnings | $ 5,116 | $ 4,398 |
| Basic earnings per Fund unit excluding the impact of non-cash future income tax expense(4) | $ 0.221 | $ 0.241 |
| Basic earnings per Fund unit | $ 0.234 | $ 0.202 |
| Diluted earnings per Fund unit | $ 0.231 | $ 0.202 |
| Distributions declared | $ 5,072 | $ 4,975 |
| Distributions per Fund unit | $ 0.233 | $ 0.228 |
| Payout ratio | 105% | 95% |

| | March 31, 2009 | March 31, 2008 |
|---|---|---|
| Working capital of Partnership | $ 2,965 | $ 2,142 |
| Total assets | $ 225,923 | $ 220,612 |
| Total liabilities | $ 7,371 | $ 10,722 |

(1) The Fund, indirectly through the Partnership, incurs administrative expenses and interest expense on the $47,000 outstanding bank loan (2008 - $47,000). Interest expense on the bank loan for 2009 was $656 (2008 - $687).
(2) Represents the interest of Pizza Pizza Limited ("Pizza Pizza") in the earnings of the Partnership from Class B, Class C and Class D Partnership units. The Class B and D units are exchangeable into Fund units based on value of the Class B Exchange Multiplier and the Class D Exchange Multiplier at the time of exchange as defined in the Pizza Pizza Licence and Royalty Agreement and the Pizza 73 Licence and Royalty Agreement, respectively, and represents 24.8% of the fully diluted units of the Fund at March 31, 2009 (2008 – 21.5%)
(3) The Fund indirectly earns interest income on the $30,000 loan to Pizza Pizza, with interest income accruing at 6% per annum, payable monthly.

(4) "Net earnings excluding the impact of non-cash future income tax expense (recovery)" and "Basic earnings per Fund unit excluding non-cash future income tax expense (recovery)" are not recognized measures under Canadian GAAP. References to net earnings, excluding the impact of non-cash future income tax, are to earnings determined in accordance with GAAP applicable to the financial statements before amounts for taxes, as included in net earnings. The Fund believes that, in addition to net earnings, net earnings excluding the impact of non-cash future income tax expense 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 as a measure of profitability. The method of calculating net earnings excluding the impact of non-cash future income tax expense 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.

| | Q1 2009 (unaudited) | Q4 2008 (unaudited) | Q3 2008 (unaudited) | Q2 2008 (unaudited) |
|---|---|---|---|---|
| (in thousands of dollars, except number of restaurants, days in the Period and per unit amounts) | | | | |
| Restaurants in Royalty Pool[1] | 637 | 609 | 609 | 609 |
| Same store sales | -4.3% | -0.6% | 2.2% | 1.3% |
| Days in period | 90 | 92 | 92 | 91 |
| System sales reported by Pizza Pizza restaurants in Royalty Pool | $ 88,033 | $ 101,464 | $ 99,894 | $ 94,190 |
| System sales reported by Pizza 73 restaurants in Royalty Pool | 21,352 | 20,975 | 20,493 | 20,087 |
| | $ 109,385 | $ 122,439 | $ 120,387 | $ 114,277 |
| Royalty – 6% on Pizza Pizza system sales | $ 5,282 | $ 6,088 | $ 5,994 | $ 5,651 |
| Royalty – 9% on Pizza 73 system sales | 1,922 | 1,887 | 1,844 | 1,808 |
| Royalty on System Sales of Royalty Pool | $ 7,204 | $ 7,975 | $ 7,838 | $ 7,459 |
| Partnership expenses[2] | (788) | (791) | (810) | (854) |
| Earnings available for distribution to the Fund and Pizza Pizza Limited | 6,416 | 7,184 | 7,028 | 6,605 |
| Pizza Pizza Limited's interest[3] | (2,043) | (1,899) | (1,867) | (1,776) |
| Equity income | 4,373 | 5,285 | 5,161 | 4,829 |
| Interest income[4] | 450 | 450 | 450 | 450 |
| Net earnings excluding the impact of non-cash future income tax expense [5] | $ 4,823 | $ 5,735 | $ 5,611 | $ 5,279 |
| Provision for (recovery of) future taxes | (293) | - | - | (3,091) |
| Net earnings | $ 5,116 | $ 5,735 | $ 5,611 | $ 8,370 |
| Basic earnings per Fund unit excluding the impact of non-cash future income tax expense[5] | $ 0.221 | $ 0.263 | $ 0.257 | $ 0.242 |
| Basic earnings per Fund unit | $ 0.234 | $ 0.263 | $ 0.257 | $ 0.384 |
| Diluted earnings per Fund unit | $ 0.231 | $ 0.258 | $ 0.253 | $ 0.349 |
| Distributions declared | $ 5,072 | $ 5,073 | $ 5,073 | $ 5,007 |
| Distributions per Fund unit | $ 0.233 | $ 0.233 | $ 0.233 | $ 0.230 |
| Payout ratio | 105% | 88% | 90% | 95% |

| | Q1 2008 (unaudited) | Q4 2007 (unaudited) | Q3 2007 (unaudited) | Q2 2007 (unaudited) |
|---|---|---|---|---|
| (in thousands of dollars, except number of restaurants, days in the Period and per unit amounts) | | | | |
| Restaurants in Royalty Pool[1] | 609 | 572 | 572 | 531 |
| Same store sales | 3.7% | 4.9% | 5.1% | 4.3% |
| Days in period | 91 | 92 | 92 | 91 |
| System sales reported by Pizza Pizza restaurants in Royalty Pool | $ 93,970 | $ 99,654 | $ 95,041 | $ 92,162 |
| System sales reported by Pizza 73 restaurants in Royalty Pool | 19,550 | 19,230 | 13,894 | - |
| | $ 113,520 | $ 118,884 | $ 108,935 | $ 92,162 |
| Royalty – 6% on Pizza Pizza system sales | $ 5,638 | $ 5,979 | $ 5,703 | $ 5,530 |
| Royalty – 9% on Pizza 73 system sales | 1,760 | 1,731 | 1,250 | - |
| Royalty on System Sales of Royalty Pool | 7,398 | 7,710 | 6,953 | 5,530 |
| Partnership expenses[2] | (825) | (896) | (813) | (498) |
| Earnings available for distribution to the Fund and Pizza Pizza Limited | 6,573 | 6,814 | 6,140 | 5,032 |
| Pizza Pizza Limited's interest[3] | (1,769) | (1,619) | (1,564) | (1,508) |
| Equity income | 4,804 | 5,195 | 4,576 | 3,524 |
| Interest income[4] | 450 | 450 | 499 | 450 |
| Net earnings before non-cash future income tax expense and issuance costs | $ 5,254 | $ 5,645 | $ 5,075 | $ 3,974 |
| Share of Partnership issuance costs | - | - | 169 | - |
| Provision for future taxes | 856 | (4,690) | 4,198 | 8,700 |
| Net earnings (loss) | $ 4,398 | $ 10,335 | $ 708 | $ (4,726) |
| Basic earnings per Fund unit excluding the impact of non-cash future income tax expense and issuance costs[5] | $ 0.241 | $ 0.259 | $ 0.248 | $ 0.211 |
| Basic earnings (loss) per Fund unit | $ 0.202 | $ 0.474 | $ 0.035 | $ (0.263) |
| Diluted earnings (loss) per Fund unit | $ 0.202 | $ 0.430 | $ 0.035 | $ (0.263) |
| Distributions declared | $ 4,975 | $ 4,974 | $ 4,772 | $ 3,931 |
| Distributions per Fund unit | $ 0.228 | $ 0.228 | $ 0.222 | $ 0.219 |
| Payout ratio | 95% | 88% | 94% | 99% |

(1) The Pizza 73 Rights were acquired on July 24, 2007 and resulted in the addition of 41 restaurants to the Royalty Pool for the balance of 2007. Effective January 1, 2009, there are 69 Pizza 73 restaurants in the Royalty Pool (2008 – 50).

(2) The Fund, indirectly through the Partnership, incurs administrative expenses and interest expense on the $47,000 outstanding bank loan (2008 - $47,000).

(3) Represents the interest of Pizza Pizza in the earnings of the Partnership from Class B, Class C and Class D Partnership units. The Class B and D units are exchangeable into Fund units based on value of the Class B Exchange Multiplier and Class D Exchange Multiplier at the time of exchange as defined in the Pizza Pizza Licence and Royalty Agreement and the Pizza 73 Licence and Royalty Agreement, respectively, and represents 24.8% of the fully diluted units of the Fund at March 31, 2009.

(4) The Fund indirectly earns interest income on the $30,000 loan to Pizza Pizza, with interest income accruing at 6% per annum, payable monthly.

(5) "Net earnings excluding the impact of non-cash future income tax expense", "Net earning excluding the impact of non-cash future income tax expense and issuance costs" and "Basic earnings per Fund unit excluding non-cash future income tax and issuance costs" are not recognized measures under Canadian GAAP. References to net earnings, excluding the impact of non-cash future income tax expense and issuance costs, are to earnings determined in accordance with GAAP applicable to the financial statements before amounts for taxes and the Fund's share of issuance costs of the Partnership as included in net earnings. The Fund believes that, in addition to net earnings, net earnings excluding the impact of non-cash future income tax expense, and net earnings excluding the impact of non-cash future income tax expense and issuance costs are useful supplemental measures in evaluating its performance as they provide investors with an indication of operating earnings. Investors are cautioned, however, that these figures should not be construed as an alternative to net earnings as a measure of profitability. The method of calculating net earnings excluding the impact of non-cash future income tax expense and issuance costs 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.

**PIZZA PIZZA ROYALTY INCOME FUND**
**Management's Discussion & Analysis**

## OVERVIEW AND BUSINESS OF THE FUND

The following Management's Discussion and Analysis (the "MD&A") is a discussion of the results of operations and financial condition of the Fund for the quarter (the "Quarter") ended March 31, 2009. The consolidated financial statements of the Fund are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The MD&A has been prepared as of May 6, 2009.

The Fund is a limited purpose, open-ended trust established under the laws of Ontario to indirectly, through the Partnership, acquire the trademarks and trade names used by Pizza Pizza Limited ("Pizza Pizza") in its Pizza Pizza and Pizza 73 restaurants. The Pizza Pizza trademarks and other intellectual property (the "Pizza Pizza Rights") were licenced to Pizza Pizza in 2005 for 99 years, for which Pizza Pizza pays the Fund a royalty equal to 6% of the system sales of its Pizza Pizza restaurants in the Royalty Pool. On July 24, 2007, the Partnership acquired the trademarks and other intellectual property of Pizza 73 (the "Pizza 73 Rights") from Pizza 73, Inc. and licenced them to Pizza Pizza for 99 years, for which Pizza Pizza pays the Fund a royalty equal to 9% of the system sales of the Pizza 73 restaurants in the Royalty Pool. For the year 2009, the Royalty Pool consists of 568 Pizza Pizza restaurants and 69 Pizza 73 restaurants.

A key attribute of the Fund is that revenues are based on top-line, system sales of the Royalty Pool restaurants and not on the profitability of either Pizza Pizza or the restaurants in the Royalty Pool. Moreover, the Fund is not subject to the variability of earnings or expenses of the operating companies. The Fund's only expenses are administration expenses and the interest on debt. Thus, the success of the Fund depends primarily on the ability of Pizza Pizza to maintain and increase system sales of the Royalty Pool and to meet its royalty obligations.

Increases in system sales are derived from both the development of new Pizza Pizza and Pizza 73 restaurants and same store sales ("SSS"). The key metric for yield growth of the Fund is SSS, which is dependent on maintaining operational excellence within each restaurant, general market conditions, pricing, and marketing programs undertaken by Pizza Pizza. One of Pizza Pizza's competitive strengths in increasing SSS is that over 99% of its Pizza Pizza restaurants are new or renovated and have been expanded to accommodate customer seating. The seating offers franchisees the ability to increase "walk-in" sales, thereby, potentially increasing same store sales. Restaurant closures also affect system sales. Pizza Pizza has historically maintained a low closure rate throughout its chain.

From inception, the Fund adopted the guideline of Canadian Institute of Chartered Accountants referred to as "AcG-15", Consolidation of Variable Interest Entities. As a result, the Fund's subsidiary, the Partnership which owns the Pizza Pizza and Pizza 73 Rights, is accounted for on the equity basis. Pizza Pizza, the private operating company that pays royalties to the Partnership, consolidates the Partnership based on this same guideline.

## ROYALTY POOL ADJUSTMENTS

Annually, on January 1 (the "Adjustment Date"), an adjustment is made to the Royalty Pool 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 that have been permanently closed during the year. The change in the amount of the Royalty due to the Partnership as a result of changes in the system sales of the Royalty Pool will affect Pizza Pizza's retained interest through an adjustment to the rate at which the Class B Partnership units may ultimately be exchanged for units of the Fund. On the Adjustment Date, the adjustment to the Class B Exchange Multiplier (as defined in the Pizza Pizza Licence and Royalty Agreement) involves first calculating the "Determined Amount", which is defined as 92.5% of the royalty revenue added to the Royalty Pool, divided by the prevailing 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 number of 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 once the system sales for new restaurants are known with certainty. The adjustment for new restaurants rolled into the Royalty Pool is designed to be accretive for current unitholders.

If, during a year, a Pizza Pizza restaurant is closed, the sales of the restaurant from the closing date would no longer be included in the calculation of the royalty payable to the Partnership by Pizza Pizza. To compensate for this, in certain circumstances, the Pizza Pizza Licence and Royalty Agreement and the Limited Partnership Agreement provide that an amount (the "Make-Whole Payment") reflecting the reduction in the royalty resulting from the restaurant closure will be paid by Pizza Pizza to the Partnership for the balance of the year in which the restaurant was closed, commencing from the closing date. The Make-Whole Payment will be the sales of the closed restaurant for the first 52-week period in which it was included in the Royalty Pool multiplied by the royalty rate, payable as to one-twelfth per month.

Similarly, on the Adjustment Date, a separate adjustment is made to the Royalty Pool for the Pizza 73 restaurants. The Royalty Pool is increased to include the forecasted system sales from new Pizza 73 restaurants opened on or before September 1 of the prior year, less system sales from any Pizza 73 restaurants that have been permanently closed during the year. On the Adjustment Date, the adjustment to the Class D Exchange Multiplier is calculated in a similar manner as the Class B Exchange Multiplier described above. At the time of acquisition of the Pizza 73 Rights, the Class D Exchange Multiplier was zero.

Readers should note that the number of restaurants added to the Royalty Pool each year may differ from the number of restaurant openings and closings reported by Pizza Pizza on an annual basis, as the periods for which they are reported differ slightly.

## RESTAURANTS ADDED TO THE ROYALTY POOL

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 Class B Exchange Multiplier effective for 2008 was 1.3737 and Pizza Pizza's 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 Pizza Pizza's 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 are estimated at $3.1 million annually. 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, 2010, once the actual performance of the new restaurants is determined in early 2010. As a result of the adjusted Class B Exchange Multiplier, Pizza Pizza will hold Class B Partnership units exchangeable into 5,743,931 Fund units.

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 are estimated at $14.1 million annually, which was reduced by $4.9 million in system sales attributable to certain of the restaurants being 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 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 previously discussed. 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. As a result of the Adjusted Class D Exchange Multiplier, Pizza Pizza will hold Class D Partnership units exchangeable into 1,460,355 Fund units.

As a result of the January 1, 2009 vend-in, the number of Fund units for which Pizza Pizza's Class B and Class D Partnership units are exchangeable increased to 7,204,286 which, as at March 31, 2009, equates to 24.8% of the fully diluted units of the Fund. The Fund reported an increase in its investment in the Partnership and a contributed surplus of $5.8 million to reflect the increase in value as a result of the vend-in of the new royalty stream on January 1, 2009.

## OWNERSHIP OF THE FUND

Pizza Pizza's 24.8% interest in the earnings of the Partnership at March 31, 2009, consists of its ownership of Class B, Class C and Class D Partnership units. Each Class B and Class D unit can be exchanged indirectly for that number of units equal to the Class B Exchange Multiplier and Class D Exchange Multiplier, respectively, (as defined in the Licence and Royalty Agreements) applicable at the date of the exchange. Class C units can be exchanged by requiring the Fund to purchase those Class C Units in consideration of the assumption by the Fund of an amount of the indebtedness under the PPL Loan equal to $10.00 per Class C Unit transferred.

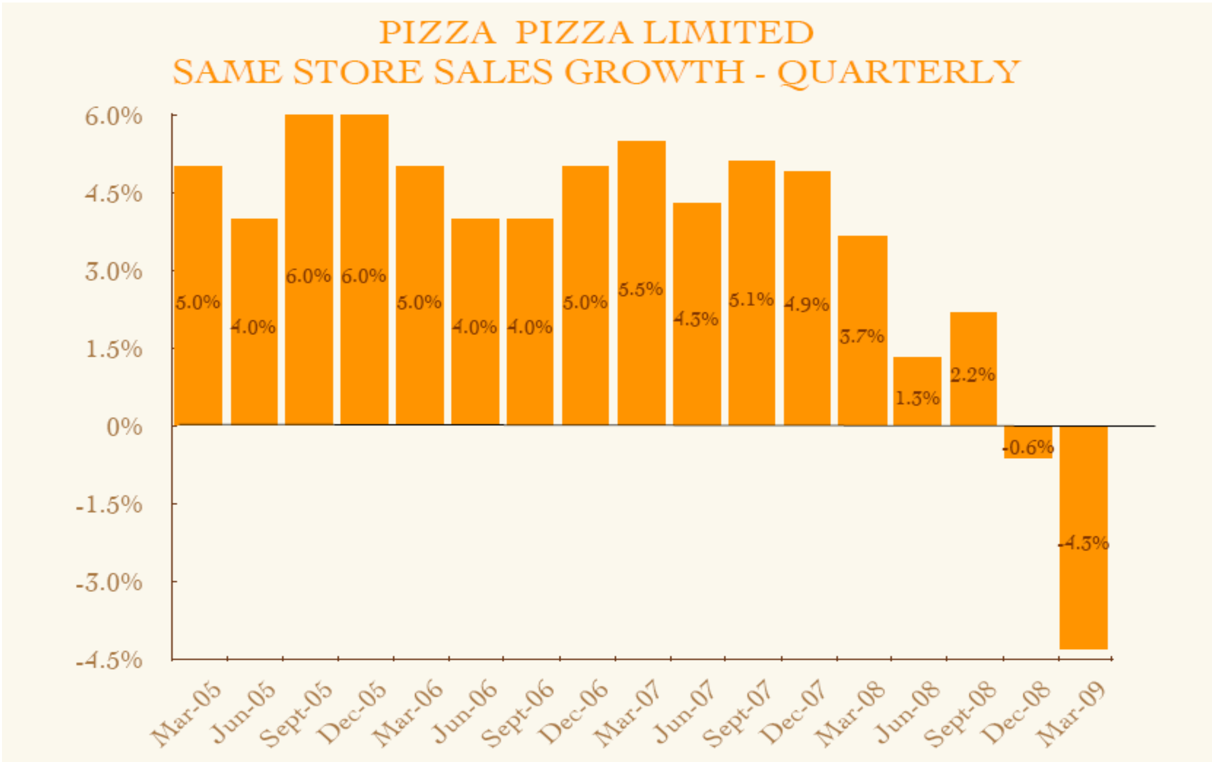
Ownership of the Fund on a fully diluted basis is as follows:

| | Issued & Outstanding units, and Exchangeable Equivalent units |
|---|---|
| Fund units outstanding on March 31, 2009 | 21,818,392 |
| Class B exchangeable units held by Pizza Pizza | 5,743,931 |
| Class D exchangeable units held by Pizza Pizza | 1,460,355 |
| Fully diluted units on March 31, 2009 | 29,022,678 |

## SAME STORE SALES GROWTH

**Same Store Sales (SSS)**, the key driver of yield growth for unitholders of the Fund, decreased by 4.3% (+3.7% - 2008) for the quarter ended March 31, 2009 compared with the same period in 2008. For the quarter, SSS for the Pizza Pizza restaurants was -4.8% and was -2.1% for Pizza 73 restaurants (2.1% and 11.7%, respectively - 2008). During the quarter, the Pizza Pizza brand sales benefited from an increase in the average cheque, offset by a decrease in traffic counts; Pizza 73 sales benefited from an increase in both average cheque and traffic counts.

Deteriorating economic conditions in Pizza Pizza's core markets have impacted sales in the current quarter and the fourth quarter of 2008. The majority of the Pizza Pizza restaurants operate in Ontario which continues to experience a decline in manufacturing employment and tourism. For the Pizza 73 brand, the majority of the restaurants operate in Alberta, whose economy is being affected by the decrease in the price of oil. In addition to the economic impact, 18 traditional stores have opened in Alberta in the last 20 months, of which 16 have reduced territories of previously existing stores which negatively impacted SSS. Adding restaurants in the Alberta market is part of Pizza Pizza's overall strategy to relieve capacity constraints at the restaurant level and provide improved customer service, while growing and protecting the Pizza 73 brand. The Fund receives a monthly step-out payment, subject to store performance, for up to two years on sales adjustments which are a result of a territory reduction. (See "Step-Out Payments" and "Adjusted Restaurants" under "Licence and Royalty – Adjustments to the Royalty Pools and Payments Made Under the Licence and Royalty Agreements" in the Annual Information Form for the year ended December 31, 2008)




**ROYALTY POOL SALES**

The restaurants in the Royalty Pool increased to 637 on the January 1, 2009 adjustment date, to include the royalties from 28, net new restaurants. In the prior year, the Royalty Pool included 609 restaurants.

System sales from the 637 restaurants in the Royalty Pool for the quarter ended March 31, 2009 were $109.4 million. By brand, sales from the 69 Pizza 73 restaurants in the Royalty Pool were $21.4 million for the quarter, while sales from the 568 Pizza Pizza restaurants in the Royalty Pool were $88 million, for the quarter. For the prior year comparative quarter, system sales for the 609 restaurants in the Royalty Pool were $113.5 million. By brand sales from the 50 Pizza 73 restaurants in the Royalty Pool were $19.5 million for the prior year comparative quarter, while sales from the 559 Pizza Pizza restaurants in the Royalty Pool were $94 million for the same period.

Approximately $1.2 million of the decline in sales was due to the fact that the current quarter contained one less day than the prior year quarter. The period decrease was partially offset by system sales generated from the addition of 28 net, new restaurants to the Royalty Pool on January 1, 2009.

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.

## OPERATING RESULTS

The operations of the Fund and Partnership are separately analyzed in the following information to provide a better appreciation of the financial condition and results of the Fund and should be read in conjunction with the Fund's unaudited, consolidated financial statements and the accompanying notes.

### Partnership Operations

The Partnership earns royalty income from restaurants in the Royalty Pool. The Fund earns equity income from its investment in the Partnership. The Fund's equity income from the Partnership is calculated as the royalty income less the Partnership's operating expenses less earnings attributable to Pizza Pizza.

The following provides information on the Partnership's performance for the quarter ended March 31, 2009.

#### Revenues

Royalty income earned by the Partnership was $7.2 million for the quarter ended March 31, 2009. A 6% royalty was earned on the Royalty Pool of 568 Pizza Pizza restaurants reporting $88 million in sales for the quarter. A 9% royalty was earned on the Royalty Pool of 69 Pizza 73 restaurants reporting $21.4 million in system sales for the quarter.

Royalty income earned by the Partnership for the comparative quarter was $7.4 million, and the 559 Pizza Pizza restaurants in the Royalty Pool reported system sales of $94 million, while the 50 Pizza 73 restaurants reported system sales of $19.5 million in system sales.

The quarter over quarter decrease in the restaurant royalty income is largely due to the 4.3% decline in SSS and partially due to the current quarter containing one less day than the prior year quarter, with the estimated effect being $80,000. The period decrease was partially offset by royalties received from the addition of 28 net, new restaurants to the Royalty Pool on January 1, 2009.

#### Expenses

The Partnership's operating expenses include administrative expenses, amortization of deferred financing fees and interest paid on a $47 million bank term loan (2008 - $47 million). See "Liquidity and Capital Resources-Term Loan".

Operating expenses for the quarter ended March 31, 2009 were $788,000, including $656,000 of interest expense and $8,000 of amortization of deferred financing fees and $124,000 of administrative expenses.

Operating expenses for the comparative quarter of 2008 were $825,000, including $687,000 of interest expense and $10,000 of amortization of deferred financing fees and $128,000 of administrative expenses.

#### Net Earnings

The Partnership had net earnings for the quarter ended March 31, 2009 of $6.4 million, which were allocated to the Fund and Pizza Pizza based on their respective interest in the Partnership, as compared to $6.6 million in the comparable quarter of 2008.

The decrease in the net earnings reflects the decrease in royalty income as previously discussed.

### Selected Partnership Balance Sheet Information

| | (in thousands of dollars) March 31, 2009 | December 31, 2008 |
|---|---|---|
| Current Assets | $ 5,025 | $ 5,379 |
| Total Assets | 318,261 | 311,278 |
| Current Liabilities | 2,060 | 1,893 |
| Loan Payable | 46,906 | 46,899 |
| Total Liabilities & Equity | 318,261 | 311,278 |

## Fund Operations

Equity income is earned by the Fund through indirect limited partnership holdings of LP units representing its effective 75.2% interest in the Partnership at March 31, 2009. Interest income is earned on a $30 million loan to Pizza Pizza Limited (the "PPL Loan") and is calculated at 6% per annum, payable monthly.

### Equity Income in the Partnership

Equity income earned by the Fund for the quarter ended March 31, 2009 was $4.4 million. The equity income earned for the comparable, prior year quarter was $4.8 million based on its 78.5% share of the Partnership at that time. The decrease in equity income is the result of a lower net income earned by the Partnership coupled with a decrease in the Fund's proportionate ownership interest in the Partnership.

During 2009, the Fund's percentage ownership interest in the Partnership decreased to 75.2% from 78.5% in 2008, as a result of Pizza Pizza vending in restaurants into the Royalty Pool, which increased Pizza Pizza's proportionate share of the Fund's fully-diluted units.

### Interest Income

The interest income for the quarters ended March 31, 2009 and 2008 was $450,000, earned on the $30 million loan from the Fund to Pizza Pizza, with interest paid monthly at 6% per annum.

### Net Earnings Before Income Taxes

Net earnings before income taxes for the quarter were $4.8 million, or $0.221 per unit, as compared to $5.3 million, or $0.241 per unit, for the comparable quarter in 2008, which equates to a 8.3% decrease per unit. The net earnings per unit, before income tax, decreased as a result of the decline in the sales of the Royalty Pool restaurants, and the decrease in the Fund's proportionate interest in the Partnership.

### Future Tax Expense (Recovery)

In the second quarter of 2007, the Canadian federal government enacted tax legislation which included a provision to eliminate the deduction of distributions from taxable income commencing generally in 2011 for certain forms of publicly traded income trusts and partnerships. Accordingly, the Fund gave accounting recognition to these new rules beginning in the second quarter of 2007.

The $293,000 future tax recovery recorded in the current quarter is a result of a decrease in the tax rates applicable to the Fund, offset by an increase in the value of the rights and marks that it licences, attributable to the vend-in of the new restaurants to the Royalty Pool on January 1, 2009. During the 2008 comparative quarter, the Fund increased its non-cash future tax expense by $856,000 a s a result of an increase in the value of the rights and marks, attributable to the vend-in of the new restaurants to the Royalty Pool on January 1, 2008. The future income tax would only be paid if the Pizza Pizza and Pizza 73 Rights were to be sold by the Partnership.

### Net Earnings

Net earnings for the quarter ended March 31, 2009 were $5.1 million or $0.234 per unit, as compared to net earnings of $4.4 million or $0.202 per unit in the comparable quarter of 2008. The current quarter earning per unit reflects the decrease in future tax expense offset by decrease in equity income, attributable to the lower royalty pool sales and negative SSS.

### Distributions

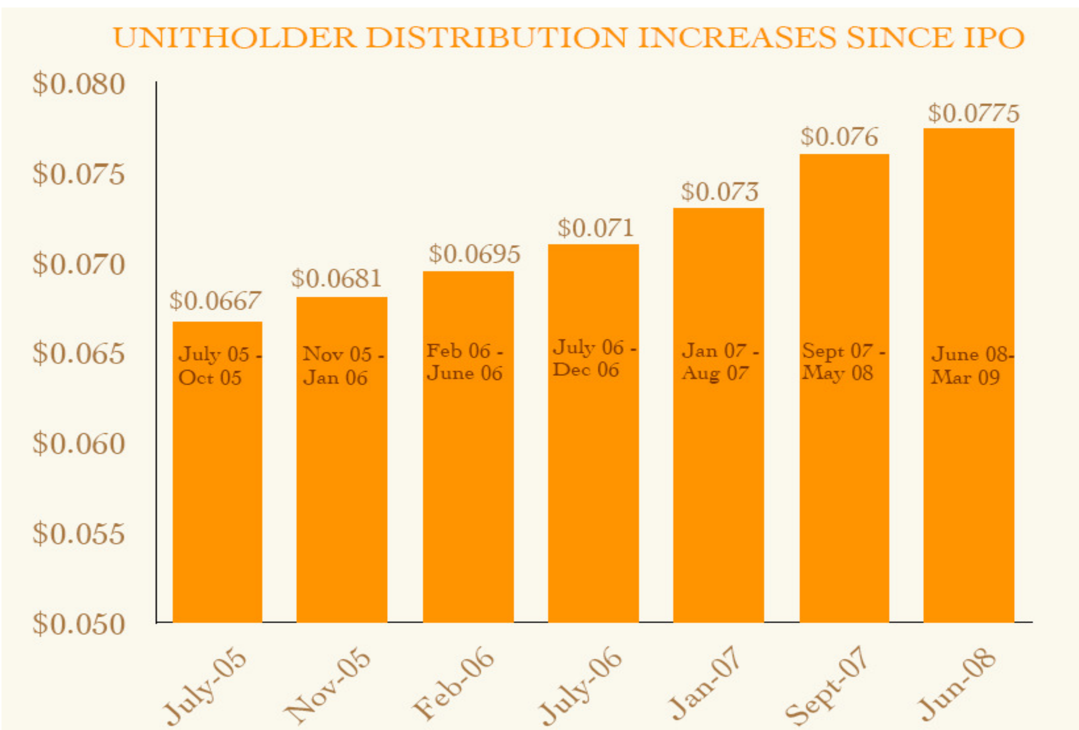
The Fund declared distributions of $5.1 million or $0.233 per unit for the quarter ended March 31, 2009, equating to a 105% payout ratio; for the 2008 comparable quarter, the Fund declared distributions of $5.0 million or $0.228 per unit for a payout ratio of 95%.

Distributions declared for 2009 are as follows:

| Period | Payment Date | Amount/unit |
|---|---|---|
| January 1-31, 2009 | February 13, 2009 | 7.75¢ |
| February 1-29, 2009 | March 13, 2009 | 7.75¢ |
| March 1-31, 2009 | April 15, 2006 | 7.75¢ |
| Total | | 23.25¢ |

Distributions were funded entirely by cash flow from operations and the Partnership's cash reserves. No debt was incurred during the quarter to fund distributions.

Since the initial public offering in July 2005, the Fund has increased distributions six times with the most recent being in June 2008, as depicted in the chart below:



## LIQUIDITY & CAPITAL RESOURCES

The Fund's policy is to distribute all available cash in order to maximize returns to Unitholders over time, after allowing for reasonable reserves held at the Partnership level. In light of seasonal variations inherent to the restaurant industry, the Fund's policy is to make equal distribution payments to Unitholders on a monthly basis in order to smooth out these fluctuations. Any further increase in distributions will be implemented with a view to maintain the continuity of uniform monthly distributions. It is expected that future distributions will continue to be funded entirely by cash flow from operations and the cash reserve.

As of March 31, 2009, working capital of the Partnership was $3.0 million (December 31, 2008 - $3.5 million), accumulated as a reserve to cover seasonality and any unusual administrative expenditures.

### Term Loan and Operating Loan

On July 24, 2007, the Partnership amended the, then, existing credit agreement with a Canadian chartered bank (the "Bank") to increase the committed, non-revolving facility from $20 million to $47 million and to extend the term by five years to 2012. The initial $20 million facility was arranged during the initial public offering to partially finance the purchase of the Pizza Pizza Rights from Pizza Pizza. To partially finance the Pizza 73 transaction, the facility was increased by $27 million to $47 million. 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, Pizza Pizza granted to the Partnership a continuing, general security interest, subject to certain exceptions, in all present, and acquired property of Pizza Pizza. The facility bears interest at Prime plus 0% to 0.25% or the Bankers Acceptance rate plus 1.0% to 1.75%, depending on the level of debt-to-EBITDA, with EBITDA defined as annualized earnings before interest, taxes, depreciation and amortization. During 2007, the interest rate on the facility was fixed with one swap maturing in January 6, 2010 and two swaps maturing 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. Interest rates may decrease should the debt-to-EBITDA ratio decrease to certain thresholds.

The Bank has also granted an extendable 364 day, committed, revolving operating facility for up to $1 million; no funds have been drawn on this facility.

These facilities include affirmative and negative covenants customary for agreements of this nature. In particular, 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 March 31, 2009 was $3.7 million (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 1.57:1 (2008 – 1.56:1).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 drop below 1.5:1, then the interest rate on the credit facility will drop 25 basis points.

## OUTLOOK

In 2009, Pizza Pizza management expects to grow the number of restaurants by 3% and to continue researching strategic acquisition opportunities. Organically, Pizza Pizza expects to grow outside its largely, Ontario markets by opening additional locations in Montreal, as well as in western provinces. In Alberta, Pizza 73 traditional locations will continue to be added to better service the growing customer base. Pizza 73's brand awareness will also be promoted using non-traditional locations with the addition of professional sports partnerships and event sponsorships. In 2008, Pizza Pizza opened a net, 24 restaurants increasing the overall number of restaurants by 3.9%.

Deteriorating economic conditions in Pizza Pizza's core markets, which began in mid-2008, continue to impact sales in the current quarter. The majority of the Pizza Pizza restaurants operate in Ontario, which continues to experience a decline in employment and tourism. For the Pizza 73 brand, the majority of the restaurants operate in Alberta, whose economy is being affected by the decrease in the price of oil. In addition to the economic impact, 18 traditional stores have opened in Alberta in the last 20 months, of which 16 have reduced territories of previously existing stores which has negatively impacted SSS. Adding restaurants in the Alberta market is part of Pizza Pizza's overall strategy to relieve capacity constraints at the restaurant level and provide improved customer service, while growing and protecting the Pizza 73 brand.

First quarter SSS decreased 4.3% over the same quarter last year. Although the Company does not expect significant near-term improvement in the economy, our 2009 strategies will continue to focus on reinforcing value-oriented menu offerings, launching new relevant products, and reinvesting in activities which drive sales growth.

## CONTROLS AND PROCEDURES

Internal controls and procedures are designed to provide reasonable assurance that relevant information is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of Pizza Pizza GP Inc., managing general partner of the Partnership and administrator of the Fund, on a timely basis so that the appropriate decisions can be made regarding public disclosure. Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with GAAP.

Management carried out an evaluation of the effectiveness of design and operation of the Fund's disclosure controls and procedures and internal controls over financial reporting as of December 31, 2008. It was determined that the Fund's disclosure controls and procedures and internal controls over financial reporting were effective.

During the quarter ending March 31, 2009, there was no material change in the Fund's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Fund's internal control over financial reporting.

## CRITICAL ACCOUNTING ISSUES

The Fund's only critical accounting estimate is the valuation of its investment in the Partnership. As the Partnership's only significant assets are intangible assets consisting of the Pizza Pizza and Pizza 73 Rights, the valuation of the Fund's investment is based primarily upon the valuation of intangible assets in the Partnership. The Pizza Pizza and Pizza 73 Rights are not amortized as they have an indefinite life. Pizza Pizza GP Inc., as the general partner of the Partnership and administrator of the Fund, reviews the carrying values of the intangible assets in the Partnership and the Fund's investment at least annually, taking into consideration any events or circumstances which may have impaired the carrying values of these items. If permanent declines in the carrying amounts are determined, these items are written down to their estimated net recoverable amount. Pizza Pizza GP, Inc. believes that there have been no declines in either the carrying value of the intangible assets in the Partnership or in the carrying value of the Fund's investment in the Partnership as of March 31, 2009.

## CHANGES IN ACCOUNTING POLICY

Effective January 1, 2009, the Fund 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 Fund has determined this change had no material effect on its financial statements.

## 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 Fund for interim and annual financial statements beginning on January 1, 2011. The Fund 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 Fund for interim and annual financial statements beginning on January 1, 2011. The Fund has not yet determined the impact of the adoption of these changes on its financial statements.

*International Financial Reporting Standards*

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 Fund's first financial statement reported under IFRS will be the unaudited interim statements for the three months ended March 31, 2011. Prior year comparatives, restated under IFRS, will be included in these statements. At this time, the impact on the future financial position and results of operations is not reasonably determinable or estimable.

The IFRS project consists of four phases: diagnostic assessment, project planning and education, policy design and implementation. In 2008, the Fund, with the assistance of its external auditor, completed the diagnostic phase, which involved a high level review of the major differences between current Canadian GAAP and IFRS. The Fund is in the process of developing a detailed project plan for 2009 and 2010, which will include internal and external communications, and training. During 2009, the Fund will continue the process of evaluating available IFRS accounting policy alternatives and assess the potential impact on financial reporting, including systems and processes and other business areas.

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

## RISKS & UNCERTAINTIES

The Fund continues to recognize certain risks and uncertainties associated with the ordinary course of business, including those associated with the business and operations of Pizza Pizza, upon which the Fund relies solely for its earnings.

### The Restaurant Industry

The performance of the Fund is directly dependent upon the royalty and interest payments received from Pizza Pizza. The amount of royalty received from Pizza Pizza is dependent on various external factors that may affect the limited service sector of the restaurant industry. The restaurant industry, generally, is intensely competitive with respect to price, service, location and food quality. Competitors include national and regional chains, as well as independently owned restaurants and retailers of frozen pizza. If Pizza Pizza, Pizza Pizza franchisees and Pizza 73 operators are unable to successfully compete in the limited service sector, System Sales may be adversely affected, the amount of royalty reduced and the ability of Pizza Pizza to pay the royalty or interest on the PPL Loan may be impaired. 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, smoking bylaws, inflation, publicity from any food borne illnesses, increased food, labour and benefits costs, and the availability of experienced management and hourly employees may adversely affect the restaurant industry in general and therefore, potentially, Pizza Pizza and Pizza 73 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 sales and operating income, which could adversely affect revenue, the royalty and the ability of Pizza Pizza to pay the royalty to the Fund or interest on the PPL Loan. For additional information concerning the performance of Pizza Pizza, please refer to the Pizza Pizza MD&A which is available at www.sedar.com and www.pizzapizzaroyaltyincomefund.com.

### Litigation

In the first quarter of 2009, the Fund received an update from Pizza Pizza regarding a potential claim disclosed in the Fund's 2005 initial public offering prospectus and Pizza Pizza's subsequent financial statement filings.

The claim, which does not name the Fund or its subsidiaries, was formally served on Pizza Pizza and certain of its associates by Lawrence Austin, a former consultant to Pizza Pizza. In the claim, 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.

Pizza Pizza has advised the Fund that it believes the demand to be without merit and it will vigorously defend the claim. The parties have exchanged documents and examinations for discovery have been scheduled. The Fund 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 that 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 which may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this report, such statements include such words as "may", "will", "expect", "believe", "plan", and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this 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 Fund assumes no obligation to update these forward looking statements, except as required by applicable securities laws.

## ADDITIONAL INFORMATION

Additional information about the Fund including the Fund's most recent Annual Information Form is available on SEDAR at www.sedar.com or at the Fund's website www.pizzapizzaroyaltyincomefund.com.