

**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 interim consolidated financial statements of the Fund. Readers should note that the 2008 results are not directly comparable to the 2007 results due to the fact that there are 609 restaurants in the Royalty Pool for 2008 compared to 531 restaurants in the Royalty Pool for the first and second quarters of 2007 and 572 for the third quarter of 2007.

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:

	3 months ended		9 months ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
(in thousands of dollars, except number of restaurants and per unit amounts)				
Restaurants in Royalty Pool	609	572	609	572
Same store sales growth	2.2%	5.1%	2.5%	5.0%
System sales reported by Pizza Pizza restaurants in the Royalty Pool	\$ 99,894	\$ 95,041	\$ 288,054	\$ 276,721
System sales reported by Pizza 73 restaurants in the Royalty Pool ⁽¹⁾	20,493	13,894	60,130	13,894
	\$ 120,387	\$ 108,935	\$ 348,184	\$ 290,615
Royalty – 6% on Pizza Pizza system sales	\$ 5,994	\$ 5,703	\$ 17,283	\$ 16,604
Royalty – 9% on Pizza 73 system sales	1,844	1,250	5,412	1,250
Total Royalty on System Sales	\$ 7,838	\$ 6,953	\$ 22,695	\$ 17,854
Partnership expenses ⁽²⁾	(810)	(813)	(2,489)	(1,649)
Earnings available for distribution to the Fund and Pizza Pizza Limited	7,028	6,140	20,206	16,205
Pizza Pizza Limited's interest ⁽³⁾	(1,867)	(1,564)	(5,412)	(4,581)
	5,161	4,576	14,794	11,624
Interest income ⁽⁴⁾	450	499	1,350	1,399
Net earnings before non-cash future income tax expense and issuance costs of \$169	\$ 5,611	\$ 5,075	\$ 16,144	\$ 13,023
Provision for (recovery of) future income taxes	-	4,198	(2,235)	12,898
Net earnings (loss)	\$ 5,611	\$ 708	\$ 18,379	\$ (44)
Basic earnings per Fund unit excluding the impact of non-cash future income tax expense and issuance costs ⁽⁵⁾	\$ 0.257	\$ 0.248	\$ 0.740	\$ 0.692
Basic earnings per Fund unit	\$ 0.257	\$ 0.035	\$ 0.842	\$ -
Diluted earnings per Fund unit	\$ 0.253	\$ 0.035	\$ 0.807	\$ -
Distributions declared	\$ 5,073	\$ 4,772	\$ 15,055	\$ 12,634
Distributions per Fund unit	\$ 0.233	\$ 0.222	\$ 0.690	\$ 0.660
Payout ratio	90%	94%	93%	97%
	September 30, 2008		December 31, 2007	
Total assets	\$ 221,467		\$ 212,643	
Total liabilities	\$ 7,664		\$ 9,866	

- (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, 2008, there are 50 Pizza 73 restaurants in the Royalty Pool.
- (2) The Fund, indirectly through the Partnership, incurs administrative expenses and interest expense on the \$47,000 outstanding bank loan (2007 - \$47,000). Interest expense on the bank loan for the quarter and nine months ended September 30, 2008 was \$687 and \$2,100 respectively (2007 – \$590 and \$1,100).
- (3) 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 21.5% of the fully diluted units of the Fund at September 30, 2008.

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- (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 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 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. Pizza Pizza believes that, in addition to net earnings, net earnings excluding the impact of non-cash future income tax expense and issuance costs 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 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.

	Q3 2008 (unaudited) ⁽¹⁾	Q2 2008 (unaudited) ⁽¹⁾	Q1 2008 (unaudited) ⁽¹⁾	Q4 2007 (unaudited) ⁽¹⁾
(in thousands of dollars, except number of restaurants, days in the Period and per unit amounts)				
Restaurants in Royalty Pool	609	609	609	572
Same store sales growth	2.2%	1.3%	3.7%	4.9%
System sales reported by Pizza Pizza restaurants in Royalty Pool	\$ 99,894	\$ 94,190	\$ 93,970	\$ 99,654
System sales reported by Pizza 73 restaurants in Royalty Pool ⁽¹⁾	20,493	20,087	19,550	19,230
	\$ 120,387	\$ 114,277	\$ 113,520	\$ 118,884
Royalty – 6% on Pizza Pizza system sales	\$ 5,994	\$ 5,651	\$ 5,638	\$ 5,979
Royalty – 9% on Pizza 73 system sales	1,844	1,808	1,760	1,731
Royalty on System Sales of Royalty Pool Partnership expenses ⁽²⁾	\$ 7,838 (810)	\$ 7,459 (854)	\$ 7,398 (825)	\$ 7,710 (896)
Earnings available for distribution to the Fund and Pizza Pizza Limited	7,028	6,605	6,573	6,814
Pizza Pizza Limited's interest ⁽³⁾	(1,867)	(1,776)	(1,769)	(1,619)
Interest income ⁽⁴⁾	5,161	4,829	4,804	5,195
Net earnings excluding the impact of non-cash future income tax expense ⁽⁶⁾	\$ 450	\$ 450	\$ 450	\$ 450
Provision for (recovery of) future taxes	\$ 5,611	\$ 5,279	\$ 5,254	\$ 5,645
Net earnings	\$ -	\$ (3,091)	\$ 856	\$ (4,690)
Basic earnings per Fund unit excluding the impact of non-cash future income tax expense ⁽⁶⁾	\$ 5,611	\$ 8,370	\$ 4,398	\$ 10,335
Basic earnings per Fund unit ⁽⁵⁾	\$ 0.257	\$ 0.242	\$ 0.241	\$ 0.259
Diluted earnings per Fund unit ⁽⁵⁾	\$ 0.257	\$ 0.384	\$ 0.202	\$ 0.474
Distributions declared	\$ 0.253	\$ 0.349	\$ 0.202	\$ 0.430
Distributions per Fund unit	\$ 5,073	\$ 5,007	\$ 4,975	\$ 4,974
Payout ratio	\$ 0.233	\$ 0.230	\$ 0.228	\$ 0.228
	90%	95%	95%	88%

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	Q3 2007 (unaudited) ⁽¹⁾	Q2 2007 (unaudited)	Q1 2007 (unaudited)	Q4 2006 (unaudited)
(in thousands of dollars, except number of restaurants, days in the Period and per unit amounts)				
Restaurants in Royalty Pool	572	531	531	501
Same store sales growth	5.1%	4.3%	5.5%	5%
System sales reported by Pizza Pizza restaurants in Royalty Pool	\$ 95,041	\$ 92,162	\$ 89,518	\$ 93,866
System sales reported by Pizza 73 restaurants in Royalty Pool ⁽¹⁾	13,894	-	-	-
	\$ 108,935	\$ 92,162	\$ 89,518	\$ 93,866
Royalty – 6% on Pizza Pizza system sales	\$ 5,703	\$ 5,530	\$ 5,371	\$ 5,632
Royalty – 9% on Pizza 73 system sales	1,250	-	-	-
Royalty on System Sales of Royalty Pool	\$ 6,953	\$ 5,530	\$ 5,371	\$ 5,632
Partnership expenses ⁽²⁾	(813)	(498)	(338)	(426)
Earnings available for distribution to the Fund and Pizza Pizza Limited	6,140	5,032	5,033	5,206
Pizza Pizza Limited's interest ⁽³⁾	(1,564)	(1,508)	(1,509)	(1,414)
	4,576	3,524	3,524	3,792
Interest income ⁽⁴⁾	499	450	450	450
Net earnings excluding the impact of non-cash future income tax expense and issuance costs ⁽⁶⁾	\$ 5,075	\$ 3,974	\$ 3,974	\$ 4,242
Provision for future taxes	4,198	8,700	-	-
Net earnings (loss)	\$ 708	\$ (4,726)	\$ 3,974	\$ 4,242
Basic earnings per Fund unit excluding the impact of non-cash future income tax expense and issuance costs ⁽⁶⁾	\$ 0.248	\$ 0.211	\$ 0.221	\$ 0.237
Basic earnings (loss) per Fund unit ⁽⁵⁾	\$ 0.035	\$ (0.263)	\$ 0.221	\$ 0.237
Diluted earnings (loss) per Fund unit ⁽⁵⁾	\$ 0.035	\$ (0.263)	\$ 0.215	\$ 0.231
Distributions declared	\$ 4,772	\$ 3,931	\$ 3,931	\$ 3,822
Distributions per Fund unit	\$ 0.222	\$ 0.219	\$ 0.219	\$ 0.213
Payout ratio	94%	99%	99%	90%

- (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, 2008, there are 50 Pizza 73 restaurants in the Royalty Pool.
- (2) The Fund, indirectly through the Partnership, incurs administrative expenses and interest expense on the \$47,000 outstanding bank loan (2007 - \$20,000).
- (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 21.5% of the fully diluted units of the Fund at September 30, 2008.
- (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 (loss) for the quarters ended September 30, 2008, June 30, 2008, March 31, 2008, December 31, 2007, September 30, 2007 and June 30, 2007 reflect the effect of the non-cash, future tax expense, and for the quarter ended September 30, 2007 also reflect the Fund's share of the Partnership's issuance costs of \$169.
- (6) "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. Pizza Pizza 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.

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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") and nine month period (the "Period") ended September 30, 2008. 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 October 30, 2008.

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 2008, the Royalty Pool consists of 559 Pizza Pizza restaurants and 50 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 growth ("SSSG"). The key metric for yield growth of the Fund is SSSG, 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 SSSG 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 maintains 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 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.

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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 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 2008, adjustments to royalty payments and Pizza Pizza's Class B Exchange Multiplier were made based on the actual performance of the 35 restaurants added to the Royalty Pool on January 1, 2007. As a result of the adjustments, the Class B Exchange Multiplier effective for 2007 was 1.23525 and Pizza Pizza's exchangeable units increased by 122,427 to 5,031,342 Fund units, effective January 1, 2007.

On January 1, 2008, 28 net, new Pizza Pizza restaurants were added to the Royalty Pool as a result of 36 new restaurants opening and eight closings during 2007. The additional system sales from the 28 net, new restaurants are estimated at \$8.0 million annually. The total number of Pizza Pizza restaurants in the Royalty Pool has increased to 559. The yield of the Fund units was determined to be 9.0% calculated using \$9.87 as a weighted average unit price. Weighted average unit price is calculated based on the market price of the units traded on the TSX during the period of 20 consecutive days ending on the fifth trading day before January 1, 2008. As a result of the contribution of the additional net sales to the Royalty Pool, Pizza Pizza's Class B Exchange Multiplier increased fractionally by 80% of the total adjustment or 0.09805; the new Class B Multiplier is 1.33330. This adjustment also increases 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 effective January 1, 2008, once the actual performance of the new restaurants is determined in early 2009. As a result of the adjusted Class B Exchange Multiplier, Pizza Pizza currently holds Class B Partnership units exchangeable into 5,430,699 Fund units.

On January 1, 2008, nine new Pizza 73 restaurants opened prior to September 1, 2007 were added to the Royalty Pool. The additional system sales from the nine new restaurants are estimated at \$7.5 million annually. The total number of Pizza 73 restaurants in the Royalty Pool has increased to 50. 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 9.0% and \$9.87, respectively. As a result of the contribution of the additional net sales to the Royalty Pool, Pizza Pizza's Class D Exchange Multiplier increased fractionally by 80% of the total adjustment or 5.58750; the new Class D Multiplier is 5.5875. This adjustment also increases 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 effective January 1, 2008, once the actual performance of the new restaurants is determined in early 2009. As a result of the adjusted Class D Exchange Multiplier, Pizza Pizza currently holds Class D Partnership units exchangeable into 558,750 Fund units.

As a result of the January 1, 2008 vend-in, the number of Fund units for which Pizza Pizza's Class B and Class D Partnership units are exchangeable increased to 5,989,449 which, as at September 30, 2008, equates to 21.5% of the fully diluted units of the Fund. The Fund reported an increase in its investment in the Partnership and a

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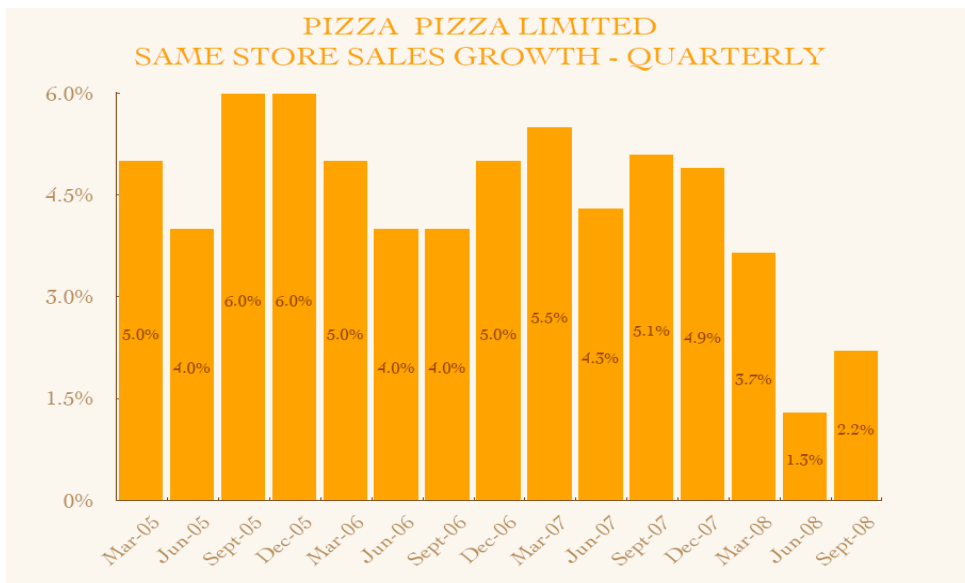
contributed surplus of \$8.7 million to reflect the increase in value as a result of the vend-in of the new royalty stream on January 1, 2008.

SAME STORE SALES GROWTH

Same Store Sales Growth, the key driver of yield growth for unitholders of the Fund, increased by 2.2% (5.1% - 2007) for the quarter and increased 2.5% (5% - 2007) for the nine months ended September 30, 2008 compared with the same period in 2007. For the quarter, SSSG for the Pizza Pizza restaurants was 2.0%, and was 2.7% for Pizza 73 restaurants, and for the nine month period, SSSG for the Pizza Pizza restaurants was 1.5%, and was 7.4% for Pizza 73 restaurants. 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.

The majority of the Pizza Pizza restaurants operate in the province of Ontario which continues to experience a decline in manufacturing employment and tourism, both attributable to an economic slowdown in the United States and world-wide. These economic factors have affected SSSG of the Pizza Pizza restaurants during the quarter and year-to-date.

For the Pizza 73 brand, 14 traditional stores have opened since October 1, 2007. Of the 14 new stores, 13 have reduced territories of previously existing stores which negatively impacted SSSG at those Pizza 73 locations. Adding stores in the Alberta market is part of Pizza Pizza’s overall strategy to relieve capacity constraints at store level and provide improved customer service while growing and protecting the brand. The Fund receives a 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” 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 period ended December 31, 2007.)



ROYALTY POOL SALES

The restaurants in the Royalty Pool increased on January 1, 2008 to 609 from 572 in the third quarter of 2007, to include 37, net new restaurants vended in on January 1, 2008. In July 2007, the Royalty Pool increased from 531 to 572, to include the 41 Pizza 73 restaurants vended in on the purchase of the Pizza 73 Rights by the Partnership.

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System sales from the 609 restaurants in the Royalty Pool for the quarter and nine months ended September 30, 2008 were \$120.4 million and \$348.2 million, respectively. Sales from the 50 Pizza 73 restaurants in the Pool were \$20.5 million for the quarter and \$60.1 million for the nine month period, while sales from the 559 Pizza Pizza restaurants in the Pool were \$99.9 million and \$288.1 million, for the same periods.

For the prior year comparative quarter and nine month period, system sales for the 572 restaurants in the Royalty Pool were \$108.9 million and \$290.6 million, respectively. Sales from the 41 Pizza 73 restaurants in the Pool were \$13.9 million for the quarter and nine month period, while sales from the 531 Pizza Pizza restaurants in the Pool were \$95.0 million for the quarter and \$276.7 million for the nine month period. The increase in Royalty Pool sales, as compared to the prior year, is the result of the addition of the restaurants mentioned above and the positive SSSG.

Pizza Pizza's system sales for the quarter ended March 31 have generally been the softest and the December 31 quarter system sales have been the strongest due to seasonality of the business.

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 consolidated financial statements and 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 and nine months ended September 30, 2008.

Revenues

Royalty income earned by the Partnership was \$7.8 million for the quarter and \$22.7 million for the nine month period ended September 30, 2008. A 6% royalty was earned on the Royalty Pool of 559 Pizza Pizza restaurants reporting \$99.9 million in sales for the quarter and \$288.1 million for the nine month period ended. A 9% royalty was earned on the Royalty Pool of 50 Pizza 73 restaurants reporting \$20.5 million in system sales for the quarter and \$60.1 million in sales for the nine months ended September 30, 2008.

Royalty income earned by the Partnership for the comparative quarter and nine month period in 2007 was \$7.0 million and \$17.9 million, respectively, and the 531 Pizza Pizza restaurants in the Royalty Pool reported system sales of \$95 million and \$276.7 million, respectively, while the 41 Pizza 73 restaurants reported system sales of \$13.9 million for the partial period from July 24, 2007 to September 30, 2007.

The period over period increase is due to the addition of 37, net new restaurants to the Royalty Pool on January 1, 2008, 41 Pizza 73 restaurants added to the Royalty Pool in July 2007, and the period-over-period SSSG.

Expenses

The Partnership's operating expenses include administrative expenses, amortization of deferred financing fees and interest paid on a \$47 million bank term loan (2007 - \$47 million). See "Liquidity and Capital Resources-Term Loan".

Operating expenses for the quarter were \$810,000, including \$694,000 of interest expense and amortization of deferred financing fees on the \$47 million term loan and \$116,000 of administrative

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expenses. Operating expenses for the nine month period were \$2.5 million, including \$2.1 million of interest expense and amortization of financing fees on the \$47 million term loan and \$401,000 of administrative expenses.

Operating expenses for the comparative quarter of 2007 were \$813,000, including \$646,000 of interest expense and amortization of deferred financing fees on its \$47 million credit facility and \$167,000 of administrative expenses. During the third quarter of 2007, the Partnership expensed \$207,000 of issuance costs related to the Pizza 73 transaction, payment of which was deducted from the proceeds of issuance. The issuance costs paid by the Partnership were deemed to not have future value as an asset and were expensed. Operating expenses for the comparative nine month period in 2007 were \$1.6 million, including \$1.2 million of interest expense and amortization of deferred financing fees on its \$47 million credit facility and \$415,000 of administrative expenses.

The increase in the year-to-date interest expense is the result of the increase in the term loan from \$20 million to \$47 million in July 2007, offset by a decrease in the interest rate charged on the \$20 million facility. See "Liquidity and Capital Resources-Term Loan".

Net Earnings

The Partnership had net earnings for the quarter and nine month period ended September 30, 2008 of \$7.0 million and \$20.2 million, respectively, which were allocated to the Fund and Pizza Pizza based on their respective interest in the Partnership, as compared to \$6.1 million and \$16.2 million in the comparable quarter and nine month period of 2007.

Selected Partnership Balance Sheet items

	(in thousands of dollars)	
	<u>September 30, 2008</u>	<u>December 31, 2007</u>
Current Assets	\$ 4,643	\$ 4,317
Total Assets	310,541	299,532
Current Liabilities	1,828	2,373
Loan Payable	46,892	46,865
Total Liabilities & Equity	310,541	299,532

Fund Operations

Equity income is earned by the Fund through limited partnership holdings of LP units representing its effective 78.5% 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 by the Fund for the quarter and nine month period ended September 30, 2008 was \$5.2 million and \$14.8 million, respectively. The equity income, including issuance costs earned for the comparable 2007 quarter and nine month period, was \$4.4 million and \$11.5 million based on its 81.6% share of the Partnership at that time. The increase in equity income is the result of greater royalty revenue earned by the Partnership.

Interest Income

The interest income for the quarter and nine month period ended September 30, 2008 was \$450,000 and \$1.4 million, earned on the \$30 million loan from the Fund to Pizza Pizza, with interest paid monthly at 6% per annum. In the comparative quarter and nine month period interest income was \$499,000 and \$1.4

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million, respectively. An additional \$49,000 in interest was earned during the third quarter of 2007 on the subscription receipt proceeds held during July.

Net Earnings Before Income Taxes and Issuance Costs

Net earnings before income taxes and issuance costs for the quarter ended September 30, 2008 were \$5.6 million or \$0.257 per unit, as compared to \$5.1 million or \$0.248 per unit for the comparable quarter in 2007, which equates to a 3.6% increase per unit.

Net earnings before income taxes and issuance costs for the nine months ended September 30, 2008 were \$16.1 million or \$0.740 per unit, as compared to \$13 million or \$0.692 per unit for the comparable nine months in 2007, which equates to a 6.9% increase per unit.

Future Tax Expense (Recovery)

Effective 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 for certain forms of publicly traded income trusts in 2011. Accordingly, the Fund gave accounting recognition to these new rules in the second quarter of 2007.

The recovery in the nine months ended September 30, 2008 is a result of a tax planning strategy to conserve the discretionary deductions available to the Fund until years in which the Fund will become taxable. During the comparative quarter, the Fund increased its non-cash future tax expense to record its proportionate share of the timing difference relating to the acquisition of the Pizza 73 Rights in the Partnership. 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 (Loss)

Net earnings for the quarter were \$5.6 million or \$0.257 per unit, as compared to a net earnings of \$708,000 or \$0.035 per unit in the comparable quarter of 2007. Net earnings for the nine month period ended September 30, 2008 were \$18.4 million, or \$0.842 per unit, as compared to a net loss of \$44,000 or \$nil per unit for the same period in 2007.

For the nine month period, the net earnings per unit have been increased by the non-cash, future tax recovery of \$0.102 per unit. The net earnings for the quarter of \$708,000 and the net loss for nine month period ended September 30, 2007 is solely the result of the non-cash, future tax expense of \$4.2 million and \$12.9 million, respectively.

Distributions

The Fund declared distributions of \$5.1 million or \$0.233 per unit for the quarter, equating to a 90% payout ratio; for the 2007 comparable quarter, the Fund declared distributions of \$4.8 million or \$0.222 per unit for a payout ratio of 94%. For the nine months ended September 30, 2008, the Fund declared distributions of \$15.1 million or \$0.690 per unit, equating to a 93% payout ratio; for the 2007 comparable period, the Fund declared distributions of \$12.6 million or \$0.660 per unit for a payout ratio of 97%.

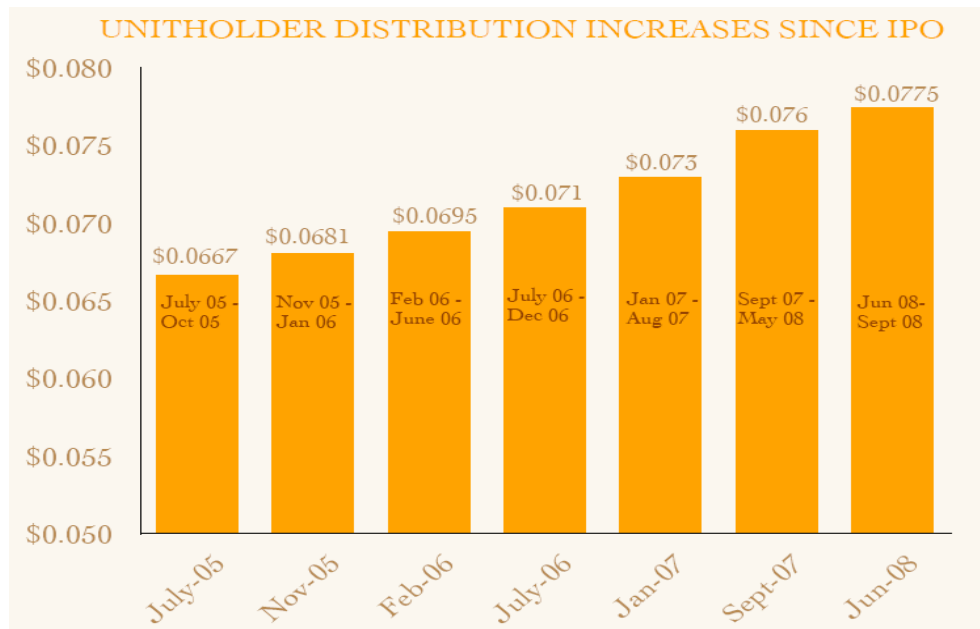
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Distributions declared for 2008 are as follows:

<u>Period</u>	<u>Payment Date</u>	<u>Amount/unit</u>
January 1-31, 2008	February 15, 2008	7.6¢
February 1-29, 2008	March 14, 2008	7.6¢
March 1-31, 2008	April 15, 2008	7.6¢
April 1-30, 2008	May 15, 2008	7.6¢
May 1-31, 2008	June 13, 2008	7.6¢
June 1-30, 2008	July 15, 2008	7.75¢
July 1-31, 2008	August 15, 2008	7.75¢
August 1-31, 2008	September 12, 2008	7.75¢
September 1-30, 2008	October 15, 2008	7.75¢
Total		69.00¢

Distributions were funded entirely by cash flow from operations. No debt was incurred at any point 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 distribution 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 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 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.

As of September 30, 2008, working capital of the Partnership was \$2.8 million (December 31, 2007 - \$1.9 million), accumulated as a reserve to cover seasonality and any unusual administrative expenditures.

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Term Loan and Operating Loan

On July 24, 2007, the Partnership amended the 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 three interest rate swaps through July 23, 2012 but may decrease should the debt-to-EBITDA ratio decrease.

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 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 September 30, 2008 was \$3.3 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 1.58:1. The Partnership is presently making interest-only payments on the non-revolving credit facility.

OUTLOOK

In 2008, Pizza Pizza management expects to grow the number of restaurants by 4% 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 beginning site selection in other provinces throughout Canada. In the Alberta marketplace, Pizza 73 traditional locations will continue to be added to better service the growing western Canadian 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. At the end of the third quarter, 28 new restaurants have opened and seven have closed.

The majority of the Pizza Pizza restaurants operate in the province of Ontario which continues to experience a decline in manufacturing employment and tourism attributable to an economic slowdown in the United States and world-wide. These economic factors have affected SSSG during the quarter and year-to-date.

Third quarter SSSG increased 2.2% over the same period last year. This was a slight improvement over the 1.3% reported in the second quarter. As Ontario consumers continue to be price-sensitive, Pizza Pizza has employed successful marketing strategies to meet this consumer trend by using competitive value initiatives. Year-to-date, the two brands reported a 2.5% SSSG. For the Pizza 73 brand, 14 stores have opened since October 1, 2007. Of the 14 new stores, 13 have reduced territories of previously existing stores which negatively impacted SSSG at those Pizza 73 locations. Adding stores in the Alberta market is part of Pizza Pizza's overall strategy to relieve capacity constraints at store level and provide improved customer service while growing and protecting the brand.

Although SSSG of 2.5% year-to-date is below our historical sales growth experience, Pizza Pizza management is satisfied with the Company's performance in light of the economic challenges encountered in the Ontario market and new restaurants added at Pizza 73. Although the Company does not anticipate significant near-term

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improvement in the Ontario economy, our strategies will focus on reinforcing value-oriented menu offerings, launching new relevant products, and reinvesting in activities which drive sales growth.

Pizza Pizza's core strategy of driving long-term unitholder and restaurant value is supported by the Company's track record of innovation, especially in providing customer convenience and satisfaction. During the second quarter, we completed the successful roll-out of the wireless "debit-to-your-door" project for both Pizza Pizza and Pizza 73. In the third quarter, we took advantage of the wireless devices by introducing our enhanced loyalty card program not only for walk-in traffic, but also for consumers choosing to use our delivery system. Marketing initiatives and incentives will support the wireless introduction by encouraging consumers to use the loyalty/gift cards.

Additionally, in the last quarter of 2008, Pizza Pizza management will complete a major technological investment of our on-line ordering option to improve this consumer contact experience. Pizza 73's on-line ordering was vastly improved last year and is the preferred method for over 20% of orders placed as it provides the consumer an efficient, convenient ordering method while reducing operating costs. We anticipate similar success with the Pizza Pizza on-line ordering enhancements. These innovations are examples of what drives our SSSG and Pizza Pizza's market share, which exceeds 40% in Ontario and over 15% in Alberta.

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.

During the quarter ending September 30, 2008, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company'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 September 30, 2008.

CHANGES IN ACCOUNTING POLICIES, INCLUDING INITIAL ADOPTION

General Standards on Financial Statement Presentation

Commencing January 1, 2008, the Fund has adopted the new recommendations of the Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 1400, General Standards on Financial Statement Presentation. Under these new recommendations, the Fund is required to assess and disclose its ability to continue as a going concern. The Fund's adoption of this standard did not have a material impact on disclosure in the Fund's financial statements.

Capital Disclosure

Commencing January 1, 2008, the Fund has adopted the new recommendations of the CICA Handbook Section 1535, Capital Disclosures. Under these new recommendations, the Fund is required to disclose its objectives,

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policies and processes for managing capital and whether the entity has complied with any capital requirements, and if it has not complied, the consequences of such non-compliance. The required disclosure is in note 8 of the Fund's interim consolidated financial statements.

Financial Instruments - Disclosures

Commencing January 1, 2008, the Fund has adopted the new recommendations of the CICA Handbook Section 3862, Financial Instruments – Disclosures. Under these new recommendations, the Fund is required to increase the disclosure to enable user to evaluate the significance of financial instruments for the Fund's financial position and performance, including disclosure about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net earnings and other comprehensive income would have been affected by reasonably possible changes in the relevant risk variable. The required disclosure is in note 10 of the Fund's interim consolidated financial statements.

Financial Instrument Presentation

Commencing January 1, 2008, the Fund has adopted the new recommendations of the CICA Handbook Section 3863, Financial Instrument – Presentation, which replaces the existing requirements on presentation of financial instruments which have been carried forward unchanged to this new section. The Fund's adoption of this standard did not have a material impact on disclosure in the Fund's financial statements.

RECENT ACCOUNTING PRONOUNCEMENTS

Recent accounting pronouncements issued and not yet effective:

International Financial Reporting Standards

The CICA plans to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") effective January 1, 2011. The impact of the transition to IFRS on the Fund's financial statements is not yet determinable.

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. 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

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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 third quarter of 2008, 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 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 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.