

Pizza Pizza Royalty Income Fund

Notes to Interim Consolidated Financial Statements

For the six months ended June 30, 2006

(Expressed In Thousands of Dollars Except Per Unit Amounts)

(Unaudited)

1. Basis of Presentation

Pizza Pizza Royalty Income Fund (the "Fund") prepares its interim consolidated financial statements in accordance with Canadian generally accepted accounting principles on a basis consistent with those used and described in the annual consolidated financial statements for the period from the commencement of operations July 6, 2005 to December 31, 2005. The disclosures contained in these interim consolidated financial statements do not include all requirements of Canadian generally accepted accounting principles for annual financial statements.

These interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the period from the commencement of operations July 6, 2005 to December 31, 2005.

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2. Operations:

On January 1, 2006, one net new restaurant was added to the Royalty Pool as a result of five new restaurants opening from March 14, 2005 to September 1, 2005 and four closing from March 14, 2005 to December 31, 2005. The additional system sales from the new restaurant are estimated at \$1.4 million annually. The total number of restaurants in the Royalty Pool has increased to 501. The change in the amount of the Royalty to be received by the Pizza Pizza Royalty Limited Partnership (the "Partnership") as a result of changes in the system sales of the Royalty Pool will affect Pizza Pizza's retained interest through the adjustment to the exchange ratio at which the Class B Partnership units may ultimately be exchanged for Units of the Fund, referred to as the "Class B Exchange Multiplier" and defined in the Licence and Royalty Agreement. The adjustment to the Class B Exchange Multiplier requires first calculating the "Determined Amount" which is defined as 92.5% of the royalty revenue added to the Royalty Pool, divided by the yield of the Fund units. The yield of the Fund units was determined to be 8.06% using \$9.97 as the weighted average unit price calculated based on the market price of the units traded on the TSX during the 20 consecutive trading days ended on the fifth trading day before January 1, 2006. As a result of the contribution of the additional net sales to the Royalty Pool, Pizza Pizza's Class B Exchange Multiplier increased fractionally by 80% of the total adjustment, or 0.01674, so that the new Class B Multiplier is 1.01674. 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 as described above. The second adjustment to the Class B Exchange Multiplier will be made effective as of January 1, 2006 once the actual performance of the new restaurant is determined.

As a result of the adjusted Class B Exchange Multiplier, Pizza Pizza holds Class B Partnership units exchangeable into 4,563,120 Fund units which equates to 20.3% of the fully diluted units of the Fund. The Fund reported an effective disposition of 0.3% of its interest in the Partnership, reducing its interest from 80% to 79.7%.

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2. Operations, cont'd

This transaction can be summarized as follows:

Current assets	\$	6
Intangible assets		692
		698
Current liabilities		3
Long-term liabilities		60
		63
Excess of fair value of acquired net assets		635
Loss on effective disposition of Partnership interest		(635)
Purchase price	\$	-

Pizza Pizza has agreed to maintain at least a 20% ownership in the Fund until June 30, 2007, with distributions on the 20% interest to be subordinated pursuant to the terms of a subordination agreement.

3. Investment in Pizza Pizza Royalty Limited Partnership

	June 30, 2006	December 31, 2005
Balance - beginning of period	\$ 139,140	\$ -
Acquisition of Partnership units	-	147,795
Effective disposition on change in the royalty pool (note 2)	(635)	-
Loss in the initial public offering Partnership Structuring costs	-	(9,479)
Equity income of the Partnership	6,627	6,985
Distributions declared from the Partnership	(6,561)	(6,161)
Balance - end of period	\$ 138,571	\$ 139,140

The business of the Partnership is the ownership and licensing of the "Pizza Pizza Rights" and through a "Licence and Royalty Agreement" with Pizza Pizza Limited, to exploit the use of the "Pizza Pizza Rights" by Pizza Pizza Limited. Additionally, the Partnership will collect the Royalty payable under the "Licence and Royalty Agreement" as well as perform the administration of the Fund pursuant to the "Administration Agreement".

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4. Income per Unit

Basic net income per unit is calculated by dividing net earnings by the weighted average number of units outstanding during the period. Diluted net income per unit includes Pizza Pizza Class B exchangeable partnership units using the "if converted" method. Under the "if converted" method, earnings are adjusted for earnings allocated to the Class B exchangeable partnership units interest and the weighted average number of units is adjusted for the conversion of the Pizza Pizza Class B exchangeable partnership units. For the purposes of the calculation, units are determined to be outstanding from the date they are issued.

The following table reconciles the basic net earnings to the diluted net earnings:

	Three Months Ended June 30, 2006	Six Months Ended June 30, 2006
Basic net income	\$ 3,842	\$ 6,892
Equity adjustment allocated to Class B Exchangeable Partnership units	864	1,688
Adjusted net income	\$ 4,706	\$ 8,580

The following table reconciles the basic weighted average number of units outstanding to the diluted weighted average of units outstanding:

Weighted average number of:		
Units	17,952,000	17,952,000
Pizza Pizza Class B partnership units	4,563,120	4,563,120
Weighted average number of units outstanding - diluted	22,515,120	22,515,120
Diluted income per Fund unit	\$ 0.21	\$ 0.38

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5. Related party transactions

The Fund has an administration agreement with the Partnership, whereby the Partnership provides or arranges for the provision of services required in the administration of the Fund. Pizza Pizza, as general partner of the Partnership, and pursuant to the Partnership Agreement, is providing certain of these services. The fee for these services, which on an annual basis shall not exceed \$25,000, has been waived for the period.

Pizza Pizza is a related party by virtue of its holding of Class B Partnership units which are exchangeable into units of the Fund.

Other transactions with Pizza Pizza are referred to elsewhere in these consolidated financial statements.

6. Supplementary cash flow information

	Three Months Ended June 30, 2006	Six Months Ended June 30, 2006
Supplementary information:		
Interest received	\$ 450	\$ 900