

PIZZA PIZZA ROYALTY INCOME FUND
Management's Discussion & Analysis
For the Period from January 1, 2006 to March 31, 2006

This quarterly report covers the period from January 1, 2006 to March 31, 2006 (the "Period"). The Management's Discussion and Analysis of the results for this Period is dated May 4, 2006. A copy of this quarterly report and additional information about the Fund is available at www.sedar.com or www.pizzapizzaroyaltyincomefund.com.

OVERVIEW

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

The Fund has licensed the PPL Rights to Pizza Pizza, for which Pizza Pizza pays a 6% Royalty on the system sales of those Pizza Pizza restaurants included in the specific royalty pool (the "Royalty Pool"). There were 501 restaurants in the Royalty Pool for the Period.

From inception, the Fund adopted the new 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, will be accounted for on the equity basis. Pizza Pizza, the operating company that pays the 6% royalty to the Partnership, consolidates the Partnership based on this same guideline.

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 September 1 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 to be received by the Partnership as a result of changes in the system sales of the Royalty Pool will affect the extent of Pizza Pizza'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. On the Adjustment Date, the adjustment to the Class B Exchange Multiplier (as defined in the License 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 forecasted 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.

Pizza Pizza Limited has an effective 20.3% interest in the Fund and has agreed to maintain at least a 20% interest until June 30, 2007. Distributions on the 20% interest will be subordinated during the hold period pursuant to the terms of the Subordination Agreement.

Pizza Pizza's interest in the earnings of the Partnership is from its ownership of Class B and Class C Partnership units. Subject to the Subordination Agreement, each Class B Unit can be exchanged indirectly for that number of units equal to the Class B Exchange Multiplier as defined in the License and Royalty Agreement applicable at the date of the exchange. Class C Units can be exchanged by requiring 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.

A key attribute of the Fund structure is the fact that it is a "top-line" fund. Royalty income of the Fund is based on top-line revenue of the Royalty Pool restaurants and is not determined by the profitability of either Pizza Pizza or the Pizza Pizza restaurants in the Royalty Pool. Given this structure, the success of the Fund depends primarily on the ability of Pizza Pizza to maintain and increase system sales of the Royalty Pool.

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Increases in system sales are derived from both the development of new Pizza Pizza restaurants and same store sales growth ("SSSG"). The key metric for yield growth of the Fund is SSSG. SSSG from existing restaurants is dependent on maintaining operational excellence within each Pizza Pizza restaurant, general market conditions, pricing, and marketing programs undertaken by Pizza Pizza. One of Pizza Pizza's competitive strengths in increasing SSSG is that 90% of the restaurants in the chain are new or renovated within the past five years. Increased seating is available in these renovated restaurants, offering Franchisees the ability to concentrate on increasing lunch sales, thereby potentially increasing same store sales. In 2006, Pizza Pizza is focused on completing the renovation of the remaining 10% of restaurants not yet renovated, further expanding sales capacity.

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FINANCIAL HIGHLIGHTS

Equity and interest income earned by the Fund through its interest in the Partnership and from the PPL Loan has been derived as shown in the table below:

Pizza Pizza Royalty Limited Partnership
Analysis of Distributable Cash

	Three Months ended March 31, 2006	Three Months Ended December 31, 2005	For the Period from July 6, to September 30, 2005
(in thousands of dollars, except number of restaurants, days in the Period and earnings per Fund unit)			
Restaurants in Royalty Pool	501	500	500
Days in the Period	90	92	87
System sales reported by restaurants in the Royalty Pool	\$ 82,484	\$ 89,651	\$ 83,582
Royalty - 6% of system sales	\$ 4,949	\$ 5,379	\$ 5,015
Partnership expenses ⁽¹⁾	(439)	(418)	(363)
Partnership earnings for the period before under-noted ⁽³⁾⁽⁴⁾	4,510	4,961	4,652
Pizza Pizza's interest ⁽²⁾	(1,275)	(1,353)	(1,275)
Equity income related to Pizza Pizza royalties earned by Fund ⁽³⁾⁽⁴⁾	3,235	3,608	3,377
Interest income ⁽⁵⁾	450	450	430
Net earnings⁽³⁾⁽⁴⁾	\$ 3,685	\$ 4,058	\$ 3,807
Earnings per Fund unit⁽³⁾⁽⁴⁾	\$ 0.205	\$ 0.226	\$ 0.212
Distributions declared	\$ 3,718	\$ 3,643	\$ 3,398
Distributions per Fund unit	\$ 0.207	\$ 0.203	\$ 0.189
Payout ratio	101%	89.8%	89.2%

(1) The Fund, indirectly through the Partnership, incurs administrative expenses and interest expense on the \$20 million outstanding bank loan. Interest expense on the bank loan for the current Period was \$274 thousand.

(2) Represents the interest of Pizza Pizza in the earnings of the Partnership from Class B and Class C Partnership units. The Class B units are exchangeable into Fund units based on value of the Class B Exchange Multiplier at the time of exchange as defined in the Licence and Royalty Agreement.

(3) For the current Period, earnings shown in the table excludes a \$635 thousand accounting loss on an effective disposition of 0.3% interest in the Partnership as a result of the vending in of one net new restaurant by Pizza Pizza thereby increasing Pizza Pizza's exchange multiplier. (See "Restaurants Added to the Royalty Pool")

(4) For the two quarters in 2005, earnings shown exclude structuring costs of \$11.9 million related to indirectly receiving proceeds from the Fund's initial public offering. The structuring costs were expensed during the period since they were determined to be a cost without a future benefit.

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

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Restaurants Added to the Royalty Pool [See "Fund Operations-Loss on effective disposition"]

On January 1, 2006, one net, new restaurant was added to the Royalty Pool as a result of five new restaurants opening from March 14, 2005 to September 1, 2005 and four closing from March 14, 2005 to December 31, 2005. The additional system sales from the one new restaurant are estimated at \$1.4 million annually. The total number of restaurants in the Royalty Pool has increased to 501. The yield of the Fund units was determined to be 8.06% calculated using \$9.97 as a weighted average unit price 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, 2006. 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 0.01674; the new Class B Multiplier is 1.01674. This adjustment will also increase Pizza Pizza's entitlement to distributions of cash and allocations of income on the Class B Units from the Partnership. The second adjustment to the Class B Exchange Multiplier will be made effective as of January 1, 2006 once the actual performance of the new restaurant is determined. In lieu of converting the new entitlements into Fund units, Pizza Pizza has increased the Class B Exchange Multiplier. As a result, Pizza Pizza Limited now holds Class B Partnership units exchangeable into 4,563,120 Fund units which equates to 20.3% of the fully diluted units of the Fund, or an additional 0.3% Partnership ownership. As a result of the effective disposition of 0.3% of its interest in the Partnership, the Fund now has a 79.7% effective ownership in the Partnership and has reported in its results for the first quarter of 2006 a non-cash loss of \$635,000. This loss would be reversed if, in future periods, Pizza Pizza converted its additional Class B units into Fund units and sold them.

ROYALTY POOL SALES

Pizza Pizza's system sales for the quarter ended March 31st have generally been the softest quarter and the December 31st quarter system sales have been the strongest. This seasonality has been repeated in the past two quarters. Royalty pool sales for the quarter ended March 31, 2006 were \$82.5 million compared with \$89.7 million in the quarter ended December 31, 2005 and were \$83.6 million for the partial quarter ended September 30, 2005. The March 31, 2006 quarter contained 90 days compared with 92 days in the quarter ended December 31, 2005 and 87 days in the partial quarter ended September 30, 2005.

Same Store Sales Growth, the key driver of yield growth for individual unitholders of the Fund, increased by 5.4% for the Period when compared to the same period in 2005.

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OPERATING RESULTS

The operations of the Fund and Partnership are separately analyzed in the information to follow in order to provide a better appreciation of the financial condition and results of the Fund and should be read in conjunction with the Fund's quarterly consolidated financial statements and accompanying notes. As the Fund came into existence July 6, 2005, no comparative year information is available. The financial statements for the quarter ended March 31, 2006, have been prepared in accordance with Canadian Generally Accepted Accounting Principles.

Partnership Operations

The Partnership, which is 79.7% owned by the Fund at March 31, 2006, earns a 6% royalty income on the Royalty Pool system sales of the Pizza Pizza restaurants. 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 performance for the quarter ended March 31, 2006 (the "Period").

Revenues

Royalty Income earned by the Partnership was \$4.95 million for the Period. The 6% royalty is earned on the Royalty Pool of 501 Pizza Pizza restaurants reporting \$82.5 million in system sales for the quarter.

Expenses

The Partnership's operating expenses include administrative expenses, amortization of deferred financing fees and interest paid on a \$20 million bank term loan. [See "Liquidity and Capital Resources-Term Loan".]

Operating expenses for the Period were \$439,000 including \$274,000 of interest expense on its \$20 million credit facility, \$152,000 of administrative expenses, and \$13,000 in amortization of deferred financing fees.

Net earnings

The Partnership had net earnings for the Period of \$4.5 million which were allocated to the Fund and Pizza Pizza based on their respective interest in the Partnership.

Selected Partnership balance sheet items

(in thousands of dollars)

Current Assets	2,044
Total Assets	232,719
Current Liabilities	1,236
Loan Payable	20,000
Total Liabilities & Equity	232,719

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Fund Operations

Equity income is earned by the Fund through limited partnership holdings of LP units representing its effective 79.7% interest in the Partnership. 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 for the Period by the Fund from its investment in the Partnership was \$3.2 million.

Loss on effective disposition of Partnership interest [See "Restaurants Added to the Royalty Pool"]

As a result of Pizza Pizza's Class B Exchange Multiplier increasing on January 1, 2006, the Fund effectively disposed of 0.3% of its interest in the Partnership and now has a 79.7% effective ownership. The disposition resulted in a \$0.6 million non-cash loss for the quarter. This loss would be reversed if, in future periods, Pizza Pizza converted its additional Class B units into Fund units and sold them.

Interest Income

The interest income for the Period was \$450,000, earned from the \$30 million loan from the Fund to Pizza Pizza, with interest paid monthly at 6.0% per annum.

Net earnings

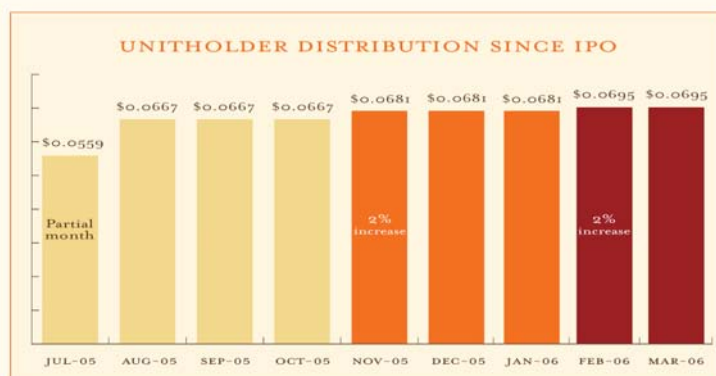
Earnings before loss on disposition described above was \$3.7 million for the Period or \$0.205 per unit. The loss on disposition reduced the Fund's net earnings to \$3.1 million or \$0.17 per unit.

Distributions

The Fund declared distributions of \$3.7 million or \$0.207 per unit for the Period, historically the softest quarter of the year, for a payout ratio of 101%. As of March 31, 2006, working capital of the Partnership totalled \$808,000 and has been accumulated as a cash reserve to cover seasonality and any unusual administrative expenditures. With regards to the 5.4% same store sales growth for the quarter ended March 31, 2006, the Fund increased its monthly distribution rate in February 2006.

Distributions for the Period were as follows:

<u>Period</u>	<u>Payment Date</u>	<u>Amount/unit</u>
January 1-31, 2006	February 15, 2006	6.81¢
February 1-28, 2005	March 15, 2006	6.95¢
March 1-31, 2006	April 13, 2006	6.95¢



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LIQUIDITY & CAPITAL RESOURCES

The Fund's distribution policy is to distribute all available cash, after allowing for reasonable reserves held at the Partnership level. In light of seasonal variations that are 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 in such a manner so that the continuity of uniform monthly distributions is maintained.

As of March 31, 2006, working capital of the Partnership totalled \$808,000 and has been accumulated as a reserve to cover seasonality and any unusual administrative expenditures.

The Deficit shown in the Unitholders' equity section of the Fund's consolidated balance sheet is a result of a 2005 equity loss allocation from the Partnership expensing structuring costs of \$11.9 million in the initial year of operations. The structuring costs expensed by the Partnership were related to and paid from the Fund's initial public offering proceeds and were determined to have no future benefit as an asset.

Term Loan and Operating Loan

The Partnership has a \$20 million non-revolving, three-year term loan facility, which was arranged during the IPO to partially finance the purchase of the PPL Rights from Pizza Pizza. As security for repayment of the facility, Pizza Pizza Limited granted to the Partnership a continuing, general security interest, subject to certain exceptions, in all present and acquired property of Pizza Pizza, which may not be assigned without the prior consent of Pizza Pizza. The facility bears interest at Prime plus 0.50% to 0.75% or the Bankers Acceptance rate plus 1.75% to 2.00%, depending on the level of funded debt to EBITDA, defined as annualized earnings before interest, taxes, depreciation and amortization. During 2005, the interest rate on the facility was fixed with an interest rate swap through January 6, 2010 at 3.55% plus 2% credit spread. If the Fund has operated for four consecutive quarters and has achieved an annualized EBITDA of \$20 million, the credit spread would be reduced to 1.75%, reducing the effective fixed interest rate on the loan to 5.3%.

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.

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 PPL Rights, the valuation of the Fund's investment is based primarily upon the valuation of intangible assets in the Partnership. The PPL Rights are not amortized as they have an indefinite life. The 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. The 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, 2006.

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OUTLOOK

Pizza Pizza management has advised the Trustees that, in 2006, it expects to grow the number of restaurants in the Ontario network by 3% and to continue researching potential expansion opportunities outside its predominantly Ontario market, with any potential expansion coming either through organic growth or acquisitions. Additionally, Pizza Pizza expects to continue franchising its remaining Company-owned restaurants.

Same Store Sales Growth, the key driver of yield growth for individual unitholders of the Fund, was 5.4% for the quarter ended March 31, 2006, compared with the same period in 2005.

Subsequent to September 1, 2005, the date by which restaurants must have been opened to be considered for inclusion in the 2006 Royalty Pool, and prior to March 31, 2006, Pizza Pizza has opened 14 new locations, five of which are traditional locations and nine are non-traditional. Subsequent to December 31, 2005 and prior to March 31, 2006, Pizza Pizza has closed two locations, both of which were non-traditional.

With over 90% of traditional restaurants expanded or relocated within the last five years, Pizza Pizza offers expanded seating capacity, thereby targeting additional day-parts and allowing for additional product offerings to enable restaurants to continue increasing same store sales. Management is focused on completing the renovation program in 2006.

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 income.

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. If Pizza Pizza and Pizza Pizza franchisees 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 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.

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Litigation

Pizza Pizza Royalty Income Fund has received an update from Pizza Pizza Limited ("PPL") regarding a potential claim disclosed in the Fund's 2005 initial public offering prospectus and PPL's subsequent financial statement filings.

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

PPL has advised the Fund that it believes the demand to be without merit and it will vigorously defend the claim. The Fund notes that Michael Overs, the Chairman and CEO of PPL, has agreed in an indemnity agreement to indemnify PPL 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

FORWARD LOOKING STATEMENTS

Certain statements in this report 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.

ADDITIONAL INFORMATION

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