

**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 2010 results are not directly comparable to the 2009 results due to the fact that there are 671 restaurants in the Royalty Pool for 2010 compared to 637 restaurants in the Royalty Pool for 2009.

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		6 months ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
(in thousands of dollars, except number of restaurants, days in the quarter and per unit amounts)				
Restaurants in Royalty Pool	671	637	671	637
Same store sales ⁽¹⁾	0%	-7.8%	-1.2%	-6.1%
Days in the Quarter	91	91	181	181
System sales reported by Pizza Pizza restaurants in the Royalty Pool	\$ 91,956	\$ 89,342	\$ 181,946	\$ 177,375
System sales reported by Pizza 73 restaurants in the Royalty Pool	18,505	19,760	36,814	41,112
	\$ 110,461	\$ 109,102	\$ 218,760	\$ 218,487
Royalty – 6% on Pizza Pizza system sales	\$ 5,517	\$ 5,361	\$ 10,916	\$ 10,643
Royalty – 9% on Pizza 73 system sales	1,665	1,778	3,313	3,700
Total Royalty on System Sales	7,182	7,139	14,229	14,343
Partnership expenses ⁽²⁾	(789)	(882)	(1,546)	(1,670)
Earnings available for distribution to the Fund and Pizza Pizza Limited	6,393	6,257	12,683	12,673
Pizza Pizza Limited's interest ⁽³⁾	(2,130)	(2,003)	(4,233)	(4,046)
Equity income	4,263	4,254	8,450	8,627
Interest income ⁽⁴⁾	450	450	900	900
Net earnings before non-cash future income tax expense ⁽⁵⁾	\$ 4,713	\$ 4,704	\$ 9,350	\$ 9,527
Provision for (recovery of) future income taxes	-	-	248	(293)
Net earnings	\$ 4,713	\$ 4,704	\$ 9,102	\$ 9,820
Basic earnings per Fund unit excluding the impact of non-cash future income tax expense ⁽⁵⁾	\$ 0.216	\$ 0.216	\$ 0.429	\$ 0.437
Basic earnings per Fund unit	\$ 0.216	\$ 0.216	\$ 0.417	\$ 0.450
Diluted earnings per Fund unit	\$ 0.216	\$ 0.216	\$ 0.417	\$ 0.447
Distributions declared	\$ 5,073	\$ 5,073	\$ 10,145	\$ 10,145
Distributions per Fund unit	\$ 0.233	\$ 0.233	\$ 0.465	\$ 0.465
Payout ratio	108%	108%	108%	105%
		June 30, 2010		June 30, 2009
Working capital of Partnership		\$ 1,366		\$ 2,434
Total assets of Fund		\$ 228,732		\$ 226,194
Total liabilities of Fund		\$ 7,619		\$ 7,371

(1) 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, a Step-Out payment is added to sales to arrive at SSS.

(2) The Fund, indirectly through the Partnership, incurs administrative expenses and interest expense on the \$47,000 outstanding bank loan (2009 - \$47,000). Interest expense on the bank loan for the six months ended June 30, 2010 was \$1,242 (2009 - \$1,320).

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- (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 26.3% of the fully diluted units of the Fund at June 30, 2010 (2009 – 24.8%)
- (4) The Fund indirectly earns interest income on the \$30,000 loan to Pizza Pizza, with interest income accruing at 6% per annum, payable monthly.
- (5) "Net earnings excluding the impact of non-cash future income tax expense (recovery)" and "Basic earnings per Fund unit excluding non-cash future income tax expense (recovery)" are not recognized measures under Canadian GAAP. References to net earnings, excluding the impact of non-cash future income tax, are to earnings determined in accordance with GAAP applicable to the financial statements before amounts for taxes, as included in net earnings. The Fund believes that, in addition to net earnings, net earnings excluding the impact of non-cash future income tax expense is a useful supplemental measure in evaluating its performance as it provides investors with an indication of operating earnings. Investors are cautioned, however, that this should not be construed as an alternative to net earnings as a measure of profitability. The method of calculating net earnings excluding the impact of non-cash future income tax expense for the purposes of this report may differ from that used by other issuers and, accordingly, it may not be comparable to that used by other issuers.

	Q2 2010 (unaudited)	Q1 2010 (unaudited)	Q4 2009 (unaudited)	Q3 2009 (unaudited)
(in thousands of dollars, except number of restaurants, days in the Period and per unit amounts)				
Restaurants in Royalty Pool	671	671	637	637
Same store sales	0%	-2.3%	-4.0%	-7.6%
Days in period	91	90	92	92
System sales reported by Pizza Pizza restaurants in Royalty Pool	\$ 91,956	\$ 89,990	\$ 98,340	\$ 94,400
System sales reported by Pizza 73 restaurants in Royalty Pool	18,505	18,309	20,484	19,701
	\$ 110,461	\$ 108,299	\$ 118,824	\$ 114,101
Royalty – 6% on Pizza Pizza system sales	\$ 5,517	\$ 5,399	\$ 5,900	\$ 5,664
Royalty – 9% on Pizza 73 system sales	1,665	1,648	1,844	1,773
Royalty on System Sales of Royalty Pool	\$ 7,182	\$ 7,047	\$ 7,744	\$ 7,437
Partnership expenses ⁽¹⁾	(789)	(757)	(868)	(805)
Earnings available for distribution to the Fund and Pizza Pizza Limited	6,393	6,290	6,876	6,632
Pizza Pizza Limited's interest ⁽²⁾	(2,130)	(2,103)	(2,156)	(2,096)
Equity income	4,263	4,187	4,720	4,536
Interest income ⁽³⁾	450	450	450	450
Net earnings excluding the impact of non-cash future income tax expense ⁽⁴⁾	\$ 4,713	\$ 4,637	\$ 5,170	\$ 4,986
Provision for future taxes	-	248	-	-
Net earnings	\$ 4,713	\$ 4,389	\$ 5,170	\$ 4,986
Basic earnings per Fund unit excluding the impact of non-cash future income tax expense ⁽⁴⁾	\$ 0.216	\$ 0.213	\$ 0.237	\$ 0.229
Basic earnings per Fund unit	\$ 0.216	\$ 0.201	\$ 0.237	\$ 0.229
Diluted earnings per Fund unit	\$ 0.216	\$ 0.204	\$ 0.237	\$ 0.229
Distributions declared	\$ 5,073	\$ 5,072	\$ 5,073	\$ 5,073
Distributions per Fund unit	\$ 0.233	\$ 0.233	\$ 0.233	\$ 0.233
Payout ratio	108%	109%	98%	102%

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	Q2 2009 (unaudited)	Q1 2009 (unaudited)	Q4 2008 (unaudited)	Q3 2008 (unaudited)
(in thousands of dollars, except number of restaurants, days in the Period and per unit amounts)				
Restaurants in Royalty Pool	637	637	609	609
Same store sales	-7.8%	-4.3%	-0.6%	2.2%
Days in period	91	90	92	92
System sales reported by Pizza Pizza restaurants in Royalty Pool	\$ 89,342	\$ 88,033	\$ 101,464	\$ 99,894
System sales reported by Pizza 73 restaurants in Royalty Pool	19,760	21,352	20,975	20,493
	\$ 109,102	\$ 109,385	\$ 122,439	\$ 120,387
Royalty – 6% on Pizza Pizza system sales	\$ 5,361	\$ 5,282	\$ 6,088	\$ 5,994
Royalty – 9% on Pizza 73 system sales	1,778	1,922	1,887	1,844
Royalty on System Sales of Royalty Pool	\$ 7,139	\$ 7,204	\$ 7,975	\$ 7,838
Partnership expenses ⁽¹⁾	(882)	(788)	(791)	(810)
Earnings available for distribution to the Fund and Pizza Pizza Limited	6,257	6,416	7,184	7,028
Pizza Pizza Limited's interest ⁽²⁾	(2,003)	(2,043)	(1,899)	(1,867)
Equity income	4,254	4,373	5,285	5,161
Interest income ⁽³⁾	450	450	450	450
Net earnings excluding the impact of non-cash future income tax expense / recovery ⁽⁴⁾	\$ 4,704	\$ 4,823	\$ 5,735	\$ 5,611
Provision for (recovery of) future taxes	-	(293)	-	-
Net earnings	\$ 4,704	\$ 5,116	\$ 5,735	\$ 5,611
Basic earnings per Fund unit excluding the impact of non-cash future income tax expense / recovery ⁽⁴⁾	\$ 0.216	\$ 0.221	\$ 0.263	\$ 0.257
Basic earnings per Fund unit	\$ 0.216	\$ 0.234	\$ 0.263	\$ 0.257
Diluted earnings per Fund unit	\$ 0.216	\$ 0.231	\$ 0.258	\$ 0.253
Distributions declared	\$ 5,073	\$ 5,072	\$ 5,073	\$ 5,073
Distributions per Fund unit	\$ 0.233	\$ 0.233	\$ 0.233	\$ 0.233
Payout ratio	108%	105%	88%	90%

- (1) The Fund, indirectly through the Partnership, incurs administrative expenses and interest expense on the \$47,000 outstanding bank loan (2009 - \$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 26.3% of the fully diluted units of the Fund at June 30, 2010.
- (3) The Fund indirectly earns interest income on the \$30,000 loan to Pizza Pizza, with interest income accruing at 6% per annum, payable monthly.
- (4) "Net earnings excluding the impact of non-cash future income tax expense / recovery" and "Basic earnings per Fund unit excluding non-cash future income tax" are not recognized measures under Canadian GAAP. References to net earnings, excluding the impact of non-cash future income tax expense / recovery, 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 / recovery 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 / recovery 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.

OVERVIEW AND BUSINESS OF THE FUND

The following Management's Discussion and Analysis (the "MD&A") is a discussion of the results of operations and financial condition of the Fund for the quarter (the "Quarter") ended June 30, 2010 and six month period (the "Period") ended June 30, 2010. 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 August 11, 2010.

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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 2010, the Royalty Pool consists of 590 Pizza Pizza restaurants and 81 Pizza 73 restaurants.

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

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

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

ROYALTY POOL ADJUSTMENTS

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

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

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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

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

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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.

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%

SAME STORE SALES GROWTH

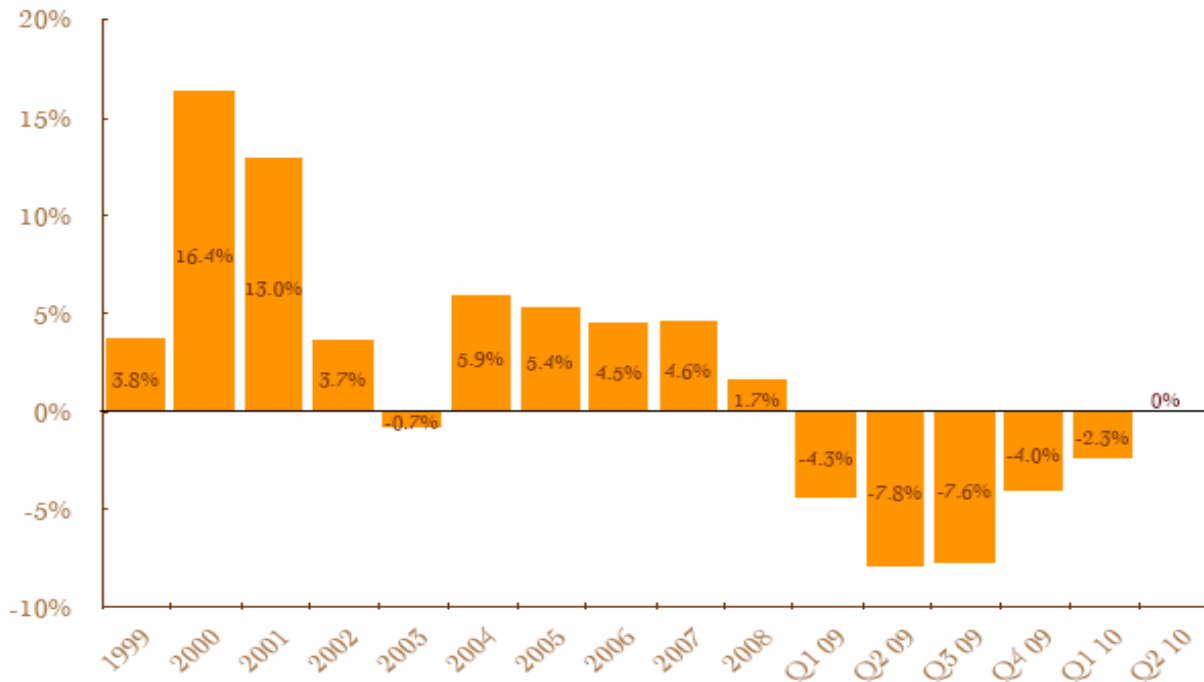
Same Store Sales (SSS), the key driver of yield growth for unitholders of the Fund, was flat at 0% (-7.8% - 2009) for the quarter ended June 30, 2010 compared with the same period in 2009, and decreased 1.2% (-6.1% - 2009) for the six months ended June 30, 2010. For the quarter ended June 30, 2010, SSS for the Pizza Pizza restaurants was +1.1% and was -5.3% for Pizza 73 restaurants (-7.3% and -10.2%, respectively - 2009). For the six month period ended June 30, 2010, SSS for the Pizza Pizza restaurants was +0.8% and was -10.23% for the Pizza 73 restaurants (-6.0% and -6.2%, respectively - 2009).

During the quarter ended June 30, 2010, the Pizza Pizza sales benefited from an increase in traffic counts, slightly offset by a decrease in average cheque. At Pizza 73, sales were negatively affected by a decrease in both traffic counts and average cheque.

The majority of the Pizza Pizza restaurants operate in Ontario whose economy has shown recent signs of modest growth. For the Pizza 73 brand, the majority of the restaurants operate in Alberta, whose economy continues to be affected by unemployment and the decrease in natural gas prices.

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PIZZA PIZZA LIMITED SAME STORE SALES GROWTH



ROYALTY POOL SALES

The restaurants in the Royalty Pool increased to 671 on the January 1, 2010 adjustment date, to include the royalties from 34, net new restaurants. In the prior year, the Royalty Pool included 637 restaurants.

System sales from the 671 restaurants in the Royalty Pool for the quarter and six month ended June 30, 2010 were \$110.5 million and \$218.8 million. By brand, sales from the 81 Pizza 73 restaurants in the Royalty Pool were \$18.5 million for the quarter and \$36.8 million for the six month period ended June 30, 2010, while sales from the 590 Pizza Pizza restaurants in the Royalty Pool were \$92 million and \$181.9 million for the same periods. For the prior year comparative quarter and six month period, system sales for the 637 restaurants in the Royalty Pool were \$109.1 million and \$218.5 million, respectively. By brand, sales from the 69 Pizza 73 restaurants in the Royalty Pool were \$19.8 million for the quarter and \$41.1 million for the six month period ended June 30, 2009, while sales from the 568 Pizza Pizza restaurants in the Royalty Pool were \$89.3 million and \$177.4 million for the same periods.

Total system sales for the current quarter and six months ended June 30, 2010 increased slightly over the comparative periods. Although there was a decrease in the Pizza 73 system sales due to the decline in the Pizza 73 SSS, the decrease was offset by the increase in the Pizza Pizza SSS and increased system sales generated from the addition of 34 net, new restaurants to the Royalty Pool on January 1, 2010.

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.

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OPERATING RESULTS

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

Partnership Operations

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

The following provides information on the Partnership's performance for the quarter and six month ended June 30, 2010.

Revenues

Royalty income earned by the Partnership was \$7.2 million for the quarter and \$14.3 million for the six months ended June 30, 2010. A 6% royalty was earned on the Royalty Pool of 590 Pizza Pizza restaurants reporting \$92 million in sales for the quarter and \$181.9 million for the six month period. A 9% royalty was earned on the Royalty Pool of 81 Pizza 73 restaurants reporting \$18.5 million in system sales for the quarter and \$36.8 million for the six month period ended June 30, 2010.

Royalty income earned by the Partnership for the 2009, comparative quarter and six month period was \$7.1 million and \$14.3 million, respectively, and the 568 Pizza Pizza restaurants in the Royalty Pool reported system sales of \$89.3 million and \$177.4 million, respectively, while the 69 Pizza 73 restaurants reported system sales of \$19.8 million and \$41.1 million, respectively.

Restaurant royalty income has largely remained consistent with the comparative periods. The overall decline in the SSS of 1.2% was offset by royalties received from the addition of 34 net, new restaurants to the Royalty Pool on January 1, 2010.

Expenses

The Partnership's operating expenses include administrative expenses, amortization of deferred financing fees and interest paid on a \$47 million bank term loan (2009 - \$47 million). See "Liquidity and Capital Resources-Term Loan".

Operating expenses for the quarter ended June 30, 2010 were \$789,000, including \$624,000 of interest expense, \$7,000 of amortization of deferred financing fees and \$158,000 of administrative expenses. Operating expenses for the six month period ended June 30, 2010 were \$1.5 million, including \$1.2 million of interest expense, \$14,000 of amortization of deferred financing fees and \$289,000 of administrative expenses.

Operating expenses for the comparative quarter of 2009 were \$882,000, including \$671,000 of interest expense and \$211,000 of administrative expenses. Operating expenses for the six month period ended June 30, 2009 were \$1.7 million, including \$1.3 million of interest expense and \$335,000 of administrative expenses.

Net Earnings

The Partnership had net earnings for the quarter and six month period ended June 30, 2010 of \$6.4 million and \$12.7 million, which were allocated to the Fund and Pizza Pizza based on their respective interest in the Partnership, as compared to \$6.3 million and \$12.7 million in the comparable periods of 2009.

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The net earnings is consistent with the comparative period as there is minimal change in the royalty income.

Selected Partnership Balance Sheet Information

		(in thousands of dollars)	
		<u>June 30, 2010</u>	<u>December 31, 2009</u>
Current Assets	\$	3,325	\$ 4,595
Total Assets		320,252	317,832
Current Liabilities		1,959	2,172
Loan Payable		47,000	46,928
Total Liabilities & Equity		320,252	317,832

Fund Operations

Equity income is earned by the Fund through indirect limited partnership holdings of LP units representing its effective 73.7% interest in the Partnership at June 30, 2010. 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 six month period ended June 30, 2010 was \$4.3 million and \$8.5 million respectively. The equity income earned for the comparable, prior year periods were \$4.3 million and \$8.6 million, respectively, based on its 75.2% share of the Partnership at that time. The equity income is consistent with the comparative quarter and period ended June 30, 2009.

During 2010, the Fund's percentage ownership interest in the Partnership decreased to 73.7% from 75.2% in 2009, as a result of Pizza Pizza vending in restaurants into the Royalty Pool, which increased Pizza Pizza's proportionate share of the Fund's fully-diluted units.

Interest Income

The interest income for the quarters ended June 30, 2010 and 2009 was \$450,000, earned on the \$30 million loan from the Fund to Pizza Pizza, with interest paid monthly at 6% per annum.

Net Earnings Before Income Taxes

Net earnings before income taxes for the quarter ended June 30, 2010 were \$4.7 million, or \$0.216 per unit, as compared to \$4.7 million, or \$0.216 per unit, for the comparable quarter in 2009.

Net earnings before income taxes for the six months ended June 30, 2009 were \$9.4 million, or \$0.429 per unit, as compared to \$9.5 million, or \$0.437 per unit, for the comparable quarter in 2009, which equates to a 1.8% decrease per unit.

The net earnings per unit, before income tax for the period decreased compared to the comparative period, mainly due to the decrease in the Fund's proportionate interest in the Partnership, which was slightly off set by the overall increase in system sales for the period.

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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 \$248,000 future tax expense recorded in the first quarter of 2010 is a result of an increase in the value of the rights and marks attributable to the vend-in of the new restaurants to the Royalty Pool on January 1, 2010, partially off-set by the Fund's decreased ownership of the Partnership. During the 2009 comparative period, the net impact on the Fund was a decrease in the non-cash future tax expense of \$293,000. 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 June 30, 2010 were \$4.7 million or \$0.216 per unit, as compared to net earnings of \$4.7 million or \$0.216 per unit in the comparable quarter of 2009.

Net earnings for the six month period ended June 30, 2010 were \$9.1 million or \$0.417 per unit, as compared to net earnings of \$9.8 million or \$0.450 basic earnings per unit in the comparable six month period of 2009.

The decrease in the current period's earnings per unit when compared to last year is due to the future tax calculation.

Distributions

The Fund declared distributions of \$5.1 million or \$0.233 per unit for the quarter ended June 30, 2010, equating to a 108% payout ratio; for the 2009 comparable quarter, the Fund declared distributions of \$5.1 million or \$0.233 per unit for a payout ratio of 108%. For the six month period ended June 30, 2010, the Fund declared distributions of \$10.1 million or \$0.465 per unit, equating to a 108% payout ratio; for the 2009 comparable period, the Fund declared distributions of \$10.1 million or \$0.465 per unit for a payout ratio of 105%.

Distributions declared for 2010 are as follows:

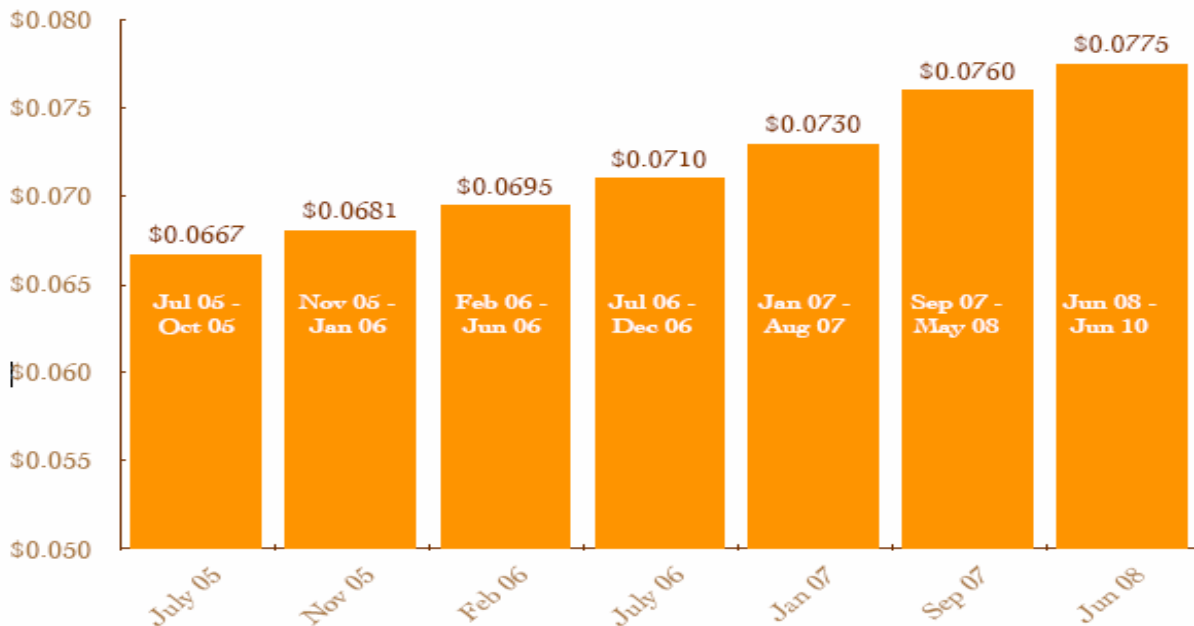
<u>Period</u>	<u>Payment Date</u>	<u>Amount/unit</u>
January 1-31, 2010	February 15, 2010	7.75¢
February 1-28, 2010	March 15, 2010	7.75¢
March 1-31, 2010	April 15, 2010	7.75¢
April 1-30, 2010	May 14, 2010	7.75¢
May 1-31, 2010	June 15, 2010	7.75¢
June 1-30, 2010	July 15, 2010	7.75¢
Total		46.50¢

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

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

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UNITHOLDER DISTRIBUTION INCREASES SINCE IPO



TAX LEGISLATION and CONVERSION & DISTRIBUTION CONSIDERATIONS - 2011

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.

The SIFT tax legislation has raised a number of organizational and tax planning issues for consideration by the Fund's trustees.

The Fund's trustees have decided to retain the Fund's current income trust structure through the end of 2010 and into 2011. As an initial step, beginning with the distribution for the month of January 2011, the Fund's trustees expect to adopt a new distribution policy, with a reduced monthly distribution that reflects the Fund's obligation to make SIFT tax payments. In determining the level of distributions, the Trustees will consider factors related to the Company's operations, the cash reserve fund, their assessment of economic conditions in the Company's principal markets, and the discretionary tax deductions that are available as a result of the Fund's past tax planning strategy. The payout ratio will be set at a level designed to augment the reserve fund.

Based on current considerations, and assuming that economic and business conditions do not deteriorate in 2011 and beyond, the Fund's trustees currently expect that the new distribution policy will provide for monthly distributions in a range from \$0.68 to \$0.71 annually per unit. At this level, the distribution, combined with the return of capital component of the Fund's distributions would provide taxable Canadian individuals with an effective after-tax yield comparable to current levels.

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As shown in the table below, the impact of the Fund's potential distribution policy would result in an increase to after-tax cash retained by an Ontario taxable individual assuming an annual distribution of \$0.93 per unit in 2010 and a middle-range annual distribution of \$0.70 per unit in 2011.

	2010	2011
Assumed Distribution Before Tax	\$ <u>0.93</u>	\$ <u>0.70</u>
Distribution breakdown per unit :		
Taxable distribution ¹	0.838	0.421
Return of capital ¹	<u>0.092</u>	<u>0.279</u>
	0.93	0.70
Personal taxes per unit ²	<u>(0.389)</u>	<u>(0.119)</u>
After-tax cash retained by unit holder	<u>\$ 0.541</u>	<u>\$ 0.581</u>

1. The Fund expects 2010 distributions will comprise of taxable distributions and returns of capital as to approximately 90% and 10%, respectively. For 2011, the distributions are expected to comprise of taxable distributions and returns of capital as to approximately 60% and 40%, respectively. The return of capital portion, which will reduce a holder's cost base for tax purposes, will decline in future years
2. Assumes a combined effective federal and Ontario top marginal tax rate on ordinary income of 46.41% for 2010 and on eligible dividends of 28.19% for 2011. The tax consequences of the SIFT tax legislation 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.

The Fund's trustees have not yet made a final determination of the distribution policy for 2011, but expect to confirm this policy later in 2010 using the above range as guidance. The Fund's trustees note that the payment of distributions is subject to the requirements of the Fund's declaration of trust and any contractual restrictions under applicable credit facilities, and that the level of distributions are subject to change from time to time based on, among other things, changes in the Pizza Pizza Royalty Income Partnership's royalty income and other available cash. See "Forward Looking Statements".

The Fund's trustees will continue to consider options for converting the Fund from its current trust structure to a corporation, as well as other strategic options for the Fund. At this time, in order to rely on rules enacted by the federal government that permit conversion on a tax-deferred rollover basis, the Fund expects that the most likely transaction will be a conversion to a high-yield dividend-paying corporation, which would be completed prior to December 31, 2012.

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 or decrease 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 June 30, 2010, working capital of the Partnership was \$1.3 million (December 31, 2009 - \$2.4 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, 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 matured 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 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 June 30, 2010 was \$1.8 million (2009 - \$3.2 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 (2009 – 1.59:1). The Partnership is presently making interest-only payments on the non-revolving credit facility. Should the debt-to-EBITDA ratio for the last four quarters rolling average drop below 1.5:1, then the interest rate on the credit facility will drop 25 basis points.

OUTLOOK

Michael Overs, Pizza Pizza Limited's founder and Chief Executive Officer, died in March 2010. Paul Goddard, a Vice President of the Company and Mr. Overs' son-in-law, has been appointed as Chief Executive Officer, and is leading the Company's management team overseeing day-to-day operations and corporate strategy. The Company and its management team remain committed to working with the Pizza Pizza and Pizza 73 restaurant partners and employees, and our suppliers and business associates, to build on the success the Company has achieved under Michael's leadership.

The Fund's trustees have decided to retain the Fund's current income trust structure through the end of 2010 and into 2011. As an initial step, beginning with the distribution for the month of January 2011, the Fund's trustees expect to adopt a new distribution policy, with a reduced monthly distribution that reflects the Fund's obligation to make SIFT tax payments. In determining the level of distributions, the Trustees will consider factors related to the Company's operations, the cash reserve fund, their assessment of economic conditions in the Company's principal markets, and the discretionary tax deductions that are available as a result of the Fund's past tax planning strategy. The payout ratio will be set at a level designed to augment the reserve fund.

Based on current considerations, and assuming that economic and business conditions do not deteriorate in 2011 and beyond, the Fund's trustees currently expect that the new distribution policy will provide for monthly distributions in a range from \$0.68 to \$0.71 annually per unit. At this level, the distribution, combined with the

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return of capital component of the Fund's distributions would provide taxable Canadian individuals with an effective after-tax yield comparable to current levels. (See "TAX LEGISLATION & CONVERSION OPTIONS in 2011")

In 2010, Pizza Pizza Management expects to increase the restaurants in the chain by 3% with the majority of new restaurants to be opened as part of our continued, national expansion plan. Organically, Pizza Pizza expects to grow outside its largely, Ontario markets by opening additional locations in Montreal, as well as in western provinces. In Alberta, after having added 24 locations since July 2007, Management does not anticipate opening additional Pizza 73 traditional locations, but does plan to add non-traditional locations.

Second quarter ended June 30, 2010 SSS remained flat compared to the same quarter last year. Significant near-term improvement in the Alberta economy is not anticipated. However, we continue to see positive economic signs in Ontario.

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.

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 June 30, 2010, 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 June 30, 2010.

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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.

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.

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.

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The following summarizes progress to date and differences:

Key Activity	Milestones	Progress at June 30, 2010
<p>Project Management:</p> <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 stakeholders on a quarterly basis. 	<ul style="list-style-type: none"> • Project team assembled. • Key members of team have completed IFRS related training. • Project plan prepared and audit committee updated on progress during quarterly meetings. • Engaged external consultant during the current quarter. • Communication to external stakeholders done quarterly through MD&A and quarterly disclosures.
<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. 	<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.

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<p><i>Disclosure Controls and Procedures (DC&P):</i> Identify and assess impact of new accounting policies on DC&P.</p> <ul style="list-style-type: none"> • Ensure that all investor communications are IFRS compliant. 		
<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, 2010 and maintain required documentation and testing of hedge effectiveness throughout 2010. 	<ul style="list-style-type: none"> • Management has designated the Interest rate swaps as hedging instruments and documentation and testing of hedge effectiveness has been completed.

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:

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, Financial Instruments: Recognition and measurement, sets out specific conditions that must be met on the transition date to designate a transaction for hedge accounting. IAS 39 is set to be replaced by IFRS 9, Financial Instruments, by the end of 2010. New requirements for classification and measurement of financial liabilities, derecognition of financial instruments, impairment and hedge accounting are to be added to IFRS 9 in 2010.</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>Management has designated the Interest rate swaps as hedging instruments and documentation and testing of hedge effectiveness has been completed.</p>

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Standard	Difference from Canadian GAAP	Potential Impact
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 units exist (i.e. .not anti-dilutive), under IFRS the number of units for the earnings per unit calculation may be higher resulting in a lower earnings per unit.	The Fund will be required to apply a different formula to determine the weighted average of the diluted units.
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.
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.

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RISKS & UNCERTAINTIES

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

The Restaurant Industry

The performance of the Fund is directly dependent upon the royalty and interest payments received from Pizza Pizza. The amount of royalty received from Pizza Pizza is dependent on various external factors that may affect the limited service sector of the restaurant industry. The restaurant industry, generally, is intensely competitive with respect to price, service, location and food quality. Competitors include national and regional chains, as well as independently owned restaurants and retailers of frozen pizza. If Pizza Pizza, Pizza Pizza franchisees and Pizza 73 operators are unable to successfully compete in the limited service sector, System Sales may be adversely affected, the amount of royalty reduced and the ability of Pizza Pizza to pay the royalty or interest on the PPL Loan may be impaired. Changes in demographic trends, traffic patterns, and the type, number, and location of competing restaurants also affect the restaurant industry. In addition, factors such as government regulations, smoking bylaws, inflation, publicity from any food borne illnesses, increased food, labour and benefits costs, and the availability of experienced management and hourly employees may adversely affect the restaurant industry in general and therefore, potentially, Pizza Pizza and Pizza 73 System Sales. Pizza Pizza's success also depends on numerous factors affecting discretionary spending, including economic conditions, disposable consumer income and consumer confidence. Adverse changes in these factors could reduce guest traffic or impose practical limits on pricing, either of which could reduce sales and operating income, which could adversely affect revenue, the royalty and the ability of Pizza Pizza to pay the royalty to the Fund or interest on the PPL Loan. For additional information concerning the performance of Pizza Pizza, please refer to the Pizza Pizza MD&A which is available at www.sedar.com and www.pizzapizzaroyaltyincomefund.com.

Litigation

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 that it will vigorously defend the claim. The parties have exchanged documents and oral examinations for discovery are in the process of being completed by early fall of 2010. The Fund notes that the Estate of Michael Overs is subject to 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

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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.