

Pizza Pizza Limited

Consolidated Financial Statements
December 28, 2008 and December 30, 2007

RSM Richter

RSM Richter LLP
Chartered Accountants

200 King St. W., Suite 1100, P.O. Box 48
Toronto, ON M5H 3T4
Tel: (416) 932-8000 Fax: (416) 932-6200
www.rsmrichter.com

Auditors' Report

To the Shareholders of
Pizza Pizza Limited

We have audited the consolidated balance sheets of Pizza Pizza Limited as at December 28, 2008 and December 30, 2007 and the consolidated statements of operations and deficit, other comprehensive loss, accumulated other comprehensive loss and cash flows for the 52-week periods ended December 28, 2008 and December 30, 2007. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 28, 2008 and December 30, 2007 and the results of its operations and its cash flows for the 52-week periods ended December 28, 2008 and December 30, 2007 in accordance with Canadian generally accepted accounting principles.

RSM Richter LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
March 16, 2009

PIZZA PIZZA LIMITED
CONSOLIDATED BALANCE SHEETS
(In Thousands of Dollars)

	December 28, 2008	December 30, 2007
ASSETS		
Current assets		
Cash and cash equivalents	\$ 13,767	\$ 10,044
Accounts receivable	7,553	6,070
Inventories (note 6)	5,463	3,611
Prepaid expenses and sundry assets	1,750	2,340
Income taxes recoverable	1,890	1,922
Receivables from jointly-controlled companies (note 24)	544	1,002
Current maturity of notes receivable (note 8)	5,035	2,822
Recoverable franchisee expenses, net	11,336	6,007
Total current assets	47,338	33,818
Property, plant and equipment (note 7)	18,246	16,688
Notes receivable (note 8)	1,679	100
Renovation funds (note 9)	5,167	10,468
Deferred charges (note 11)	1,145	1,175
Future income tax asset (note 15)	19,379	20,619
Pizza 73 Rights and Marks (note 4)	57,095	57,076
Intangible assets (notes 4 and 10)	1,533	1,798
Goodwill (note 4)	17,979	14,581
	\$ 169,561	\$ 156,323
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities		
Accounts payable and accrued liabilities (note 12)	30,812	29,860
Deposits from franchisees	1,843	1,113
Current maturities of long-term debt (note 13)	489	312
Total current liabilities	33,144	31,285
Long-term debt (note 13)	48,082	47,305
Deferred revenue	6,318	2,056
Loan payable to Pizza Pizza Holdings Trust (note 14)	30,000	30,000
Advances from related parties (note 24)	24,807	19,346
Leasehold inducements	214	229
Cash flow hedge (note 27)	4,033	443
Renovation funds (note 9)	1,441	1,202
Total liabilities	148,039	131,866
Non-controlling interest (note 16)	174,529	175,580
Commitments and Contingencies (notes 17 and 18)		
SHAREHOLDERS' DEFICIENCY		
Common shares and Special voting shares (note 19)	-	-
Accumulated other comprehensive loss	(867)	(81)
Deficit	(152,140)	(151,042)
	(153,007)	(151,123)
	\$ 169,561	\$ 156,323

See accompanying notes to consolidated financial statements

(Signed) MICHAEL OVERS
Director

PIZZA PIZZA LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
(In Thousands of Dollars)

	<u>For the 52-week period ended December 28, 2008</u>	<u>For the 52-week period ended December 30, 2007</u>
Revenue		
Food sales (note 21)	\$ 193,067	\$ 162,669
Royalties, franchise fees and other related revenue (note 22)	26,735	25,070
Interest and other income	1,631	1,563
	<u>221,433</u>	<u>189,302</u>
Expenses		
Cost of food sales and general and administrative expenses (note 23)	191,234	167,536
Amortization of deferred charges	354	215
Amortization of property, plant and equipment	4,634	4,533
Amortization of intangible assets	265	117
Interest on loan from Pizza Pizza Holdings Trust	1,800	1,800
Interest on long-term debt (note 13)	2,819	1,969
Gain on sale of Company-owned restaurants	(1,132)	(1,329)
	<u>199,974</u>	<u>174,841</u>
Earnings before income taxes and non-controlling interest	21,459	14,461
Provision for (recovery of) income taxes (note 15)		
Current	1,238	(1,292)
Future	1,240	4,173
	<u>2,478</u>	<u>2,881</u>
Earnings before non-controlling interest	18,981	11,580
Non-controlling interest in earnings of the Partnership (note 16)	20,079	16,650
Net loss for the period	\$ (1,098)	\$ (5,070)
Deficit – beginning of period	(151,042)	(129,222)
Dividends	-	(16,750)
Deficit – end of period	<u>\$ (152,140)</u>	<u>\$ (151,042)</u>

See accompanying notes to consolidated financial statements

PIZZA PIZZA LIMITED
CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE LOSS
(In Thousands of Dollars)

	For the 52-week period ended December 28, 2008	For the 52-week period ended December 30, 2007
Net loss for the period	\$ (1,098)	\$ (5,070)
Other comprehensive loss		
Loss on interest rate swap designated as cash flow hedge (note 27)	(3,590)	(830)
Non-controlling interest in Partnership's other comprehensive loss	2,804	660
Other comprehensive loss	(786)	(170)
Comprehensive loss	\$ (1,884)	\$ (5,240)

PIZZA PIZZA LIMITED
CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS
(In Thousands of Dollars)

	For the 52-week period ended December 28, 2008	For the 52-week period ended December 30, 2007
Balance, beginning of period	\$ (81)	\$ -
Accounting policy change (note 3)	-	89
Other comprehensive loss	(786)	(170)
Balance, end of period, being Pizza Pizza Limited's share of the fair value of a cash flow hedge	\$ (867)	\$ (81)

See accompanying notes to consolidated financial statements

PIZZA PIZZA LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of Dollars)

	For the 52-week period ended December 28, 2008	For the 52-week period ended December 30, 2007
Operating activities		
Net loss for the period	\$ (1,098)	\$ (5,070)
Amortization of property, plant and equipment	5,809	5,576
Amortization of intangible assets	265	117
Amortization of deferred charges	354	215
Amortization of leasehold inducements	(77)	(16)
Amortization of deferred revenue	(2,169)	(1,949)
Non-controlling interest	20,079	16,650
Accretion of interest expense	32	19
Gain on sale of Company-owned restaurants	(1,132)	(1,329)
Future income tax expense	1,240	4,173
	<u>23,303</u>	<u>18,386</u>
Proceeds of deferred revenue	7,000	-
Changes in non-cash operating elements of working capital (note 26)	(6,471)	1,002
Cash provided by operating activities	<u>23,832</u>	<u>19,388</u>
Investing activities		
Additions to property, plant and equipment – maintenance	(3,841)	(584)
Additions to property, plant and equipment – restaurants	(4,469)	(5,037)
Purchase of Pizza 73 Rights and Marks (note 4)	(19)	(57,076)
Purchase of Pizza 73 Shares, net of cash acquired of \$Nil (2007 - \$4,260) (note 4)	(3,150)	(12,678)
Purchase of Pizza 73 restaurant Shares, net of cash acquired of \$26 (note 4)	(274)	-
Proceeds from sale of Company-owned Restaurants	2,200	2,970
Proceeds from sale of property, plant and equipment	-	1
Repayment of notes receivable	10,147	19,557
Issuance of notes receivable	(13,939)	(11,967)
Contributions to renovation funds	23,059	22,268
Disbursement from renovation funds	(17,519)	(23,270)
Deferred charges	(324)	(707)
Cash used in investing activities	<u>(8,129)</u>	<u>(66,523)</u>
Financing activities		
Proceeds of long-term debt	1,285	27,000
Repayments of long-term debt	(462)	(263)
Debt financing fees	-	(154)
Proceeds from issuance of Pizza Pizza Royalty Limited Partnership units	-	30,257
Receipt of leasehold inducements	62	-
Advances from related parties	18,970	27,311
Repayment of advances from related parties	(13,509)	(7,970)
Distributions by Pizza Pizza Royalty Limited Partnership (note 16)	(18,326)	(15,811)
Dividends	-	(16,750)
Cash provided by (used in) financing activities	<u>(11,980)</u>	<u>43,620</u>
Increase (decrease) in cash and cash equivalents	3,723	(3,515)
Cash and cash equivalents, beginning of period	10,044	13,559
Cash and cash equivalents, end of period	<u>\$ 13,767</u>	<u>\$ 10,044</u>

See supplementary cash flows information (note 26)
See accompanying notes to consolidated financial statements

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 52-week periods ended December 28, 2008 and December 30, 2007

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

1. Nature of Business

Pizza Pizza Limited (the “Company” or “Pizza Pizza”), a privately-held corporation, operates in the food service industry primarily throughout Ontario and Alberta and primarily franchises and operates quick-service restaurant (“QSR”) businesses under the brand names of Pizza Pizza and Pizza 73. The Company derives revenues from franchises through the sale of franchise restaurants, royalties, and food and beverages. The Company also derives revenues from jointly-controlled and Company-owned restaurants through the sale of food products to retail customers.

During the 52-week periods, the Company acquired 7 franchises (2007 – 5) and franchised 9 (2007 – 21). Below are the number of franchisees and licensees as at:

	December 28, 2008	December 30, 2007
Franchisees and licensees	571	555
Jointly-controlled restaurants	64	56
Company-owned restaurants	5	5

2. Summary of Significant Accounting Policies

a) Fiscal Year-end and Interim Period

The Company has a floating year-end of the Sunday closest to December 31, accordingly, interim periods consist of four 13-week periods with an additional week added to the last interim period every 5 to 6 years.

b) Basis of Consolidation

These financial statements consolidate the accounts of the Company, its wholly-owned subsidiary, Pacific and Canadian Food Services Inc., its interest in the Pizza Pizza Royalty Limited Partnership (the “Partnership”), its wholly-owned Pizza 73 restaurant, Unit C-Two West Inc. which was acquired on August 25, 2008, and proportionately consolidates the accounts of its jointly-controlled companies, which were acquired on July 24, 2007 as part of the Pizza 73 share acquisition, as described in note 4(b). On consolidation, all significant inter-company transactions and balances have been eliminated. The detail of the consolidation as described, by entity, has been presented in note 28.

In June 2003, the Canadian Institute of Chartered Accountants (“CICA”) issued Accounting Guideline 15, “*Consolidation of Variable Interest Entities*” (“AcG-15”), requiring the consolidation of variable interest entities (“VIEs”) by the primary beneficiary of the expected residual returns or losses, or both, of the VIE. A VIE is any type of legal structure in which consolidation is required due to contractual or other financial arrangements, as opposed to traditional voting rights, if certain conditions exist.

The Partnership is considered to be a VIE and the Company is the primary beneficiary of the Partnership; accordingly, the Company consolidates the Partnership. The Pizza Pizza Royalty Income Fund’s (the “Fund”) 78.5% interest in the Partnership as of December 28, 2008 (2007 – 81.6%), is shown as non-controlling interest in the balance sheets and the non-controlling interest equity allocation is shown in the statements of operations and deficit.

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 52-week periods ended December 28, 2008 and December 30, 2007

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

2. Summary of Significant Accounting Policies, continued

c) Revenue Recognition

The Company recognizes revenue on the following basis:

- Food sales are recognized when the products are delivered to the franchised restaurants and jointly-controlled companies. Pizza Pizza franchisees sign a franchise agreement which requires the franchisee to purchase from Pizza Pizza, at an agreed markup on cost, all of the raw materials and supplies used and sold in their Pizza Pizza restaurant(s). Payment for materials and supplies are due within seven days.
- Company-owned restaurant and jointly-controlled restaurant retail sales are recognized when the services are rendered and the products are sold to the public. Payment by the public is immediate.
- Franchise royalties and administration fees are recognized as earned and are based on a percentage of the franchisees' sales as provided for in individual franchise agreements. Royalties are due within seven days.
- Initial and renewal franchise fees are recognized at the commencement of the initial term of the franchise agreement and upon the renewal of such an agreement. The initial franchise fee is payable, in full, at the commencement of the agreement. The renewal fee is charged to franchisees upon renewal of their franchise agreement which is typically five years from the initial agreement.
- Construction fees are recognized when the related franchise restaurant becomes operational. Fees are generated by the Company acting as general contractor as per a franchise agreement.
- Interest and other income is recognized and accrued when earned. Interest income is derived from promissory notes with franchisees and investments in cash equivalents which have maturity dates less than three months.

d) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and short-term investments with a term at the date of acquisition of three months or less.

e) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined on the first-in, first-out basis.

f) Recoverable Expenses

The Company provides advertising and order processing services to Pizza Pizza and Pizza 73 restaurants. Expenses related to the provision of these services are paid by the Company. The Company recovers advertising expenses based on a percentage of individual restaurant sales and order processing service expenses based on the number of orders directed to the restaurant. Recoveries from franchisees are recorded as a reduction of the related expenses. To the extent that expenses recovered exceed or are less than expenses paid by the Company, the difference is recorded as a receivable or a payable.

In addition to providing advertising and order processing services to Pizza 73 restaurants, the Company also operates two Pizza 73 commissaries. A consulting agreement controls the mark-up on food sales which is designed to cover the expenses of the commissary operations. Recoveries are recorded as a reduction of the related expenses. To the extent that expenses recovered exceed or are less than expenses paid by the Company, the difference is allocated annually to individual restaurants based on a percentage of individual restaurant sales.

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 52-week periods ended December 28, 2008 and December 30, 2007

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

2. Summary of Significant Accounting Policies, continued

g) Amortization

On the declining balance method -

Equipment	20%
Furniture and fixtures	20%
Automobiles and trucks	30%

On the straight-line method -

Leasehold improvements	5 years
Computer - software	3 years
- hardware	4 years
Company-owned restaurant assets	5 years

h) Long-lived Assets

Long-lived assets are comprised of property, plant and equipment and finite life intangible assets subject to amortization. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of evaluating the recoverability of long-lived assets, the recoverability test is performed using undiscounted future net cash flows of the asset. The amount of the impairment is measured as the difference between the carrying value and the fair value of the asset and recognized by way of an additional current period amortization charge.

i) Intangible Assets

Intangible assets are assets acquired that lack physical substance and that meet the specified criteria for recognition apart from goodwill. Intangible assets with a finite life are recorded at cost and are amortized over the period of expected future benefit on the straight-line method:

Non-compete agreements	3 years
Lease agreements	10 years

Intangible assets which have an indefinite life are recorded at cost and are not being amortized. Management considers the Pizza 73 Rights and Marks to be an indefinite life asset. On an annual basis, management reviews the carrying amount of intangible assets, which have an indefinite life, for possible impairment by evaluating discounted cash flows. Intangible assets are written down to their estimated fair value as determined by discounted cash flows when a permanent decline is identified.

j) Goodwill

Goodwill is recorded as the excess of the purchase price of an acquired subsidiary over the fair value of the net assets acquired. Goodwill is not amortized and is subject to an annual impairment test. Goodwill impairment is evaluated between annual tests upon the occurrence of certain events or circumstances and assessed based on a comparison of the reporting unit's carrying amount to its fair value. When the carrying amount of the reporting unit exceeds its fair value, the fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of impairment loss, if any.

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 52-week periods ended December 28, 2008 and December 30, 2007

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

2. Summary of Significant Accounting Policies, continued

k) Derivative Financial Instruments

Interest rate swap contracts are designated as hedges of the cash flow relating to interest payments of the outstanding long-term debt or a portion thereof. The interest payments relating to swap contracts are recorded in net earnings over the life of the underlying transaction on an accrual basis as an adjustment to interest expense.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also formally assesses both at the hedge's inception and at the end of each quarter, to ensure the derivatives that are used in the hedged transactions are effective in offsetting changes in cash flows of hedged items.

l) Long-term Investments

Investment in Pizza Pizza GP Inc., the managing general partner of the Partnership, is accounted for using the equity method, under which the original cost of the investment is adjusted for the Company's share of post-acquisition earnings or losses and is reduced for distributions received.

m) Deferred Charges

Certain excess renovation costs, which are considered to have future benefits, are deferred and amortized over the term of the franchise agreement, generally being 5 years.

n) Future Income Taxes

The Company follows the liability method with respect to accounting for income taxes. Future tax assets and liabilities are determined based on differences between the carrying amount and the tax basis of assets and liabilities (temporary differences). Future income tax assets and liabilities are measured using the substantively enacted tax rates that will be in effect when these differences are expected to reverse. Future income tax assets, if any, are recognized only to the extent that, in the opinion of management, it is more likely than not that the assets will be realized.

The refundable portion of taxes on investment income is charged to retained earnings. The recovery of refundable taxes previously charged to retained earnings is credited to retained earnings in the period it becomes receivable.

o) Deferred Revenue

Deferred revenue relates to an allowance received from a supplier in consideration of the achievement of certain volume commitments. The deferred revenue is being amortized based on the proportion of volume commitments met during each year.

p) Renovation Funds

The Company maintains a long-term renovation program whereby franchisees contribute towards future restaurant renovations and upgrades. The franchise owner acknowledges that the renovation fund contribution may be used by the Company, without interest or other compensation to the franchise owner, to fund the renovation, expansion or relocation of other Pizza Pizza outlets until such time as the funds are required by the franchise owner for renovation, expansion or relocation of the franchised outlet.

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 52-week periods ended December 28, 2008 and December 30, 2007

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

2. Summary of Significant Accounting Policies, continued

q) Estimates

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty and are reviewed periodically and adjustments, if necessary, are made in the period in which they are identified. Actual results may differ from these estimates. Significant estimates and assumptions made by management are used for, but are not limited to, the valuation of inventory, allowance for doubtful accounts, useful lives of long-lived assets, and valuation of intangible assets and goodwill.

r) Financial Instruments

Financial Assets

Held-for-trading

Financial assets that are held with the intention of generating profits in the near term and derivative contracts that are financial assets, except for a derivative that is a designated and effective hedging instrument, are classified as held-for-trading. In addition, any other financial assets can be designated by the Company upon initial recognition as held-for-trading. These instruments are subsequently re-measured at fair value with the change in the fair value recognized in net earnings during the period.

Held-to-maturity

Financial assets that have a fixed maturity date and which the Company has a positive intention and the ability to hold to maturity are classified as held-to-maturity, which are subsequently re-measured at amortized cost using the effective interest rate method.

Loans and Receivables

Loans and receivables are non-derivative financial assets resulting from the delivery of cash or other assets in return for a promise to repay on a specified date, or on demand, usually with interest. Loans and receivables are subsequently re-measured at amortized cost using the effective interest rate method.

Available-for-sale

Available-for-sale assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Financial assets classified as available-for-sale are subsequently re-measured at fair value with the changes in fair value recorded in other comprehensive income.

Financial Liabilities

Held-for-trading

Financial liabilities that are held with the intention of generating profits in the near term and derivative contracts that are financial liabilities, except for a derivative that is a designated and effective hedging

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 52-week periods ended December 28, 2008 and December 30, 2007

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

2. Summary of Significant Accounting Policies, continued

instrument, are classified as held-for-trading. In addition, any other financial liabilities can be designated by the Company upon initial recognition as held-for-trading. These instruments are subsequently re-measured at fair value with the change in the fair value recognized in net earnings during the period.

Other Liabilities

Non-derivative financial liabilities that have not been designated as held-for-trading are classified as other liabilities, which are subsequently re-measured at amortized cost using the effective interest rate method.

The Company has decided to elect all of its cash equivalents as held-to-maturity and record these items at amortized cost.

The Company has decided to elect its accounts receivable, notes receivable, renovation funds receivable, recoverable franchisee expenses, net and any receivable from related parties as a loan and receivable.

The Company has decided to elect its accounts payable and accrued liabilities, long-term debt, loan payable to Pizza Pizza Holdings Trust and advances from related parties as financial liabilities that are not held-for-trading.

Transaction costs related to the purchase of the Pizza 73 Rights and Marks have been capitalized as shown in note 4. Costs associated with the purchase of Pizza 73 Inc. and its affiliated companies (together "Pizza 73") shares have been capitalized to goodwill and costs associated with obtaining financing have been offset against the long-term debt and are amortized into earnings using the effective interest rate method.

3. Changes in Accounting Policies

a) General Standards on Financial Statement Presentation

Commencing December 31, 2007, the Company has adopted the new recommendations of the CICA Handbook Section 1400, General Standards on Financial Statement Presentation. Under these new recommendations, the Company is required to assess and disclose its ability to continue as a going concern. The Company's adoption of this standard does not have a material impact on disclosure in its financial statements.

b) Capital Disclosures

Commencing December 31, 2007, the Company has adopted the new recommendations of the CICA Handbook Section 1535, Capital Disclosures. Under these new recommendations, the Company is required to disclose its objectives, policies and processes for managing capital and whether the entity has complied with any capital requirements, and if it has not complied, the consequences of such non-compliance. The required disclosure is in note 20.

c) Financial Instruments - Disclosures

Commencing December 31, 2007, the Company has adopted the new recommendations of the CICA Handbook Section 3862, Financial Instruments – Disclosures. Under these new recommendations, the Company is required to increase the disclosure to enable users to evaluate the significance of financial instruments for the Company's financial position and performance, including disclosure about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 52-week periods ended December 28, 2008 and December 30, 2007

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

3. Changes in Accounting Policies, continued

specified minimum disclosures about liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net earnings and other comprehensive income would have been affected by reasonably possible changes in the relevant risk variable. The required disclosure is in note 27.

d) Financial Instrument – Presentation

Commencing December 31, 2007, the Company has adopted the new recommendations of the CICA Handbook Section 3863, Financial Instrument – Presentation, which replaces the existing requirements on presentation for financial instruments which have been carried forward unchanged to this new section. The adoption of this standard does not have a material impact on disclosure in its financial statements.

e) Inventories

Commencing December 31, 2007, the Company has adopted the new recommendations of the CICA Handbook Section 3031, Inventories, which replaces the existing Section 3030 and contains requirements on measurement and disclosure of inventories to converge with international reporting standards. The adoption of this policy has had no material effect on these financial statements, except for the required disclosure in notes 6 and 23.

f) Financial Instruments, Hedges and Comprehensive Income

On January 1, 2007, the Company adopted three new Canadian Institute of Chartered Accounts' ("CICA") accounting standards: (i) *Financial Instruments – Recognition and Measurements*, (ii) *Hedges* and (iii) *Comprehensive Income*.

As allowed under the transitional provisions for the implementation of new accounting standards, prior periods have not been restated. As a result, the Company has recorded an increase of \$89 to opening fiscal 2007 accumulated other comprehensive loss for the cumulative prior period effect arising on adoption of the new accounting standards. This transition impact arose from recognizing in other comprehensive loss, the value of the deferred gains and losses on transition date relating to the interest rate swap, designated as a cash flow hedge.

The above resulted in various adjustments to the fiscal 2007 opening financial statements, as follows:

	Increase
Interest rate swap	\$ 387
Non-controlling interest	298
Accumulated other comprehensive loss – beginning	89

4. Acquisitions

- a) Effective July 24, 2007, the Partnership acquired the trademarks and other intellectual property of Pizza 73 Inc. and its affiliated companies (together "Pizza 73") for cash consideration of \$54,040 plus transaction costs of \$3,036, using the net proceeds from the issuance of Class A Units to the Fund of \$27,040 and the proceeds from its new credit facility of \$27,000. During the current period, \$19 of additional transaction costs were paid and capitalized to the Pizza 73 Rights and Marks.

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 52-week periods ended December 28, 2008 and December 30, 2007

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

4. Acquisitions, continued

- b) Effective July 24, 2007, Pizza Pizza acquired all of the outstanding shares of Pizza 73 for \$15,944 of cash consideration and a working capital payable of \$1,427 plus transaction costs of \$887. Immediately after the acquisition, Pizza Pizza and Pizza 73 amalgamated, and the amalgamated entity is called Pizza Pizza Limited.

Pizza Pizza has licensed the trademarks and other intellectual property associated with Pizza 73 from the Partnership for a 9% royalty payment on system sales of the Pizza 73 restaurants included in the Royalty Pool.

The Pizza 73 brand operates in the take-out and delivery pizza Quick Service Restaurant ("QSR") segment, principally in the province of Alberta. Four of the locations are outside of Alberta, three in Saskatchewan and one in British Columbia. Pizza 73 restaurants are not franchised, but instead owned and operated as independent businesses. Each restaurant is a corporation equally owned by an independent owner/operator and Pizza Pizza.

The acquisitions were accounted for by the purchase method with the purchase price being allocated to the fair value of the acquired assets and liabilities. The results of operations included in these consolidated financial statements are from the respective acquisition dates.

In July 2008, the vendors of Pizza 73 met the thresholds based on earnings and revenue, and were entitled to an additional \$2,983 of consideration. As a result of this additional consideration, the goodwill generated on the purchase of Pizza 73 shares has been increased.

In addition, the Company paid additional transaction costs related to the transaction, and the purchase price equation was affected with a related increase to goodwill of \$167.

	Pizza 73 Shares	Pizza 73 Rights	Total
Net assets acquired:			
Net working capital	\$ 612	\$ -	\$ 612
Property, plant and equipment	2,186	-	2,186
Other long-term assets	39	-	39
Pizza 73 Rights and Marks	-	57,095	57,095
Goodwill	17,731	-	17,731
Intangible assets	1,915	-	1,915
Long-term debt	(818)	-	(818)
Other long-term liabilities	(245)	-	(245)
	<u>\$ 21,420</u>	<u>\$ 57,095</u>	<u>\$ 78,515</u>
Consideration:			
Cash consideration	15,944	54,040	69,984
Additional cash consideration	2,983	-	2,983
Working capital adjustment payable	1,332	-	1,332
Acquisition costs	1,161	3,055	4,216
	<u>\$ 21,420</u>	<u>\$ 57,095</u>	<u>\$ 78,515</u>

Goodwill acquired and deductible for tax purposes was approximately \$42,821, which is 75% of the total value of the Pizza 73 Rights and Marks.

- c) Effective August 25, 2008, Pizza Pizza acquired the remaining 50% of the outstanding shares of one of the Pizza 73 restaurants for \$300 of cash consideration plus transaction costs of \$1.

The acquisition was accounted for by the purchase method with the purchase price being allocated to the fair value of the acquired assets and liabilities. The results of operations included in these consolidated financial statements are from the acquisition date.

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 52-week periods ended December 28, 2008 and December 30, 2007

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

4. Acquisitions, continued

Net assets acquired:	
Net working capital	\$ 26
Property, plant and equipment	125
Other long-term assets	1
Goodwill	248
Long-term debt	(99)
	<hr/>
	\$ 301
Consideration:	
Cash consideration	300
Acquisition costs	1
	<hr/>
	\$ 301

Goodwill on this transaction is not deductible for tax purposes.

5. Royalty Pool Annual Adjustment

a) 2006 Royalty Pool Adjustment

In early January 2007, adjustments to royalty payments and Pizza Pizza's Class B Exchange Multiplier were made based on the actual performance of five restaurants added to the Royalty Pool on January 1, 2006. As a result of the adjustments, the new Class B Exchange Multiplier at January 1, 2006 was 1.02345 and Pizza Pizza's exchangeable units can be exchanged into 4,593,233 Fund units, which was an increase of 30,113 Fund units, effective January 1, 2006.

b) 2007 Royalty Pool Adjustment

On January 1, 2007, 30 net, new restaurants were added to the Royalty Pool as a result of 35 new restaurants opening from September 2, 2005 to December 31, 2006 and five closing from January 1, 2006 to December 31, 2006. The additional system sales from the 30 net, new restaurants were estimated at \$15.4 million annually. The total number of restaurants in the Royalty Pool increased to 531. The yield of the Fund units was determined to be 10.56% calculated using \$7.94 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 twenty consecutive days ending on the fifth trading day before January 1, 2007. As a result of the contribution of the additional net sales to the Royalty Pool, Pizza Pizza's Class B Multiplier increased fractionally by 80% of the total adjustment or 0.18174; the new Class B Multiplier at January 1, 2007 was 1.20519. This adjustment also increased the entitlement of the holders of the Class B Units to distributions of cash and allocations of income from the Partnership.

In early January 2008, the second adjustment to royalty payments and Pizza Pizza's Class B Exchange Multiplier was made based on the actual performance of the 35 restaurants added to the Royalty Pool on January 1, 2007. As a result of the adjustments, the new Class B Exchange Multiplier was 1.23525 and Pizza Pizza's exchangeable units can be exchanged into 5,031,342 Fund units, which is an increase of 122,427 Fund units, effective January 1, 2007.

c) 2008 Royalty Pool Adjustment – Class B Exchange Multiplier

On January 1, 2008, 28 net, new Pizza Pizza restaurants were added to the Royalty Pool as a result of 36 new restaurants opening and eight closing from January 1, 2007 to December 31, 2007. The additional system sales from the 28 net, new restaurants are estimated at \$7,987 annually. The total number of Pizza Pizza restaurants in the Royalty Pool has increased to 559.

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 52-week periods ended December 28, 2008 and December 30, 2007

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

5. Royalty Pool Annual Adjustment, continued

The yield of the Fund units was determined to be 9.0% calculated using \$9.87 as a weighted average unit price. Weighted average unit price is calculated based on the market price of the units traded on the TSX during the period of twenty consecutive days ending on the fifth trading day before January 1, 2008. As a result of the contribution of the additional net sales to the Royalty Pool, Pizza Pizza's Class B Exchange Multiplier increased fractionally by 80% of the total adjustment or 0.09805; the new Class B Multiplier is 1.33330. This adjustment also increased the entitlement of the holders of the Class B Units to distributions of cash and allocations of earnings from the Partnership. In early January 2009, the second adjustment to the Class B Exchange Multiplier has been adjusted to be effective January 1, 2008, since the actual performance of the new restaurants were determined with certainty in early 2009 (see note 29(a) – Subsequent Events).

d) 2008 Royalty Pool Adjustment – Class D Exchange Multiplier

On January 1, 2008, nine net, new Pizza 73 restaurants were added to the Royalty Pool as a result of two new restaurants opening between July 24, 2007 and September 1, 2007 and the inclusion of seven restaurants originally held out from the Royalty Pool when the Pizza 73 Rights were acquired. The additional system sales from the nine net, new restaurants are estimated at \$7,450 annually. The total number of Pizza 73 restaurants in the Royalty Pool has increased to 50.

The yield of and the weighted average unit price used in the calculation of the Class D Multiplier is determined in the same manner as that of the Class B Multiplier calculation at 9.0% and \$9.87, respectively. As a result of the contribution of the additional net sales to the Royalty Pool, Pizza Pizza's Class D Exchange Multiplier increased fractionally by 80% of the total adjustment or 5.58750; the new Class D Multiplier is 5.58750. This adjustment also increased the entitlement of the holders of the Class D Units to distributions of cash and allocations of income from the Partnership. In early January 2009, the second adjustment to the Class D Exchange Multiplier has been adjusted to be effective January 1, 2008, since the actual performance of the new restaurants were determined with certainty in early 2009 (see note 29(a) – Subsequent Events).

e) Pizza Pizza Royalty Income Fund Outstanding Units

In exchange for adding the 37 net, new restaurants on January 1, 2008 to the Royalty Pool, Pizza Pizza has received 399,357 additional Class B equivalent units and 558,750 Class D equivalent units. These units represent 80% of the full Class B and Class D entitlements (499,196 and 698,437 units, respectively, represent 100%). The second adjustment was determined with certainty in early 2009 (see note 29(a) – Subsequent Events).

Including the 958,107 exchangeable units described above, as at December 28, 2008, Pizza Pizza owns equivalent, exchangeable units equal to 21.5% of the Fund's fully diluted units.

The chart below shows the Fund units that would be outstanding at December 28, 2008 if all of the Class B and Class D units were converted to Fund units after accounting for their respective Multipliers:

Public float	21,818,392
Class B units held by Pizza Pizza	4,908,915
Pizza Pizza additional units - Holdback as of December 31, 2007	122,427
Additional Class B units issued to Pizza Pizza on January 1, 2008	399,357
Additional Class D units issued to Pizza Pizza on January 1, 2008	558,750
<hr/> Number of fully diluted units	<hr/> 27,807,841
<hr/> Proportion of all units outstanding available for exchange by Pizza Pizza	<hr/> 21.5%

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 52-week periods ended December 28, 2008 and December 30, 2007

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

6. Inventories

	As at December 28, 2008	As at December 30, 2007
Food	\$ 2,589	\$ 1,612
Non-Food	2,874	1,999
	<u>\$ 5,463</u>	<u>\$ 3,611</u>

7. Property, Plant and Equipment

	As at December 28, 2008			As at December 30, 2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Equipment	\$ 12,487	\$ 9,031	\$ 3,456	\$ 11,611	\$ 8,204	\$ 3,407
Furniture and fixtures	936	706	230	935	633	302
Automobiles and trucks	772	640	132	921	696	225
Leasehold improvements	6,633	5,760	873	6,349	5,416	933
Computer - software	7,880	5,588	2,292	5,672	5,353	319
- hardware	3,937	3,160	777	3,432	2,638	794
Company-owned restaurant assets	29,721	19,235	10,486	29,528	18,820	10,708
	<u>\$ 62,366</u>	<u>\$ 44,120</u>	<u>\$ 18,246</u>	<u>\$ 58,448</u>	<u>\$ 41,760</u>	<u>\$ 16,688</u>

Amortization for the 52-week period ended December 28, 2008 is shown net of recoveries from franchisees in the amount of \$1,095 (2007 - \$1,043).

Included in amortization of property, plant and equipment is amortization on Company-owned restaurant assets for the 52-week period ended December 28, 2008 that amounted to \$3,754 (2007 - \$3,561).

Equipment includes assets held under capital leases in the amount of \$1,000 (2007 - \$1,000) and accumulated amortization of \$266 (2007 - \$83).

8. Notes Receivable

	As at December 28, 2008	As at December 30, 2007
From franchisees, bearing interest between 6.0% and 10.0%	\$ 4,234	\$ 2,822
From franchisees, non-interest bearing	2,480	100
	<u>6,714</u>	<u>2,922</u>
Less: current maturity	5,035	2,822
	<u>\$ 1,679</u>	<u>\$ 100</u>

The notes receivable from franchisees are unsecured and are repayable in varying monthly principal amounts. The effective interest rate on the notes receivable is 7.4% (2007 - 7.6%).

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 52-week periods ended December 28, 2008 and December 30, 2007

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

9. Renovation Funds

The renovation funds are non-interest bearing and are repaid to/collected from franchisees on a monthly basis at amounts based on a percentage of sales.

10. Intangible Assets

	As at December 28, 2008			As at December 30, 2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Non-compete agreement	\$ 315	\$ 151	\$ 164	\$ 315	\$ 46	\$ 269
Lease agreements	1,600	231	1,369	1,600	71	1,529
	<u>\$ 1,915</u>	<u>\$ 382</u>	<u>\$ 1,533</u>	<u>\$ 1,915</u>	<u>\$ 117</u>	<u>\$ 1,798</u>

11. Deferred Charges

	As at December 28, 2008			As at December 30, 2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Deferred charges	\$ 1,954	\$ 809	\$ 1,145	\$ 1,629	\$ 454	\$ 1,175

12. Sales Tax Payable

The Company collects provincial sales tax and federal goods and services tax on behalf of certain franchised restaurants in addition to the collection of tax on its own account. These accounts are included in accounts payable and accrued liabilities as follows:

	As at December 28, 2008	As at December 30, 2007
Sales tax collected/(disbursed) in the Company's operations	\$ 575	\$ (183)
Sales tax collected on behalf of certain franchised restaurants	4,500	5,177
	<u>\$ 5,075</u>	<u>\$ 4,994</u>

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 52-week periods ended December 28, 2008 and December 30, 2007

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

13. Long-term Debt

	As at December 28, 2008	As at December 30, 2007
Bank loan is a committed non-revolving, five-year facility granted to the Partnership maturing on July 23, 2012, used to finance a portion of the acquisition costs of the Pizza Pizza Rights and Marks and the Pizza 73 Rights and Marks. As security for repayment of the facility, Pizza Pizza grants to the Partnership a continuing, general security interest, subject to certain exceptions, in all present and acquired property of Pizza Pizza, and may not be assigned without the prior consent of Pizza Pizza. The facility bears interest at prime plus 0% to 0.25% or the Bankers' Acceptance rate plus 1.00% to 1.75%, depending on the level of funded debt to EBITDA, with EBITDA defined as annualized earnings before interest, taxes, depreciation and amortization. During 2007, an interest rate swap agreement, maturing January 6, 2010, fixed the facility interest rate until January 6, 2010 at 3.55% plus the credit spread on \$20,000 of the facility and an interest rate swap agreement, maturing July 23, 2012, fixed the facility interest rate until July 23, 2012 at 5.05% plus the credit spread on the remaining \$27,000 of the facility. The effective interest rates for the 52-week period ended December 28, 2008 on the \$20,000 and \$27,000 were 4.8% and 6.3%, respectively (July 24, 2007 to December 30, 2007 – 4.8% and 6.3%, respectively). The Bank has also granted an extendable 364 day, committed, revolving operating facility for up to \$1,000; no funds have been drawn. The facility is subject to certain financial covenants.	\$ 47,000	\$ 47,000
Notes payable, bearing interest at 8.9%, repayable in varying monthly principal amounts, maturing in 2009. These notes are secured by specific Company-owned restaurant assets. The effective interest rate for the 52-week period was 9.1% (2007 – 9.1%).	142	148
Bank term loans of jointly-controlled companies, bearing interest at prime plus 0.6% to 1.5%, repayable in varying monthly principal amounts, maturing between 2008 and 2013. The effective interest rate for the 52-week period was 5.8% (July 24 to December 30, 2007 – 7.6%).	1,530	604
	48,672	47,752
Less: deferred financing charges	101	135
Less: current maturities	489	312
	\$ 48,082	\$ 47,305

Interest incurred on long-term debt for the 52-week period ended December 28, 2008 amounted to \$2,785 (2007 - \$1,969).

Principal repayments on long-term debt in each of the next five fiscal years are as follows:

January 3, 2010	\$ 489
January 2, 2011	404
January 1, 2012	347
December 30, 2012	47,262
December 29, 2013	170

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 52-week periods ended December 28, 2008 and December 30, 2007

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

14. Loan Payable to Pizza Pizza Holdings Trust

The loan bears interest at 6.0% per annum, payable monthly, secured by a general security interest and a securities pledge, subject to certain exceptions, in all present and acquired property of Pizza Pizza and may not be assigned without the prior consent of Pizza Pizza. The full principal amount is due July, 2025, with option for extension at renewal.

Pizza Pizza holds 3,000,000 Class C units of the Partnership. The Exchange Agreement provides that a holder of Class C Units may require the Pizza Pizza Holdings Trust (the "Trust") to purchase the Units in consideration of the assumption by the Trust of an amount of the indebtedness under the Pizza Pizza Loan equal to \$10 per Class C Unit to be transferred. The Partnership will then purchase the Class C Units held by the Trust for an equal number of Class C LP Units.

Interest incurred and the effective interest rate on the loan payable for the 52-week period ended December 28, 2008 amounted to \$1,800 (2007 - \$1,800) and 6.0% (2007 - 6.0%), respectively.

15. Income Taxes

The Company's effective income tax differs from the statutory combined Canadian income tax rate as follows:

	For the 52-week period ended December 28, 2008	For the 52-week period ended December 30, 2007
Federal and provincial statutory tax rates	33.5%	36.1%
Income taxes at statutory rates	\$ 7,189	\$ 5,220
Share of Partnership's earnings taxable to non-controlling interest	(5,001)	(4,330)
Partnership expense deductible for tax but not accounting	1,552	-
Taxable gain on conversion of Class B Partnership units	-	1,006
(Over)/under provision in prior years	(194)	172
Effect of income taxable at lower rates	(1,176)	(802)
Change in statutory tax rates	-	1,765
Other	108	(180)
	(4,711)	(2,339)
Income taxes	\$ 2,478	\$ 2,881

Significant components of future income tax assets (liabilities) are as follows:

	December 28, 2008	December 30, 2007
Deferred gain	\$ 21,567	\$ 21,792
Deferred charges	795	1,577
Tax loss carryforward	834	1,003
	23,197	24,372
Property, plant and equipment	(1,749)	(2,157)
Intangible assets	(505)	(568)
Rights and Marks	(1,564)	(1,028)
	(3,818)	(3,753)
Future income tax asset	\$ 19,379	\$ 20,619

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 52-week periods ended December 28, 2008 and December 30, 2007

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

15. Income Taxes, continued

The Company has losses of approximately \$2,485 which can be carried forward to fiscal 2029. The benefit of these losses has been recognized in the accounts.

16. Non-controlling Interest

Non-controlling interest represents the Fund's effective 78.5% interest in the Partnership (2007 – 81.6%); the Company owns an effective 21.5% interest in the Partnership (2007 – 18.4%). The Fund's investment in the Partnership, effectively 78.5%, and the Pizza Pizza GP, Inc.'s investment, effectively 0.1%, is considered non-controlling and is shown as follows:

	December 28, 2008	December 30, 2007
Balance – beginning of period	\$ 175,580	\$ 139,921
Issuance of Partnership Units on July 24, 2007	-	30,257
Issuance of Partnership Units on September 27, 2007	-	4,925
	175,580	175,103
Non-controlling interest in earnings of the Partnership	20,079	16,650
Non-controlling interest in other comprehensive loss of the Partnership	(2,804)	(362)
Distributions received by the Fund from the Partnership	(18,326)	(15,811)
	\$ 174,529	\$ 175,580

Pizza Pizza's agreement to maintain at least a 20% ownership in the Fund expired on June 30, 2007; as well the distributions on the 20% interest is no longer subordinated pursuant to the terms of a subordination agreement.

In July 2007, the Partnership acquired the Pizza 73 Rights and Marks from Pizza 73. The purchase was funded by a public and private placement of Fund units. In conjunction with the issuance of Fund units, the Partnership issued units for cash proceeds of \$30,257. Concurrent with the acquisition of the Pizza 73 Rights and Marks, the Partnership granted the Company an exclusive and unlimited licence to use the Pizza 73 Rights and Marks in exchange for the Company paying a 9% royalty on the system sales of the Pizza 73 restaurants included in the Royalty Pool.

In September 2007, Pizza Pizza converted 414,872 Class B Partnership units, equivalent to 500,000 Class B Partnership units when applied against the multiplier, into 500,000 Fund units.

17. Commitments

- a) Future minimum lease payments to related parties and non-related entities for each of the next five fiscal years and thereafter are approximately:

	Third Parties	Related Parties
January 3, 2010	\$ 19,624	\$ 1,898
January 2, 2011	17,550	1,588
January 1, 2012	14,212	1,192
December 30, 2012	11,339	627
December 29, 2013	7,911	391
Thereafter	17,225	653

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 52-week periods ended December 28, 2008 and December 30, 2007

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

17. Commitments, continued

During the 52-week period ended December 28, 2008, lease payments of approximately \$17,532 (December 30, 2007 - \$16,858) were recovered under sub-lease agreements with various franchised restaurants. These recoveries are offset against rent expense.

- b) In July 2005, the Company entered into three-year employment contracts with senior management. If certain conditions are met, an amount of approximately \$8,200, representing retention bonuses, may be required to be paid. During the 52-week period ended December 28, 2008, certain conditions were met resulting in the payment of approximately \$2,300 plus interest (2007 - \$3,100 plus interest) to senior management. As at December 28, no further obligation remains with respect to the retention bonuses.

18. Contingencies

The Company is a party to various legal proceedings, mainly related to claims brought against it by former franchisees. It is not possible at this time to determine the outcome of these proceedings and, accordingly, no provisions have been made in the accounts.

The Company has entered into an agreement with a lender to establish a line of credit of \$38,300 for the purpose of providing certain equipment and leasehold improvement loans to its franchisees. As security under this line of credit facility, the Company has provided certain guarantees as described in the agreement including a letter of credit in the amount of \$3,830. The Company has the right to increase the limit under this credit facility by providing additional letters of credit.

The Company has guaranteed financing loans of certain franchisees. As at December 28, 2008, this indebtedness was approximately \$1,177 (December 30, 2007 - \$2,783). In the case of default by the franchisee, the Company has various means of recourse relating to the guaranteed amounts.

The Company and the indirect controlling shareholder of the Company have received a formal claim from a former consultant claiming the right to \$45,000 in damages and other amounts, including entitlements to receive a portion of the proceeds from the initial public offering received by the indirect controlling shareholder. The parties are exchanging documents with examinations to be scheduled. The Company and the indirect controlling shareholder believe the demand is without merit. The indirect controlling shareholder has agreed in an indemnity agreement to indemnify the Company and the Fund against any liabilities that either may incur in respect of this matter. It is not possible at this time to determine the outcome of this matter and, accordingly, no provision has been made in the accounts.

19. Common Shares and Special Voting Shares

	December 28, 2008	December 30, 2007
Authorized without limit as to number -		
Common shares		
Special voting shares, non-participating, entitling the holder to one vote per share		
Issued -		
100 Common shares	\$ 100	\$ 100
100,000 Special voting shares	100	100
	<hr/> \$ 200	<hr/> \$ 200

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 52-week periods ended December 28, 2008 and December 30, 2007

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

20. Capital Disclosures

The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Company evaluates its capital as all components of equity other than amounts in accumulated other comprehensive loss relating to the cash flow hedge.

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The primary measure used by the Company to monitor the financial leverage at the Partnership level is the ratio of debt to earnings before interest, taxes, depreciation and amortization ("EBITDA"), which per the Partnership's credit facility is restricted to a maximum of 2.5:1. EBITDA is based on the last four quarters ending on the same date as the balance sheet date used to compute debt. The net debt to EBITDA ratio as at December 31, 2008 and December 31, 2007 was as follows:

	December 31, 2008	December 31, 2007
Debt	\$ 47,000	\$ 47,000
Net earnings (rolling four quarters)	27,390	22,814
Amortization	34	93
Interest, net	2,667	1,814
Structuring costs	-	207
EBITDA	30,091	24,928
Net debt to EBITDA	1.56	1.89

The Company has provided covenants, as part of its General Security Agreement with the Partnership, that it will retain 75% of its consolidated net earnings and maintain a fixed charge coverage ratio of 1:0:1. The Company has complied with these covenants as at period end.

21. Food Sales

Food sales include the following:

	For the 52-week period ended December 28, 2008	For the 52-week period ended December 30, 2007
Food sales	\$ 143,112	\$ 135,768
Company-owned restaurant sales	49,955	26,901
	\$ 193,067	\$ 162,669

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 52-week periods ended December 28, 2008 and December 30, 2007

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

22. Royalties, Franchise Fees and Other Related Revenue

Royalties, franchise fees and other related revenue include the following:

	For the 52-week period ended December 28, 2008	For the 52-week period ended December 30, 2007
Royalties	\$ 21,746	\$ 21,143
Construction fees	1,757	1,644
Initial franchise fees	1,804	1,600
Administration and accounting fees	1,428	683
	<u>\$ 26,735</u>	<u>\$ 25,070</u>

23. Cost of Food Sales and General and Administrative Expenses

Cost of food sales and general and administrative expenses include the following:

	For the 52-week period ended December 28, 2008	For the 52-week period ended December 30, 2007
Cost of food sales	\$ 138,653	\$ 136,739
General and administrative	52,581	30,797
	<u>\$ 191,234</u>	<u>\$ 167,536</u>

Included in general and administrative expenses for the 52-week period ended December 28, 2008 is an inventory writedown of \$526 (2007 – \$Nil).

24. Related Party Transactions

The following table summarizes the Company's transactions with related parties in the normal course of business measured at the exchange amount:

	For the 52-week period ended December 28, 2008	For the 52-week period ended December 30, 2007
Rent expense ⁽ⁱ⁾	\$ 3,182	\$ 3,450
Food purchases ⁽ⁱ⁾	10,281	10,906
Management fee revenue ⁽ⁱ⁾	1,500	-
Administration and accounting fee revenue ⁽ⁱⁱ⁾	1,428	683

⁽ⁱ⁾ Transactions with commonly controlled companies

⁽ⁱⁱ⁾ Transactions with jointly-controlled companies

As at December 28, 2008, the Company had accounts payable of \$810 (December 30, 2007 - \$910) payable to a company under common management control.

As at December 28, 2008, the Company had included in accounts payable and accrued liabilities amounts payable of \$1,691 (December 30, 2007 - \$1,662) to the Fund, which were paid subsequent to the end of the period.

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 52-week periods ended December 28, 2008 and December 30, 2007

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

24. Related Party Transactions, continued

As at December 28, 2008, the Company had accounts receivable of \$504 (December 30, 2007 - \$Nil) receivable from a company under common management control.

During the 52-week period ended December 28, 2008, the Company sold notes receivable of \$2,863 (2007 - \$6,433) to a company under common control for \$2,863 (2007 - \$6,433).

In addition, the Company has the following advances to and from related parties:

	December 28, 2008	December 30, 2007
Receivables from jointly-controlled companies	\$ 544	\$ 1,002
Advances from related parties	(24,807)	(19,346)

Advances from related parties in 2008 are due to the parent company (2007 – due to a company under common control). Advances from related parties and receivables from jointly-controlled companies are non-interest bearing, have no specified terms of repayment and are unsecured.

25. Segmented Information

Operating segments are defined as components of an enterprise about which separate financial information is available and which are evaluated regularly by the chief financial decision makers in deciding how to allocate resources and in assessing performance. Effective July 24, 2007, the operations of Pizza Pizza consist of two reportable segments; "Pizza Pizza" and "Pizza 73". While they both operate in the pizza QSR segment, they are in predominantly different geographic markets in Canada. Pizza Pizza operates mainly in the Ontario and Quebec ("Eastern Canada") pizza QSR segment, whereas Pizza 73 operates mainly in the Alberta ("Western Canada") pizza QSR segment.

For the 52-week period ended December 28, 2008	Eastern Canada	Western Canada	Total
Food sales	\$ 150,633	\$ 42,434	\$ 193,067
Royalties, franchise fees and other related revenue	25,307	1,428	26,735
Interest and other income	1,114	517	1,631
Amortization of property, plant and equipment	3,615	1,019	4,634
Amortization of intangible assets	-	265	265
Amortization of deferred charges	354	-	354
Interest on loan from Pizza Pizza Holdings Trust	1,800	-	1,800
Interest on long-term debt	2,725	94	2,819
Segment profit (loss)	(9,889)	8,791	(1,098)
Earnings before income taxes and non-controlling interest	12,053	9,406	21,459
Assets	136,461	33,100	169,561
Property, plant and equipment additions	5,110	3,200	8,310
Intangible assets	-	1,533	1,533
Goodwill	-	17,979	17,979

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 52-week periods ended December 28, 2008 and December 30, 2007

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

25. Segment Note, continued

For the 52-week period ended December 30, 2007	Eastern Canada	Western Canada	Total
Food sales	\$ 144,225	\$ 18,444	\$ 162,669
Royalties, franchise fees and other related revenue	24,387	683	25,070
Interest and other income	1,459	104	1,563
Amortization of property, plant and equipment	4,209	324	4,533
Amortization of intangible assets	-	177	117
Amortization of deferred charges	215	-	215
Interest on loan from Pizza Pizza Holdings Trust	1,800	-	1,800
Interest on long-term debt	1,945	24	1,969
Segment profit (loss)	(8,696)	3,626	(5,070)
Earnings before income taxes and non-controlling interest	9,990	4,471	14,461
Assets	132,360	23,963	156,323
Property, plant and equipment additions	4,488	1,133	5,621
Intangible assets	-	1,798	1,798
Goodwill	-	14,581	14,581

For the 52-week period ended December 30, 2007, Western Canada results include operations for the partial period July 24, 2007 to December 30, 2007.

26. Statement of Cash Flows Information

Additional cash flows information is as follows:

	For the 52-week period ended December 28, 2008	For the 52-week period ended December 30, 2007
Accounts receivable	\$ (1,483)	\$ (2,629)
Inventories	(1,852)	(461)
Prepaid expenses and sundry assets	590	382
Income taxes recoverable	32	(1,196)
Recoverable franchisee expenses, net	(5,047)	(1,950)
Accounts payable and accrued liabilities	101	7,673
Deposits from franchisees	730	185
Receivables from jointly-controlled companies	458	(1,002)
	\$ (6,471)	\$ 1,002
Interest paid	\$ 4,585	\$ 3,769
Income taxes paid (recovered)	1,320	(403)

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 52-week periods ended December 28, 2008 and December 30, 2007

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

27. Financial Instruments

Financial Risk Management

The Company's objective is to minimize risk with respect to financial instruments by monitoring the performance of its franchisees and jointly-controlled companies, hedging the majority of the Partnership's long-term debt, maintaining restaurants in different geographic regions and having the ability to assume the operations of franchisees for inadequate financial performance and/or default under the franchisee agreement.

Fair Values

The carrying amounts of cash and cash equivalents, accounts receivable, current maturity of notes receivable and accounts payable and accrued liabilities approximate fair values given the short-term maturity of these instruments.

A reasonable estimate of fair value could not be made for receivables from jointly-controlled companies, advances from related parties, recoverable franchisee expenses and renovation funds receivable as there are no fixed terms of repayment.

The fair value of the long-term debt, notes receivable and loan payable to Pizza Pizza Holdings Trust are based on the estimated future discounted cash flows using a comparable market rate of interest.

The cash flow hedge is recorded in the financial statements at fair value using a quoted market rate.

The carrying value and fair value of the financial instruments are as follows:

	Carrying Value	Fair Value
Cash and cash equivalents	\$ 13,767	\$ 13,767
Accounts receivable	7,553	7,553
Notes receivable	6,714	6,558
Accounts payable and accrued liabilities	30,812	30,812
Long-term debt	48,571	51,278
Loan payable to Pizza Pizza Holdings Trust	30,000	32,350

Credit Risk

The Company is exposed to credit risk as all of the franchisees and jointly-controlled companies operate within the same segment: commercial food service. The Company is also exposed to credit risk in the event of non-payment by its franchisees and jointly-controlled companies of its accounts receivables, recoverable franchisee expenses, notes receivable, receivables from jointly-controlled companies and renovation funds receivable. The Company's credit risk is mitigated by the large number of franchisees and jointly-controlled companies operating in different geographical markets and by the Company's ultimate ability to assume operations of the franchisees if there is inadequate financial performance and/or default under the franchisee agreement.

The Company writes off receivable accounts to expected realizable value as soon as the account is determined not to be fully collectable, with such write-offs charged to earnings, unless the loss has been provided for in prior periods, in which case the write-off is applied to reduce the allowance for doubtful accounts. The Company updates its estimate of the allowance for doubtful accounts, based on a customer-by-customer evaluation of the collectibility of receivable balances at each balance sheet reporting date, taking into account amounts which are past due, and any available information indicating that a customer could be experiencing liquidity or going concern problems. As at December 28, 2008, the balance of allowance for doubtful accounts is \$562 (2007 - \$Nil) and is comprised of provisions made in the current year.

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 52-week periods ended December 28, 2008 and December 30, 2007

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

27. Financial Instruments, continued

The aging of trade receivable balances as at December 28, 2008 are as follows:

Current	\$	5,157
Past due 0-30 days		1,059
Past due 31-120 days		1,337
Accounts receivable	\$	7,553

Liquidity Risk

The Company is subject to liquidity risk with respect to the advances from related parties, long-term debt and loan payable to the Trust. The risk is mitigated as the majority of the Company's revenue is earned from franchisees and jointly-controlled companies, which have agreements with the Company and whose activities are closely monitored by the Company. In the case of franchisees, the majority of the Company's business, the Company is able to assume operations of the franchises if there is inadequate financial performance and/or default under the franchise agreement.

Liquidity requirements are monitored by the Company's head office functions in order to guarantee effective access to financial resources.

Management believes that currently available funds and credit facilities, apart from those which will be generated by operating and financing activities, will allow the Company to satisfy its requirements for investment, working capital management, and debt repayment at maturity.

The following are the contractual maturities of financial liabilities, excluding derivative financial instruments and future interest payments but including interest accrued to December 28, 2008:

	Carrying amount	0 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
Long-term credit facility	\$ 48,672	\$ 489	\$ 404	\$ 47,779	\$ -
Other long-term financial liabilities	31,441	-	-	-	31,441
Advances from related parties	24,807	-	24,807	-	-
Accounts payable and accrued liabilities	30,812	30,812	-	-	-

The Company's only derivative financial liabilities as at December 28, 2008 were interest rate swaps, for which notional amounts, maturities, average exchange rates and the carrying and fair values are presented below.

Interest Rate Risk

The fair value of notes receivable, long-term debt and the loan payable to Pizza Pizza Holdings Trust will fluctuate based on the general level of interest rates in the Company and the credit worthiness of the Company.

If the interest rate was to change by plus/minus 10% of the existing rate, the other comprehensive loss would change by approximately plus/minus \$519, respectively, and the interest expense on the statements of operations and deficit would change by approximately plus/minus \$8, respectively.

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 52-week periods ended December 28, 2008 and December 30, 2007

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

27. Financial Instruments, continued

Cash Flow Risk

	Notional Amount	December 28, 2008 Fair Value	December 30, 2007 Fair Value	Contract Expires
Interest rate swap	\$ 20,000	\$ (513)	\$ 299	January 6, 2010
Interest rate swap	10,000	(1,303)	(273)	July 23, 2012
Interest rate swap	17,000	(2,217)	(469)	July 23, 2012

The Partnership has entered into three Interest Rate Swap Agreements to mitigate the risk associated with the fact that the \$47,000 bank loan bears interest at floating rates. The notional amounts of the swaps are \$20,000, \$10,000 and \$17,000 which total the \$47,000 outstanding principal bank loan balance. On the \$20,000 swap, the Partnership is obligated to pay the Swap Counterparty an amount based upon a fixed interest rate of 3.55% per annum plus a fee of 1.25% and the Swap Counterparty is obligated to pay the Partnership an amount equal to the Canadian Banker's Acceptance rate. On the \$10,000 and \$17,000 swaps, the Partnership is obligated to pay the Swap Counterparty an amount based upon a fixed interest rate of 5.05% plus a fee of 1.25% and the Swap Counterparty is obligated to pay the Partnership an amount equal to the Canadian Bankers' Acceptance rate.

The Company is subject to cash flow risk on its notes receivable, recoverable franchisee expenses and renovation funds receivable as repayment to the Company is dependent on sales generated by franchisees. The Company mitigates this risk by having the ability to assume operations of the franchisees if there is inadequate financial performance and/or default under the franchisee agreement.

The Company is not subject to cash flow risk on the loan payable to Pizza Pizza Holdings Trust as interest is at a fixed rate nor on the advances from related parties as it is non-interest bearing.

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 52-week periods ended December 28, 2008 and December 30, 2007

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

28. Consolidation

Below is a breakdown of the Company's consolidation, including adjustments for the period ended December 28, 2008. The Pizza Pizza Limited Entities include Pizza Pizza, Pacific and Canadian Food Services Inc., its wholly-owned Pizza 73 restaurant, Unit C-Two West 73 Inc. effective August 25, 2008, and the Company's proportionate share of jointly-controlled companies; all significant intercompany transactions have been eliminated.

	Pizza Pizza Limited Entities (unaudited)	Pizza Pizza Royalty Limited Partnership (unaudited)	Adjustments	Note	Pizza Pizza Limited (per GAAP) ⁽⁷⁾
Current assets	\$ 43,467	\$ 5,379	\$ (1,508)	(1)	\$ 47,338
Investment in Pizza Pizza Royalty Limited Partnership	44,135	-	(44,135)	(2)	-
Long-term assets	65,128	305,899	(248,804)	(3)	122,223
Total Assets	152,730	311,278	(294,447)		169,561
Current liabilities	32,759	1,893	(1,508)	(1)	33,144
Long-term debt and loan payable to Pizza Pizza Holdings Trust, net of deferred financing	31,183	46,899	-		78,082
Deferred gain	185,296	-	(185,296)	(2)	-
Other long-term liabilities	32,780	4,033	-		36,813
Non-controlling interest	-	-	174,529	(2)	174,529
Equity (deficiency)	(129,288)	258,453	(282,172)	(2)	(153,007)
Total Liabilities and Equity	152,730	311,278	(294,447)		169,561
Food sales	193,067	-	-		193,067
Royalties, franchise fees and other related revenue	26,735	30,670	(30,670)	(4)	26,735
Interest and other income	1,576	55	-		1,631
Class B and C distributions	7,300	-	(7,300)	(2)	-
Total revenue	228,678	30,725	(37,970)		221,433
Cost of goods sold and general and administrative expenses	190,600	634	-		191,234
Amortization of deferred charges	354	-	-		354
Amortization of property, plant and equipment	4,634	-	-		4,634
Amortization of intangible assets	265	-	-		265
Amortization of deferred gain	(1,917)	-	1,917	(2)	-
Interest on loan from Pizza Pizza Holdings Trust	1,800	-	-		1,800
Interest on long term debt	118	2,701	-		2,819
Licence and royalty payment to the Partnership	30,670	-	(30,670)	(4)	-
Gain on sale of Company-owned restaurants	(1,132)	-	-		(1,132)
Gain on sale of royalty stream at January 1 vend-in	(8,703)	-	8,703	(5)	-
Total expenses	216,689	3,335	(20,050)		199,974
Earnings before non-controlling interest and income taxes	11,989	27,390	(17,920)		21,459
Non-controlling interest	-	-	20,079	(6)	20,079
Current and future income taxes	2,478	-	-		2,478
Net earnings (loss) for the Period	\$ 9,511	\$ 27,390	\$ (37,999)		\$ (1,098)

- (1) Eliminate receivable/payable balance between Pizza Pizza and the Partnership.
- (2) Eliminate Pizza Pizza's investment in the Partnership and distributions from the Partnership to Pizza Pizza.
- (3) Eliminate the Pizza Pizza Rights on the Partnership's balance sheet.
- (4) Eliminate royalty income and expense.
- (5) Eliminate gain recognized at the time of vending in restaurants by Pizza Pizza to the Partnership.
- (6) To record Fund's interest in the Partnership.
- (7) As publicly filed and audited.

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 52-week periods ended December 28, 2008 and December 30, 2007

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

29. Subsequent Events

a) 2008 Royalty Pool Adjustment

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 restaurants added to the Royalty Pool on January 1, 2008. As a result of the adjustments, the new Class B Exchange Multiplier is 1.3737 and Pizza Pizza's exchangeable units can be exchanged into 5,595,241 Fund units which is an increase of 164,542 Fund units, effective January 1, 2008.

In early January 2009, adjustments to royalty payments and Pizza Pizza's Class D Exchange Multiplier were made based on the actual performance of the nine restaurants added to the Royalty Pool on January 1, 2008. As a result of the adjustments, the new Class D Exchange Multiplier is 7.9961 and Pizza Pizza's exchangeable units can be exchanged into 799,610 Fund units which is an increase of 240,860 Fund units, effective January 1, 2008.

b) 2009 Royalty Pool Adjustment – Class B Exchange Multiplier

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 from January 1, 2008 to December 31, 2008. The additional system sales from the 18 new restaurants are estimated at \$4,698 annually less sales of \$1,609 from nine permanently closed Pizza Pizza restaurants resulting in net, estimated Pizza Pizza sales of \$3,089 added to the Royalty Pool. The total number of Pizza Pizza restaurants in the Royalty Pool has increased to 568.

The yield of the Fund units was determined to be 15.3% calculated using \$6.04 as a weighted average unit price. Weighted average unit price is calculated based on the market price of the units traded on the TSX during the period of twenty consecutive days ending on the fifth trading day before January 1, 2009. As a result of the contribution of the additional net sales to the Royalty Pool, Pizza Pizza's Class B Exchange Multiplier increased fractionally by 80% of the total adjustment or 0.0365; the new Class B Multiplier is 1.4102. This adjustment will also increase the entitlement of the holders of the Class B units to distributions of cash and allocations of income from the Partnership. The second adjustment to the Class B Exchange Multiplier will be adjusted to be effective January 1, 2009, once the actual performance of the new restaurants is determined in early 2010.

c) 2009 Royalty Pool Adjustment – Class D Exchange Multiplier

On January 1, 2009, 19 new Pizza 73 restaurants were added to the Royalty Pool as a result of new restaurants opening between September 2, 2007 and September 1, 2008. The additional system sales from the 19, new restaurants are estimated at \$14,075 annually, which was reduced by \$4,923 in system sales attributable to certain of the restaurants now added to the Royalty Pool whose territory adjusted a previously existing restaurant, resulting in net, estimated Pizza 73 sales of \$9,152 added to the Royalty Pool. The total number of Pizza 73 restaurants in the Royalty Pool has increased to 69. The yield of and the weighted average unit price used in the calculation of the Class D multiplier is determined in the same manner as that of the Class B multiplier calculation at 15.3% and \$6.04, 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 6.6075; the new Class D Multiplier is 14.6036. This adjustment will also increase the entitlement of the holders of the Class D units to distributions of cash and allocations of income from the Partnership. The second adjustment to the Class D Exchange Multiplier will be adjusted to be effective January 1, 2009, once the actual performance of the new restaurants is determined in early 2010.

d) Pizza Pizza Royalty Income Fund Outstanding Units

As of January 1, 2009, in exchange for adding the 28 net, new Pizza Pizza and Pizza 73 restaurants to the Royalty Pool, Pizza Pizza has received 148,690 additional Class B equivalent units and 660,745 Class D equivalent units. These units represent 80% of the full Class B and Class D entitlements (185,863 and 825,932 units, respectively), with the balance to be received when the 2009 sales performance is known with certainty.

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 52-week periods ended December 28, 2008 and December 30, 2007

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

29. Subsequent Events, continued

Including the 809,435 exchangeable units described above, at January 1, 2009, Pizza Pizza owns equivalent, exchangeable units equal to 24.8% of the Fund's fully diluted units.

The chart below shows the Fund units that would be outstanding if all of the Class B and D units were converted to Fund units after accounting for their respective multipliers.

Units outstanding and issuable on January 1, 2009		
Public float		21,818,392
Class B units held by Pizza Pizza	5,430,699	
Pizza Pizza additional Class B units - Holdback as of December 31, 2008	164,542	
Additional Pizza Pizza Class B equivalent units as of January 1, 2009	<u>148,690</u>	5,743,931
Class D units held by Pizza Pizza	558,750	
Pizza Pizza additional Class D units - Holdback as of December 31, 2008	240,860	
Additional Pizza Pizza Class D equivalent units as of January 1, 2009	<u>660,745</u>	1,460,355
Number of fully diluted units		<u><u>29,022,678</u></u>
Proportion of all units outstanding available for exchange by Pizza Pizza		24.8%

- e) On December 29, 2008, Pizza Pizza and its wholly-owned subsidiary, Pacific and Canadian Food Services Inc., which is included in these consolidated financial statements, amalgamated. The new amalgamated entity will carry on as Pizza Pizza Limited.

30. 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 Company for interim and annual financial statements beginning on January 3, 2011. The Company 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 Company for interim and annual financial statements beginning on January 3, 2011. The Company has not yet determined the impact of the adoption of these changes on its financial statements.

Pizza Pizza Limited

Notes to Consolidated Financial Statements

For the 52-week periods ended December 28, 2008 and December 30, 2007

(In Thousands of Dollars except Common Shares, Special Voting Shares and Number of Units)

30. Recent Accounting Pronouncements, continued

Goodwill and Intangible Assets

CICA Handbook Section 3064, Goodwill and Intangible Assets, which replaces CICA Handbook Section 3062, Goodwill and Intangible Assets, and Section 3450, Research and Development Costs, establishes the standards for recognition, measurement and disclosure of goodwill and intangible assets. Under these new standards, internally generated intangible assets may be recognized in the financial statements under certain circumstances. This standard is effective for the Company for interim and annual financial statements beginning on December 29, 2008. The Company has not yet determined the impact of the adoption of this change on these financial statements.

International Financial Reporting Standards

The CICA plans to converge Canadian GAAP with International Financial Reporting Standards (IFRS) effective January 3, 2011. The impact of the transition to IFRS on the Company's financial statements is not yet determinable.