

**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:

	2009	2008	2007
(in thousands of dollars, except number of restaurants, days in the quarter and per unit amounts)			
Restaurants in Royalty Pool ⁽¹⁾	637	609	572
Same store sales ⁽²⁾	-5.9%	1.7%	4.6%
System sales reported by Pizza Pizza restaurants in the Royalty Pool	\$ 370,115	\$ 389,518	\$ 376,375
System sales reported by Pizza 73 restaurants in the Royalty Pool	81,297	81,105	33,124
	\$ 451,412	\$ 470,623	\$ 409,499
Royalty – 6% on Pizza Pizza system sales	\$ 22,207	\$ 23,371	\$ 22,583
Royalty – 9% on Pizza 73 system sales	7,317	7,299	2,981
Total Royalty on System Sales	29,524	30,670	25,564
Partnership expenses ⁽³⁾	(3,343)	(3,280)	(2,545)
Earnings available for distribution to the Fund and Pizza Pizza Limited	26,181	27,390	23,019
Pizza Pizza Limited's interest ⁽⁵⁾	(8,298)	(7,311)	(6,200)
Equity income before issuance costs ⁽⁴⁾	17,883	20,079	16,819
Interest income ⁽⁶⁾	1,800	1,800	1,849
Net earnings before non-cash future income tax expense and issuance costs ⁽⁷⁾	\$ 19,683	\$ 21,879	\$ 18,668
Share of Partnership issuance costs	-	-	169
Provision for (recovery of) future income taxes	(293)	(2,235)	8,208
Net earnings	\$ 19,976	\$ 24,114	\$ 10,291
Basic earnings per Fund unit excluding the impact of non-cash future income tax expense and issuance costs ⁽⁷⁾	\$ 0.902	\$ 1.003	\$ 0.954
Basic earnings per Fund unit	\$ 0.916	\$ 1.105	\$ 0.526
Diluted earnings per Fund unit	\$ 0.912	\$ 1.065	\$ 0.526
Distributions declared	\$ 20,291	\$ 20,127	\$ 17,608
Distributions per Fund unit	\$ 0.930	\$ 0.923	\$ 0.888
Payout ratio	103%	92%	94%
	December 31, 2009	December 31, 2008	December 31, 2007
Working capital of Partnership	\$ 2,423	\$ 3,487	\$ 1,945
Total assets of Fund	\$ 226,738	\$ 220,336	\$ 212,643
Total liabilities of Fund	\$ 7,371	\$ 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.

(2) Same Store Sales ("SSS") means the change in annual gross revenue of a particular Pizza Pizza or Pizza 73 restaurant as compared to sales in the previous year, where the restaurant has been open at least 13 months. Additionally, for a Pizza 73 restaurant whose Restaurant Territory was adjusted due to an Additional Restaurant, Step-Out payment is added to sales to arrive at SSS.

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- (3) The Fund, indirectly through the Partnership, incurs administrative expenses and interest expense on the \$47,000 outstanding bank loan (2008 - \$47,000, 2007 - \$47,000). Interest expense on the bank loan 2009 was \$2,660 (2008 - \$2,667, 2007 - \$1,800).
- (4) For December 31, 2007, earnings shown exclude issuance costs of \$207 paid from the proceeds raised to acquire the Pizza 73 trademarks and rights.
- (5) 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 December 31, 2009 (2008 - 21.5%, 2007 - 18.4%)
- (6) The Fund indirectly earns interest income on the \$30,000 loan to Pizza Pizza, with interest income accruing at 6% per annum, payable monthly.
- (7) "Net earnings excluding the impact of non-cash future income tax expense (recovery) and issuance costs" and "Basic earnings per Fund unit excluding non-cash future income tax expense (recovery) 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 issuance costs, 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 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 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.

	Q4 2009 (unaudited)	Q3 2009 (unaudited)	Q2 2009 (unaudited)	Q1 2009 (unaudited)
(in thousands of dollars, except number of restaurants, days in the Period and per unit amounts)				
Restaurants in Royalty Pool	637	637	637	637
Same store sales	-4.0%	-7.6%	-7.8%	-4.3%
Days in period	92	92	91	90
System sales reported by Pizza Pizza restaurants in Royalty Pool	\$ 98,340	\$ 94,400	\$ 89,342	\$ 88,033
System sales reported by Pizza 73 restaurants in Royalty Pool	\$ 20,484	\$ 19,701	\$ 19,760	\$ 21,352
	\$ 118,824	\$ 114,101	\$ 109,102	\$ 109,385
Royalty – 6% on Pizza Pizza system sales	\$ 5,900	\$ 5,664	\$ 5,361	\$ 5,282
Royalty – 9% on Pizza 73 system sales	\$ 1,844	\$ 1,773	\$ 1,778	\$ 1,922
Royalty on System Sales of Royalty Pool Partnership expenses ⁽¹⁾	\$ 7,744 (868)	\$ 7,437 (805)	\$ 7,139 (882)	\$ 7,204 (788)
Earnings available for distribution to the Fund and Pizza Pizza Limited	6,876	6,632	6,257	6,416
Pizza Pizza Limited's interest ⁽²⁾	(2,156)	(2,096)	(2,003)	(2,043)
Equity income	4,720	4,536	4,254	4,373
Interest income ⁽³⁾	450	450	450	450
Net earnings excluding the impact of non-cash future income tax expense ⁽⁴⁾	\$ 5,170	\$ 4,986	\$ 4,704	\$ 4,823
Provision for (recovery of) future taxes	-	-	-	(293)
Net earnings	\$ 5,170	\$ 4,986	\$ 4,704	\$ 5,116
Basic earnings per Fund unit excluding the impact of non-cash future income tax expense ⁽⁴⁾	\$ 0.237	\$ 0.229	\$ 0.216	\$ 0.221
Basic earnings per Fund unit	\$ 0.237	\$ 0.229	\$ 0.216	\$ 0.234
Diluted earnings per Fund unit	\$ 0.237	\$ 0.229	\$ 0.216	\$ 0.231
Distributions declared	\$ 5,073	\$ 5,073	\$ 5,073	\$ 5,072
Distributions per Fund unit	\$ 0.233	\$ 0.233	\$ 0.233	\$ 0.233
Payout ratio	98%	102%	108%	105%

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	Q4 2008 (unaudited)	Q3 2008 (unaudited)	Q2 2008 (unaudited)	Q1 2008 (unaudited)
(in thousands of dollars, except number of restaurants, days in the Period and per unit amounts)				
Restaurants in Royalty Pool	609	609	609	609
Same store sales	-0.6%	2.2%	1.3%	3.7%
Days in period	92	92	91	91
System sales reported by Pizza Pizza restaurants in Royalty Pool	\$ 101,464	\$ 99,894	\$ 94,190	\$ 93,970
System sales reported by Pizza 73 restaurants in Royalty Pool	20,975	20,493	20,087	19,550
	\$ 122,439	\$ 120,387	\$ 114,277	\$ 113,520
Royalty – 6% on Pizza Pizza system sales	\$ 6,088	\$ 5,994	\$ 5,651	\$ 5,638
Royalty – 9% on Pizza 73 system sales	1,887	1,844	1,808	1,760
Royalty on System Sales of Royalty Pool	\$ 7,975	\$ 7,838	\$ 7,459	\$ 7,398
Partnership expenses ⁽¹⁾	(791)	(810)	(854)	(825)
Earnings available for distribution to the Fund and Pizza Pizza Limited	7,184	7,028	6,605	6,573
Pizza Pizza Limited's interest ⁽²⁾	(1,899)	(1,867)	(1,776)	(1,769)
Equity income	5,285	5,161	4,829	4,804
Interest income ⁽³⁾	450	450	450	450
Net earnings excluding the impact of non-cash future income tax expense ⁽⁴⁾	\$ 5,735	\$ 5,611	\$ 5,279	\$ 5,254
Provision for (recovery of) future taxes	-	-	(3,091)	856
Net earnings	\$ 5,735	\$ 5,611	\$ 8,370	\$ 4,398
Basic earnings per Fund unit excluding the impact of non-cash future income tax expense ⁽⁴⁾	\$ 0.263	\$ 0.257	\$ 0.242	\$ 0.241
Basic earnings per Fund unit	\$ 0.263	\$ 0.257	\$ 0.384	\$ 0.202
Diluted earnings per Fund unit	\$ 0.258	\$ 0.253	\$ 0.349	\$ 0.202
Distributions declared	\$ 5,073	\$ 5,073	\$ 5,007	\$ 4,975
Distributions per Fund unit	\$ 0.233	\$ 0.233	\$ 0.230	\$ 0.228
Payout ratio	88%	90%	95%	95%

- (1) The Fund, indirectly through the Partnership, incurs administrative expenses and interest expense on the \$47,000 outstanding bank loan (2008 - \$47,000).
- (2) 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 December 31, 2009.
- (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" and "Basic earnings per Fund unit excluding non-cash future income tax" are not recognized measures under Canadian GAAP. References to net earnings, excluding the impact of non-cash future income tax expense, 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 is a useful supplemental measure 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 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 year (the "Year") ended December 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 March 23, 2010.

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. 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.

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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 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.

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

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 the number of Fund units issuable to Pizza Pizza on exchange of the Class B exchangeable units increased by 164,542 to 5,595,241. An adjustment was also made to the royalty payments and Pizza Pizza's Class D Exchange Multiplier based on the actual performance of the nine Pizza 73 restaurants added to the Royalty Pool on January 1, 2008. As a result of the adjustments, the Class D Exchange Multiplier effective for 2008 was 7.9961 and the number of Fund units issuable to Pizza Pizza on exchange of the Class D exchangeable units increased by 240,860 to 799,610.

On January 1, 2009, nine net, new Pizza Pizza restaurants were added to the Royalty Pool as a result of 18 new restaurants opening and nine closing during 2008. The additional system sales from the nine net, new restaurants are estimated at \$3.1 million annually. The total number of Pizza Pizza restaurants in the Royalty Pool increased to 568. The yield of the Fund units was determined to be 15.3% calculated using \$6.04 as a weighted average unit price, calculated based on the market price of the units traded on the TSX during the 20 consecutive days ending on the fifth trading day before January 1, 2009. As a result of the contribution of the additional net sales to the Royalty Pool, Pizza Pizza's Class B Exchange Multiplier increased fractionally by 80% of the total adjustment or 0.0365; the new Class B Multiplier is 1.4102 until the 20% true-up is calculated. This adjustment will also increase the entitlement of the holders of the Class B Units to distributions of cash and allocations of income from the Partnership. The second adjustment to the Class B Exchange Multiplier will be adjusted to be effective January 1, 2009, once the actual performance of the new restaurants is determined in early 2010. 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

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restaurants in the Royalty Pool increased to 69. The yield of 15.3% and weighted average unit price of \$6.04 used in the calculation of the multiplier is the same as that of the Class B adjustment 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 until the 20% true-up is calculated. 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 equated to 24.8% of the fully diluted units of the Fund at January 1, 2009. 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.

On January 1, 2010, the Royalty Pool was increased to include the royalties from 31 new Pizza Pizza restaurants and 12 new Pizza 73 restaurants. The Royalty Pool will decrease by five traditional and four non-traditional Pizza Pizza restaurants which were closed during the year. Of the 31 new Pizza Pizza restaurants opened between January 1, 2009 and December 31, 2009, 10 are traditional restaurants and 21 are non-traditional locations. The 12 Pizza 73 restaurants are comprised of 10 traditional restaurants and 2 non-traditional locations, opened between September 2, 2008 and September 1, 2009. With the addition of the 34 net, new restaurants, royalties will be paid to the Fund on 671 restaurants in the Royalty Pool. See "Subsequent Event" for additional information surrounding the transaction.

OWNERSHIP OF THE FUND

Pizza Pizza's 24.8% interest in the earnings of the Partnership at December 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 December 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 December 31, 2009	<u>29,022,678</u>

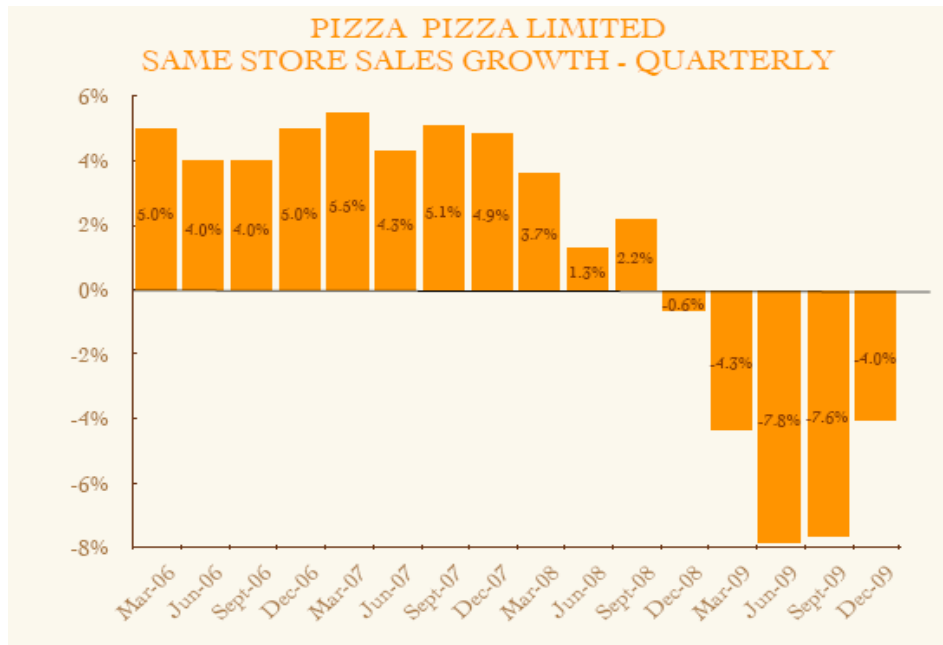
SAME STORE SALES GROWTH

Same Store Sales (SSS), the key driver of yield growth for unitholders of the Fund, decreased by 4% (-0.6% - 2008) for the quarter ended December 31, 2009 compared with the same period in 2008, and decreased 5.9% (+1.7% - 2008) for the year-ended December 31, 2009. For the quarter ended December 31, 2009, SSS for the Pizza Pizza restaurants was -2.9% and was -9.1% for Pizza 73 restaurants (-1.3% and +2.5%, respectively - 2008). For the year-ended December 31, 2009, SSS for the Pizza Pizza restaurants was -5.5% and was -8% for

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the Pizza 73 restaurants (0.8% and 6.0%, respectively – 2008). Compared to the same quarter in 2008, restaurant traffic was flat during the current quarter which was an improvement over the second and third quarters in 2009. The average cheque amount decreased 4% during the quarter compared to the fourth quarter of 2008. For the year 2009, traffic decreased over 5%, while the average ticket was flat compared to 2008.

During 2009, deteriorating economic conditions in Pizza Pizza’s core markets negatively impacted sales. The majority of Pizza Pizza’s restaurants operate in Ontario and Alberta, which experienced a decline in employment and tourism, both attributable to an economic slowdown in the United States and globally. According to the Conference Board of Canada, Alberta retailers felt the biggest pain because of the recession in 2009 as overall sales dropped by 9.3 per cent in the province. It was the steepest year-over-year decline of any province in the country. Ontario overall retail sales declined approximately 2.7%.



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 and year ended December 31, 2009 were \$118.8 million and \$451.4 million, respectively. By brand, sales from the 69 Pizza 73 restaurants in the Royalty Pool were \$20.5 million for the quarter and \$81.3 million for the year, while sales from the 568 Pizza Pizza restaurants in the Royalty Pool were \$98.3 million and \$370.1 million for the same periods. For the prior year comparative quarter and year, system sales for the 609 restaurants in the Royalty Pool were \$122.4 million and \$470.6 million, respectively. Sales from the 50 Pizza 73 restaurants in the Royalty Pool were \$21 million for the prior year comparative quarter and \$81.1 million for the year, while sales from the 559 Pizza Pizza restaurants in the Royalty Pool were \$101.5 million and \$389.5 million for the same periods.

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

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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.

An independent audited statement of Royalty Pool system sales is reported each year, the results of which follow:

System sales reported by Pizza Pizza Royalty Pool Restaurants
From January 1, 2009 to December 31, 2009

(in thousands of dollars)

Total Pizza Pizza retail sales	\$	373,519
New locations ⁽¹⁾		(5,286)
Closed locations		1,882
2009 Pizza Pizza Royalty Pool System Sales	<u>\$</u>	<u>370,115</u>

System sales reported by Pizza 73 Royalty Pool Restaurants
From January 1, 2009 to December 31, 2009

(in thousands of dollars)

Total Pizza 73 retail sales	\$	77,801
New locations ⁽¹⁾		(5,560)
Step-out payments		9,056
Closed locations		-
2009 Pizza 73 Royalty Pool System Sales	<u>\$</u>	<u>81,297</u>

System sales (as defined in the Licence and Royalty Agreements between Pizza Pizza and the Partnership) reported by Pizza Pizza and Pizza 73 restaurants include the gross sales of Pizza Pizza company-owned, jointly-controlled and franchised restaurants, excluding sales and goods and service tax or similar amounts levied by any governmental or administrative authority.

Total Pizza Pizza retail sales for the year ended December 31, 2009, include sales reported by franchisees and sales from Company-owned locations during the reporting period. Sales from new locations include sales from franchisee or Company-owned locations that were opened on or after January 1, 2009 and on or prior to December 31, 2009. Sales from closed locations include sales from restaurants that were closed on or after January 1, 2009 and on or prior to December 31, 2009, and for which Pizza Pizza is required to pay the Make Whole Payment.

Total Pizza 73 retail sales for the year ended December 31, 2009 include sales reported by the jointly-controlled and franchisee locations during the reporting period. Sales from new locations include sales from jointly-controlled or franchisee locations that were opened after September 1, 2008 and on or prior to December 31, 2009. Any amounts calculated as Step-Out Payments under the Pizza 73 Licence and Royalty Agreement, as defined below, are added back to system sales.

As new restaurants are opened within the Pizza 73 group of restaurants, it is expected that the territory assigned to certain of the existing Pizza 73 restaurants, already included in the Royalty Pool, may be reallocated between existing restaurants and new Pizza 73 restaurants that will be opened, among other reasons, to address capacity or market growth issues or increase market penetration. Pursuant to the Pizza 73 Licence and Royalty Agreement, Pizza Pizza will pay to the Partnership a monthly Step-Out Payment in respect of a Pizza 73 restaurant, the territory of which has been reduced, from the month in which the reduction occurs to the end of the next following calendar year. As a result, during this period, the opening of the new restaurant will not cause a reduction of the Pizza 73 royalty in respect of the affected restaurant from the average level paid in the previous year.

Systems sales reported by Pizza Pizza and Pizza 73 restaurants to the Company are self-assessed by each restaurant on a weekly reporting basis and are submitted without audit or other form of independent assurance.

¹ Reflects sales at newly opened restaurants not yet included in the applicable Royalty Pool.

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However, Pizza Pizza management has internal controls in place and monitors sales weekly, using loss prevention techniques.

OPERATING RESULTS

From inception, the Fund adopted the guideline of Canadian Institute of Chartered Accountants referred to as "AcG-15", Consolidation of Variable Interest Entities (the "VIE rules"). 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 and not on the consolidation basis. To provide further disclosure, the Fund has prepared the following table, that shows the non-GAAP combination of the Fund, as if the VIE rules were not applied to the Fund and the Partnership. Pizza Pizza believes that, in addition to the audited financial statements, the following combination is a useful supplemental measure of performance. The method of performing the combination may differ from that used by other issuers and, accordingly, it may not be comparable to that used by other issuers.

(in thousands of dollars)	Pizza Pizza Royalty Income Fund (per GAAP) ⁽¹⁾	Pizza Pizza Royalty Limited Partnership	Eliminating Entries	Pizza Pizza Royalty Income Fund (non-GAAP) ⁽²⁾
Balance Sheet				
As at December 31, 2009				
Current Assets	\$ 1,691	\$ 4,595	\$ (1,541) (3)	\$ 4,745
Loan Receivable from Pizza Pizza	30,000	-	-	30,000
Investment in Pizza Pizza Royalty Limited Partnership	195,047	-	(195,047) (4)	-
Rights and Marks		313,237	-	313,237
Total Assets	226,738	317,832	(196,588)	347,982
Current Liabilities	1,691	2,172	(1,541) (3)	2,322
Long-term Debt	-	46,928	-	46,928
Cash Flow Hedge	-	2,534	-	2,534
Future Income Taxes	5,680	-	-	5,680
Non-controlling Interest	-	-	82,774 (5)	82,774
Equity	219,367	266,198	(277,821) (4)(5)	207,744
Total Liabilities and Equity	\$ 226,738	\$ 317,832	\$ (196,588)	\$ 347,982
Statement of Earnings				
For the Year ended December 31, 2009				
Royalty Income	\$ -	\$ 29,524	\$ -	\$ 29,524
Equity Income	17,883	-	(17,883) (4)	-
Interest Income	1,800	-	-	1,800
Total Revenue	19,683	29,524	(17,883)	31,324
General and Administrative expenses	-	654	-	654
Interest on long-term debt	-	2,689	-	2,689
Earnings before non-controlling interest and taxes	19,683	26,181	(17,883)	27,981
Non-controlling interest	-	-	8,298 (5)	8,298
Future tax recovery	(293)	-	-	(293)
Net Earnings for the Year	\$ 19,976	\$ 26,181	\$ (26,181)	\$ 19,976

(1) As publicly filed and audited.

(2) Represents the Fund combined with the Partnership, as it would appear if the VIE rules were not applied.

(3) Eliminate receivable/payable balance.

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- (4) Eliminate investment in the Partnership and distributions from Partnership.
- (5) Establish Pizza Pizza's interest in the Partnership.

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 audited, 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's partnership interest.

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

Revenues

Royalty income earned by the Partnership was \$7.7 million for the quarter and \$29.5 million for the year ended December 31, 2009. A 6% royalty was earned on the Royalty Pool of 568 Pizza Pizza restaurants reporting \$98.3 million in sales for the quarter and \$370.1 million for the year. A 9% royalty was earned on the Royalty Pool of 69 Pizza 73 restaurants reporting \$20.5 million in system sales for the quarter and \$81.3 million for the year.

Royalty income earned by the Partnership for the 2008, comparative quarter and year was \$8.0 million and \$30.7 million, respectively, and the 559 Pizza Pizza restaurants in the Royalty Pool reported system sales of \$101.5 million and \$389.5 million, respectively, while the 50 Pizza 73 restaurants reported system sales of \$21 million and \$81.1 million, respectively.

The period over period decrease in the restaurant royalty income is largely due to the decline in SSS and partially due to the current year containing one less day than the prior year, with the estimated effect being \$80,000. The 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 December 31, 2009 were \$868,000, including \$677,000 of interest expense and \$191,000 of administrative expenses. Operating expenses for the year were \$3.3 million, including \$2.7 million of interest expense and \$654,000 of administrative expenses.

Operating expenses for the comparative quarter of 2008 were \$791,000, including \$612,000 of interest expense and \$179,000 of administrative expenses. Operating expenses for the 2008 year were \$3.3 million, including \$2.7 million of interest expense and \$636,000 of administrative expenses.

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Net Earnings

The Partnership had net earnings for the quarter and year ended December 31, 2009 of \$6.9 million and \$26.2 million, which were allocated to the Fund and Pizza Pizza based on their respective interest in the Partnership, as compared to \$7.2 million and \$27.4 million in the comparable periods 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)	
	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Current Assets	\$ 4,595	\$ 5,379
Total Assets	317,832	311,278
Current Liabilities	2,172	1,893
Loan Payable	46,928	46,899
Total Liabilities & Equity	317,832	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 December 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 and year ended December 31, 2009 was \$4.7 million and \$17.9 million, respectively. The equity income earned for the comparable, prior year periods were \$5.3 million and \$20.1 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.

Effective January 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 and year ended December 31, 2009 and 2008 were \$450,000 and \$1.8 million, 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 ended December 31, 2009 were \$5.2 million, or \$0.237 per unit, as compared to \$5.7 million, or \$0.263 per unit, for the comparable quarter in 2008, which equates to a 9.9% decrease per unit.

Net earnings before income taxes for the year ended December 31, 2009 were \$19.7 million, or \$0.902 per unit, as compared to \$21.9 million, or \$1.003 per unit, for the 2008 year, which equates to a 10.1% decrease per unit.

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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 2009 is a result of a decrease in the future 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 2008 the Fund decreased its non-cash future tax expense by \$2.2 million as 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. 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 December 31, 2009 were \$5.2 million or \$0.237 basic earnings per unit, as compared to net earnings of \$5.7 million or \$0.263 basic earnings per unit in the comparable quarter of 2008. The current quarter earnings per unit reflects the decrease in SSS and the resulting decrease in equity income from the Partnership.

Net earnings for the year ended December 31, 2009 were \$20 million or \$0.916 basic earnings per unit, as compared to net earnings of \$24.1 million or \$1.105 basic earnings per unit in the comparable period of 2008. The current period's earnings per unit reflects the decrease in future tax recovery coupled with a 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 December 31, 2009, equating to a 98% payout ratio; for the 2008 comparable quarter, the Fund declared distributions of \$5.1 million or \$0.233 per unit for a payout ratio of 88%. For the year ended December 31, 2009, the Fund declared distributions of \$20.3 million or \$0.930, equating to a 103% payout ratio; in 2008, the Fund declared distributions of \$20.1 million or \$0.923 per unit for a payout ratio of 92%.

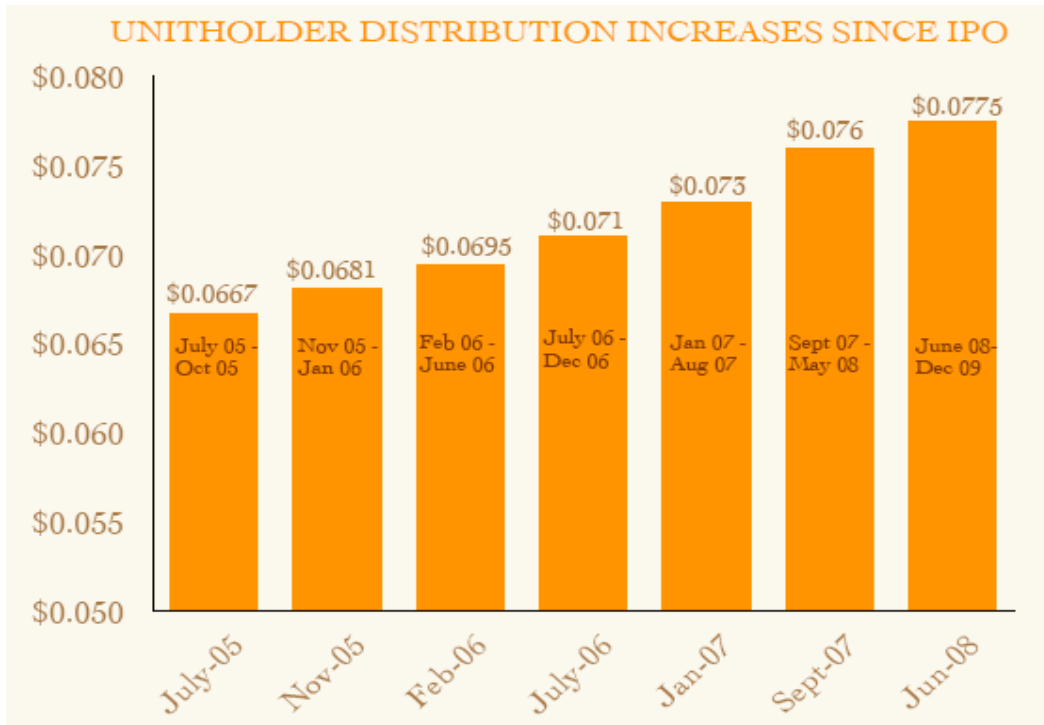
Distributions declared for 2009 are as follows:

<u>Period</u>	<u>Payment Date</u>	<u>Amount/unit</u>
January 1-31, 2009	February 13, 2009	7.75¢
February 1-29, 2009	March 13, 2009	7.75¢
March 1-31, 2009	April 15, 2009	7.75¢
April 1-20, 2009	May 15, 2009	7.75¢
May 1-31, 2009	June 15, 2009	7.75¢
June 1-30, 2009	July 15, 2009	7.75¢
July 1-31, 2009	August 14, 2009	7.75¢
August 1-31, 2009	September 15, 2009	7.75¢
September 1-30, 2009	October 15, 2009	7.75¢
October 1-31, 2009	November 15, 2009	7.75¢
November 1-30, 2009	December 15, 2009	7.75¢
December 1-31, 2009	January 15, 2010	7.75¢
Total		93.00¢

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Distributions were funded entirely by cash flow from operations and the Partnership's cash reserves. No debt was incurred during the year ended December 31, 2009 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:



TAX TREATMENT OF DISTRIBUTIONS

For those unitholders holding units outside a tax deferred plan, the 2009 distributions will be treated as 85% taxable income and 15% as a tax-deferred return of capital.

TAX LEGISLATION CHANGES

In 2007, the Canadian federal government substantively enacted the Specified Investment Flow Through ("SIFT") tax legislation. Under the legislation, certain income earned and distributed by the Fund will be taxed in a manner similar to income earned by a corporation and distributions or allocations of such income made to investors will be taxed in a manner similar to dividends from taxable Canadian corporations. The deemed dividend will be eligible for the enhanced dividend tax credit if paid or allocated to a resident of Canada. This legislation will be effective commencing in the 2011 taxation year for trusts and partnerships that were publicly traded prior to November 1, 2006, such as the Fund. However, the deferral until 2011 may be rescinded where the affected entity does not comply with the Department of Finance's "normal growth" guidelines.

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Reference to the following table illustrates that there is little change in the after tax yield to a taxable investor in Canada.

	Current Tax Measures	2011 Tax Measures
Distributable amount before tax	\$1.00	\$1.00
Tax paid by the Fund ⁽¹⁾	\$0.00	\$0.2825
Distribution after the Fund's tax	\$1.00	\$0.7175
Tax paid by the unitholder	\$0.464 ⁽²⁾	\$0.2023 ⁽³⁾
Net amount ⁽⁴⁾	\$0.536	\$0.515

Notes:

(1) 28.25% on the taxable portion

(2) Assuming a 46.41% combined tax rate currently in effect in Ontario.

(3) Assuming a 28.19% combined tax rate currently enacted for 2011 in Ontario on the deemed dividend income.

The foregoing presentation is based on the Fund's understanding of the legislation substantively enacted into law in June 2007. The tax consequences of these rules to a Unitholder that is tax-exempt, holds units in a tax-deferred plan or is a non-resident of Canada would differ from the presentation set forth above. Unitholders are encouraged to consult their own tax advisors concerning the application of these proposals to their investment in units, with reference to their particular circumstances.

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 December 31, 2009, working capital of the Partnership was \$2.4 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 January 6, 2010 and two other swaps maturing July 23, 2012. During 2009, the Partnership entered into a forward-swap agreement to replace the swap that matures January 6, 2010.

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. A fourth swap, relating to the extension of the \$20 million facility swap term, is

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fixed at 2.68% plus 1.25% credit spread. Interest rates may increase or decrease based on the debt-to-EBITDA ratio.

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 December 31, 2009 was \$3.1 million (December 31, 2008 - \$4.0 million). In addition, the Partnership is required to maintain a funded debt-to-EBITDA ratio not to exceed 2.5:1 on a four quarter rolling average. The debt-to-EBITDA ratio for the last four quarters rolling average is 1.63:1 (December 31, 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 decrease below 1.5:1 or increase above 2.0:1, then the interest rate on the credit facility will be adjusted accordingly by 25 basis points.

OUTLOOK

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

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

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

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

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

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SUBSEQUENT EVENTS

2009 Vend-in Adjustment

In early January 2010, adjustments to royalty payments and Pizza Pizza's Class B Exchange Multiplier were made based on the actual performance of the 18 Pizza Pizza restaurants added to the Royalty Pool on January 1, 2009. As a result of the adjustments, the Class B Exchange Multiplier effective for 2009 was 1.4240 and Pizza Pizza's Class B exchangeable units increased by 56,141 to 5,800,072. An adjustment was also made to the royalty payments and Pizza Pizza's Class D Exchange Multiplier based on the actual performance of the 19 Pizza 73 restaurants added to the Royalty Pool on January 1, 2009. As a result of the adjustments, the Class D Exchange Multiplier effective for 2009 was 15.4543 and Pizza Pizza's Class D exchangeable units increased by 85,077 to 1,545,432.

2010 Vend-in Adjustment – Class B Exchange Multiplier

On January 1, 2010, 22 net, new Pizza Pizza restaurants were added to the Royalty Pool as a result of 31 new restaurants opening and nine closing during 2009. The additional system sales from the 22 net, new restaurants are estimated at \$6.9 million annually. The total number of Pizza Pizza restaurants in the Royalty Pool has increased to 590. The yield of the Fund units was determined to be 14.2% calculated using \$6.54 as a weighted average unit price. Weighted average unit price is calculated based on the market price of the units traded on the TSX during the period of 20 consecutive days ending on the fifth trading day before January 1, 2010. As a result of the contribution of the additional net sales to the Royalty Pool, Pizza Pizza's Class B Exchange Multiplier increased fractionally by 80% of the total adjustment or 0.081; the new Class B Multiplier is 1.5050. This adjustment will also increase the entitlement of the holders of the Class B Units to distributions of cash and allocations of income from the Partnership. The second adjustment to the Class B Exchange Multiplier will be adjusted to be effective January 1, 2010, once the actual performance of the new restaurants is determined in early 2011. As a result of the Adjusted Class B Exchange Multiplier, Pizza Pizza will hold Class B Partnership units exchangeable into 6,129,982 Fund units.

2010 Vend-in Adjustment – Class D Exchange Multiplier

On January 1, 2010, 12 new Pizza 73 restaurants which opened between September 2, 2008 and September 1, 2009 were added to the Royalty Pool. The additional system sales from the 12 new restaurants are estimated at \$8.2 million annually, which was reduced by \$6.8 million in system sales attributable to certain of the restaurants now added to the Royalty Pool whose territory adjusted a previously existing restaurant. The total number of Pizza 73 restaurants in the Royalty Pool has increased to 81. The yield and weighted average unit price used in the calculation of the multiplier is the same as that of the Class B adjustment previously discussed of 14.2% and \$6.54, respectively. As a result of the contribution of the additional net sales to the Royalty Pool, Pizza Pizza's Class D Exchange Multiplier increased fractionally by 80% of the total adjustment or 1.0191; the new Class D Multiplier is 16.4734. This adjustment will also increase the entitlement of the holders of the Class D Units to distributions of cash and allocations of income from the Partnership. The second adjustment to the Class D Exchange Multiplier will be adjusted to be effective January 1, 2010, once the actual performance of the new restaurants is determined in early 2011. As a result of the Adjusted Class D Exchange Multiplier, Pizza Pizza will hold Class D Partnership units exchangeable into 1,647,344 Fund units.

Pizza Pizza's Ownership of the Fund

In exchange for adding the 34 net, new restaurants to the Royalty Pool, Pizza Pizza has received 329,910 additional Class B equivalent units and 101,912 Class D equivalent units. These units represent 80% of the full Class B and Class D entitlements (412,387 and 127,390 units, respectively, represent 100%), with the balance to be received when the 2010 sales performance is known with certainty.

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Including the 431,822 exchangeable units described above, Pizza Pizza owns equivalent, exchangeable units equal to 26.3% of the Fund's fully diluted units.

Units outstanding & issuable on January 1, 2010		Issued & Outstanding units, and Exchangeable Equivalent units
Public float		21,818,392
Class B units held by Pizza Pizza	5,743,931	
Pizza Pizza additional Class B units - Holdback as of December 31, 2009	56,141	
Additional Pizza Pizza Class B equivalent units as of January 1, 2010	329,910	6,129,982
Class D units held by Pizza Pizza	1,460,355	
Pizza Pizza additional Class D units - Holdback as of December 31, 2009	85,077	
Additional Pizza Pizza Class D equivalent units as of January 1, 2010	101,912	1,647,344
Number of fully diluted units		29,595,718
Proportion of all units outstanding available for exchange by Pizza Pizza		26.3%

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, 2009. It was determined that the Fund's disclosure controls and procedures and internal controls over financial reporting were effective.

During the quarter ending December 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 December 31, 2009.

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CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2009, the Fund has adopted the amendments to the CICA Handbook Section 3862, Financial Instruments – Disclosures, which has been amended to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure. The Fund has determined that these amendments have no material effect on its financial statements.

Effective January 1, 2009, CICA Handbook Section 3855, Financial Instruments – Recognition and measurement has been amended to change: (1) the categories into which a debt instrument is required or permitted to be classified; (2) the impairment model for held-to-maturity financial assets to the incurred credit loss model in section 3025; and (3) require reversal of the previously recognized impairment losses on available-for-sale financial assets in specified circumstances. The Fund has determined that these amendments have no material effect on its financial statements.

Also, effective July 1, 2009, the Fund has adopted the amendments to CICA Handbook Section 3855, concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category. The Fund has determined that this amendment has no material effect on its financial statements..

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.

Comprehensive Revaluation of Assets and Liabilities

CICA Handbook Section 1625, Comprehensive Revaluation of Assets and Liabilities, has been amended as a result of issuing Sections 1582, 1601 and 1602. The amendments are effective for the Fund for its 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.

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Equity

CICA Handbook Section 3251, Equity, has been amended as a result of issuing Section 1602 to require disclosure of non-controlling interests in equity. This amendment is effective for the Fund for its 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.

Financial Instruments – Recognition and Measurement

CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement has been amended to clarify the application of the effective interest method after a debt instrument has been impaired and when an embedded prepayment option is separated from its host debt instrument for accounting purposes. These changes are effective for the Fund for its 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 (IFRS)

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

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

The following summarizes progress to date and differences:

Key Activity	Milestones	Progress at December 31, 2009
Project Management: <ul style="list-style-type: none"> • Selection and training of internal project team. • Ensure appropriate training for project team members. • Audit committee engagement • Engagement of external consultants • On-going communication on project status to external stakeholders. 	<ul style="list-style-type: none"> • Project team in place by beginning of fiscal 2009. • Ensure appropriate training to key members is provided on an on-going basis. • Update audit committee on progress on a quarterly basis. • Have external consultants in place during 2008 to assist in the conversion process. • Communication to external stakeholders on a quarterly basis. 	<ul style="list-style-type: none"> • Project team assembled by end of fiscal 2008. • Key members of team have completed IFRS related training. • Audit committee updated on progress during quarterly meetings. • Engaged external consultant during 2008 to assist in the process. • Communication to external stakeholders done quarterly through MD&A and quarterly disclosures.

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Key Activity	Milestones	Progress at December 31, 2009
<p>Preparation / Accounting Policies:</p> <ul style="list-style-type: none"> • Identification of differences between Canadian GAAP and IFRS accounting policies applicable to the Fund. • Selection of the Fund's IFRS 1 optional exemptions and IFRS accounting policies. • Quantification of impact of policy choices on 2010 financial statements. 	<ul style="list-style-type: none"> • Identify and summarize significant differences between current Canadian GAAP accounting policies and IFRS during 2009. • Selection of accounting policies and preparation of Q1 2010 comparatives by mid 2010 	<ul style="list-style-type: none"> • During 2009 a full diagnostic was completed • Selection of policy choices and quantification is on-going.
<p>Information Technology:</p> <ul style="list-style-type: none"> • Ensure that the appropriate system is in place to support the new IFRS accounting policies and the compilation of the related data. 	<ul style="list-style-type: none"> • System should be in place to facilitate parallel process of 2010 accounts by May 2010. 	<ul style="list-style-type: none"> • Process is on-going, as potential issues and resource needs have been identified.
<p>Control Environment: <i>Internal Controls over Financial Reporting (ICFR):</i></p> <ul style="list-style-type: none"> • Identify, assess, and implement changes to the ICFR based on the design and effectiveness implications that the new accounting policies will have. Ensure all changes to systems and processes are fully documented. <p><i>Disclosure Controls and Procedures (DC&P):</i></p> <ul style="list-style-type: none"> • Identify and assess impact of new accounting policies on DC&P. • Ensure that all investor communications are IFRS compliant. 	<ul style="list-style-type: none"> • Determine impact of new policy selections on ICFR and DC&P and update CEO/CFO certification process by Q4 2010. 	<ul style="list-style-type: none"> • Key accounting policy differences have been identified. • Impact on ICFR and DC&P is currently being investigated.
<p>Business Impacts</p> <ul style="list-style-type: none"> • Identification of impact of differences under IFRS for hedging contracts 	<ul style="list-style-type: none"> • Evaluate whether the interest rate swap qualifies for hedge accounting under IFRS as at January 1, 2011 and maintain required documentation and testing of hedge effectiveness throughout 2010. 	<ul style="list-style-type: none"> • Management is investigating the impact IAS 39 will have on current designated hedge transactions.

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

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Standard	Difference from Canadian GAAP	Potential Impact
IAS 1 – Presentation of financial statements	Standard enhances disclosure requirements as well as classification and presentation within the balance sheet and income statement.	The Fund is currently developing a financial statement template under IFRS to address the enhanced disclosure and classification requirements of IAS 1.
IFRS 1 – First Time Adoption of IFRS	<p>Requires the quantification and disclosure of the transitional impact the conversion to IFRS had on the Fund's reported financial position, financial performance and cash flows.</p> <p>Provides first time adopters with the choice to be exempt from applying IFRS 3 Business Combinations retrospectively.</p> <p>IAS 39 sets out specific conditions that must be met on the transition date to designate a transaction for hedge accounting. The Fund will discontinue the use of hedge accounting if conditions are not met.</p>	<p>The Fund is currently evaluating the impact of the additional disclosure and whether the current IT environment is capable of producing such information.</p> <p>The Fund is currently evaluating the benefit of the IFRS 3 exemption upon adoption</p> <p>The Fund is currently evaluating existing hedge transactions to ensure that the conditions set out in IAS 39 are met.</p>
IAS 27, SIC 12 – Consolidated and Separate Financial Statements IAS 28 – Investments in Associates	Provides a subtle change in the definition of control when assessing whether an entity should be consolidated.	The Fund accounts for its interests in the Pizza Pizza Royalty Limited Partnership (the "Partnership") using the equity method. Management is currently investigating whether the definition of "control" under IFRS would require the Fund to consolidate the Partnership.
IAS 7 – Statement of Cash Flows	Under IFRS, dividends paid may be classified as a financing cash flow because they are a cost of obtaining financial resources. Alternatively, dividends paid may be classified as a component of cash flow from operating activities in order to assist users to determine the ability of an entity to pay dividends out of operating cash flows.	Management is currently investigating what classification would best serve the needs of the users and result in the most reliable presentation.
IAS 33 – Earnings Per Share	In situations where dilutive ordinary shares exist (i.e. .not anti-dilutive), under IFRS the number of shares for the earnings per share calculation may be higher resulting in a lower earnings per share.	The Fund will be required to apply a different formula to determine the weighted average of the diluted shares.
IAS 12 – Income Taxes	There are future tax liabilities and assets that are accounted for under IFRS but not recognized under Canadian GAAP and vice versa.	The Fund is currently investigating how these differences will impact its future tax calculations.

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Standard	Difference from Canadian GAAP	Potential Impact
IAS 24 – Related Party Disclosures	IAS 24 does not prescribe accounting for related party transactions. Instead, the measurement of the transaction will follow the particular section pertaining to the transaction. Therefore measurement differences can arise depending on the specific transaction.	The Fund will have to assess the measurement for related party transaction on a case by case basis. Management is currently investigating what impact, if any, IAS 24 will have on the way related party transactions are currently accounted for.
IAS 10 – Events After the Reporting Period	The date up to which a subsequent event can be recognized will most likely be a longer period than under Canadian GAAP.	The Fund will have to ensure that all events and circumstances are reviewed up to the new date and adjustments to the financial statements are made where necessary.

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

As the IFRS transition project progresses, the 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.

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Litigation

In the fourth 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 with examinations [for discovery expected to proceed in the spring of 2010](#). 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.