

# **Pizza Pizza Royalty Income Fund**

## **Consolidated Financial Statements December 31, 2006 and 2005**

**RSM Richter LLP**  
**Chartered Accountants**  
Toronto

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## Auditors' Report

To the Trustees of  
**Pizza Pizza Royalty Income Fund**

We have audited the consolidated balance sheet of Pizza Pizza Royalty Income Fund (the "Fund") as at December 31, 2006 and 2005 and the consolidated statements of earnings and deficit and cash flows for the year ended December 31, 2006 and the period from July 6, 2005 to December 31, 2005. These financial statements are the responsibility of the Fund'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 Fund as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the year ended December 31, 2006 and the period from July 6, 2005 to December 31, 2005 in accordance with Canadian generally accepted accounting principles.

### Chartered Accountants

*RSM Richter LLP*

Toronto, Ontario  
February 9, 2007

# Pizza Pizza Royalty Income Fund

## Consolidated Balance Sheet (Expressed in Thousands of Dollars)

	December 31, 2006	December 31, 2005
<b>Assets</b>		
Current assets:		
Receivable from Pizza Pizza Limited	\$ 150	\$ 150
Receivable from Pizza Pizza Royalty Limited Partnership	1,126	1,073
	1,276	1,223
Loan receivable from Pizza Pizza Limited (note 4)	30,000	30,000
Investment in Pizza Pizza Royalty Limited Partnership (note 5)	140,520	139,140
	\$ 171,796	\$ 170,363
<b>Liabilities and Unitholders' Equity</b>		
Current Liabilities:		
Distribution payable to Fund unitholders	1,275	1,223
<b>Unitholders' Equity:</b>		
Fund units (note 6b)	177,795	177,795
Contributed surplus (note 3c)	599	
Deficit	(7,873)	(8,655)
	170,521	169,140
	\$ 171,796	\$ 170,363

See accompanying notes to consolidated financial statements

Approved by the Trustees:

(Signed) RON ROGERS  
Trustee

(Signed) ARNOLD CADER  
Trustee

(Signed) TERENCE REID  
Trustee

# Pizza Pizza Royalty Income Fund

## Consolidated Statement of Earnings

(Expressed in Thousands of Dollars Except Number of Units and Per Unit Amounts)

	Year ended December 31, 2006	July 6, 2005 to December 31, 2005
System Sales included in the Royalty Pool (note 1)	\$ 353,138	\$ 173,233
Equity income in the Partnership (note 3a)	14,090	6,985
Loss in the Partnership structuring costs	-	(9,479)
	14,090	(2,494)
Interest income	1,800	880
Net income(loss)	\$ 15,890	\$ (1,614)
Weighted average Fund units (note 6c)	17,952,000	17,820,000
Basic income(loss) per Fund unit	\$ 0.89	\$ (0.09)
Weighted average diluted Fund units (note 6c)	22,515,120	22,308,000
Diluted income(loss) per Fund unit (note 6c)	\$ 0.87	\$ (0.10)

## Consolidated Statement of Deficit

(Expressed in Thousands of Dollars)

	Year ended December 31, 2006	July 6, 2005 to December 31, 2005
Balance, beginning of period	\$ (8,655)	\$ -
Net income (loss)	15,890	(1,614)
Distributions declared (2006 - \$0.8416/unit; 2005 - \$0.3922/unit)	(15,108)	(7,041)
Deficit, end of period	\$ (7,873)	\$ (8,655)

See accompanying notes to consolidated financial statements

# Pizza Pizza Royalty Income Fund

## Consolidated Statement of Cash Flows (Expressed in Thousands of Dollars)

	Year ended December 31, 2006	July 6, 2005 to December 31, 2005
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
Net income (loss)	\$ 15,890	\$ (1,614)
Equity income (loss), an item not affecting cash (note 3a)	(14,090)	2,494
Distributions received	13,256	5,088
	15,056	5,968
Change in non-cash operating elements of working capital (note 8a)	-	(150)
	15,056	5,818
<b>Investing activity</b>		
Note receivable from Pizza Pizza Limited	-	(30,000)
<b>Financing activities</b>		
Issue of Fund units	-	179,520
Cost of issuance of Fund units	-	(1,725)
Purchase of units of Pizza Pizza Royalty Limited Partnership	-	(147,795)
Distributions paid to unitholders	(15,056)	(5,818)
	(15,056)	24,182
<b>Increase (decrease) in cash</b>	-	-
Cash, beginning of period	-	-
Cash, end of period	\$ -	\$ -

See supplementary cash flows information (note 8)

See accompanying notes to consolidated financial statements.

# Pizza Pizza Royalty Income Fund

## Notes to Consolidated Financial Statements

Year ended December 31, 2006 and for the period from

commencement of operations July 6, 2005 to December 31, 2005

(Expressed in Thousands of Dollars, Except Number of Units and Per Unit Amounts)

### 1. Organization and Nature of Operations

Pizza Pizza Royalty Income Fund (the "Fund") is an open-ended, limited purpose trust established under the laws of the Province of Ontario on May 26, 2005. The Fund was established to indirectly, through the Pizza Pizza Royalty Limited Partnership (the "Partnership"), acquire the trademarks, trade names, operating procedures and systems and other intellectual property and proprietary rights and all goodwill associated therewith owned by Pizza Pizza Limited ("Pizza Pizza") used in connection with the operation of all restaurants operated by Pizza Pizza, its subsidiaries and its franchisees (collectively, the "Pizza Pizza Rights").

Concurrent with the acquisition of the Pizza Pizza Rights on July 6, 2005, the Partnership granted Pizza Pizza an exclusive and unlimited licence to use the Pizza Pizza Rights for an initial term of 99 years for which Pizza Pizza pays a royalty equal to 6% of system sales from all Pizza Pizza restaurants in the royalty pool, as defined in the licence and royalty agreement. As of December 31, 2006, there were 501 restaurants in the royalty pool; the royalty pool is adjusted annually, on January 1. The Partnership declares monthly distributions, indirectly, to the Fund; the Fund pays monthly distributions directly to public unitholders. The Fund was also established to acquire indirectly through Pizza Pizza Holdings Trust from a bank, certain debt of Pizza Pizza in the principal amount of \$30 million (the "PPL Loan").

Pizza Pizza, a privately owned corporation headquartered in Toronto, Ontario, operates in the food service industry primarily throughout Ontario, and primarily franchises and operates quick-service restaurant businesses under the Pizza Pizza brand. Pizza Pizza derives revenues from franchisees through the sale of franchise restaurants, goods and supplies, and royalties. The company also derives revenues from company owned restaurants through the sale of food products to retail customers.

The Fund's revenues are earned from certain operations of Pizza Pizza, and accordingly, the revenues of the Fund and its ability to pay distributions to unitholders is dependent on the ability of Pizza Pizza to generate and pay royalties to the Fund.

# Pizza Pizza Royalty Income Fund

## Notes to Consolidated Financial Statements

Year ended December 31, 2006 and for the period from

commencement of operations July 6, 2005 to December 31, 2005

(Expressed in Thousands of Dollars, Except Number of Units and Per Unit Amounts)

### 2. Significant Accounting Policies

#### a) Basis of presentation

These consolidated financial statements include the accounts of the Fund; its wholly owned subsidiary, the Pizza Pizza Holdings Trust (the "Trust"); and its 79.7% owned subsidiary, Pizza Pizza GP, Inc. (the "PPGP"). The Fund's investment in the Partnership is held through the Trust's limited partnership holdings of 14,779,500 Class A LP units.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The Fund commenced operations on July 6, 2005, the date of the initial public offering. All significant intercompany transactions have been eliminated.

The Fund has adopted the Canadian Institute of Chartered Accountants' Accounting Guideline, Consolidation of Variable Interest Entities ("AcG-15") and is effective from the initial public offering closing date. A variable interest entity ("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 a VIE and Pizza Pizza is the primary beneficiary of the Partnership. Accordingly, Pizza Pizza is required to consolidate the Partnership.

Since Pizza Pizza effectively controls the Partnership as defined by AcG-15, the Fund accounts for its effective 79.7% interest in the Partnership on an equity basis whereby the Fund's investment in the Partnership is increased by its 79.7% share of earnings or losses of the Partnership and reduced for distributions received. The investment in the Partnership is also adjusted to record the fair value of Fund units issued by the Fund in exchange for Partnership units held by Pizza Pizza.

#### b) Revenue recognition

Equity income is earned by the Fund through the Trust's limited partnership holdings of 14,779,500 Class A LP units, representing an effective 79.7% interest in the Partnership.

Interest income is recognized and accrued when earned.

# Pizza Pizza Royalty Income Fund

## Notes to Consolidated Financial Statements

Year ended December 31, 2006 and for the period from

commencement of operations July 6, 2005 to December 31, 2005

(Expressed in Thousands of Dollars, Except Number of Units and Per Unit Amounts)

### 2. Significant Accounting Policies, cont'd

#### c) Investment in the Partnership

Investment in the Partnership is accounted for on an equity basis, adjusted by equity income earned and monthly Partnership distributions received.

#### d) Distributions to Fund Unitholders

The amount of cash distributed to Fund unitholders is determined with reference to distributable cash, which is calculated within the Partnership as net earnings adjusted for amortization, other non-cash charges and repayment of principal and interest on the term loan. Distributions to Fund unitholders are recorded when declared, made monthly and are subject to the Fund and Partnership retaining such reasonable working capital reserves as may be considered appropriate by the Trustees of the Fund.

#### e) Earnings per Fund Unit

The earnings per Fund unit are based on the weighted average number of Fund units outstanding during the period.

#### f) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires the Fund's management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues or expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of impairment in the value of assets, and provisions for contingencies. Actual results could differ from those estimates.

#### g) Financial Instruments

The Fund's financial instruments consist of accounts receivable from Pizza Pizza and the Partnership, the loan receivable due from Pizza Pizza and distribution payable to Fund unitholders. The Fund's management estimates that the fair values of these financial instruments approximate their carrying values. It is the opinion of management that the Fund is not exposed to significant interest or credit risks from these financial instruments.

# Pizza Pizza Royalty Income Fund

## Notes to Consolidated Financial Statements

Year ended December 31, 2006 and for the period from

commencement of operations July 6, 2005 to December 31, 2005

(Expressed in Thousands of Dollars, Except Number of Units and Per Unit Amounts)

### 2. Significant Accounting Policies, cont'd

#### h) Income Taxes

Income tax obligations related to distributions by the Fund are the obligations of the unitholders and accordingly, the Fund will not be liable for income taxes.

### 3. Operations

(a) Equity income earned by the Fund through its interest in the Partnership has been derived as shown in the table below:

	2006	July 6, 2005 to December 31, 2005
(in thousands of dollars, except number of restaurants in the Royalty Pool and earnings per Fund unit)		
Restaurants in Royalty Pool	501	500
System sales reported by		
restaurants in the Royalty Pool	\$ 353,138	\$ 173,233
Royalty - 6% of system sales	\$ 21,188	\$ 10,394
Partnership administrative and		
interest expenses	(1,710)	(782)
Partnership earnings for the period		
before under-noted Pizza Pizza interest	19,478	9,612
Pizza Pizza's interest	(5,388)	(2,627)
Equity income related to Pizza Pizza		
royalties earned by Fund	14,090	6,985

(b) Annually, on January 1 (the "Adjustment Date"), Pizza Pizza restaurants in the Royalty Pool, on which Pizza Pizza pays a Royalty to the Fund, are adjusted to include the forecasted system sales from new Pizza Pizza restaurants opened less system sales from any Pizza Pizza restaurants that have been permanently closed during the year.

# Pizza Pizza Royalty Income Fund

## Notes to Consolidated Financial Statements

Year ended December 31, 2006 and for the period from

commencement of operations July 6, 2005 to December 31, 2005

(Expressed in Thousands of Dollars, Except Number of Units and Per Unit Amounts)

### 3. Operations, cont'd

On August 26, 2006, the Board of Trustees unanimously approved amendments to the License and Royalty Agreement with Pizza Pizza and amendments to related provisions of the Partnership Agreement of the Partnership to remove the requirement that a restaurant be open for at least 120 consecutive days before inclusion in the Royalty Pool for the subsequent year. This change involves only a change in the timing of the inclusion of restaurants in the Royalty Pool and not the substance of the relationship between Pizza Pizza and the Fund. Previously, restaurants opened after September 1 of a given year would not be included in the Royalty Pool until January 1 of the second following year.

This change will affect the determination of the Royalty Pool as at January 1, 2007 and subsequent years and the corresponding entitlements of Pizza Pizza to indirectly acquire additional Fund units. For January 1, 2007, new restaurants opened between September 2, 2005 and December 31, 2006 will be added to the Royalty Pool. For each January 1 thereafter, restaurants opened between January 1 and December 31 of the prior year will be included in the calculation.

Effective January 1, 2007, restaurants opened on or before December 31 of the prior year are added to the Royalty Pool. The 2007 additions include all restaurants opened between September 2, 2005 and December 31, 2006 (2006 – March 14, 2005 to September 1, 2005). The change in the amount of the Royalty to be received by the Partnership as a result of changes in the system sales of the Royalty Pool will affect the extent of Pizza Pizza's retained interest through the adjustment to the exchange rate at which the Class B Partnership units may ultimately be exchanged for Units of the Fund, referred to as the "Class B Exchange Multiplier" as defined in the Licence and Royalty Agreement. On the Adjustment Date, the adjustment to the Class B Exchange Multiplier involves 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 Determined Amount is multiplied by 80%, then divided by the current market price of the units, and then further divided by the 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 as the first adjustment once the forecasted system sales for new restaurants are known with certainty.

# Pizza Pizza Royalty Income Fund

## Notes to Consolidated Financial Statements

Year ended December 31, 2006 and for the period from

commencement of operations July 6, 2005 to December 31, 2005

(Expressed in Thousands of Dollars, Except Number of Units and Per Unit Amounts)

### 3. Operations, cont'd

(c) 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 one net, new restaurant are estimated at \$1.4 million annually. The total number of restaurants in the Royalty Pool increased to 501. The yield of the Fund units was determined to be 8.06% calculated using \$9.97 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, 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; the estimated, Class B Multiplier was calculated to be 1.01674. 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 as described above. The remaining exchangeable securities will be calculated in a second adjustment to the Class B Exchange Multiplier and will be adjusted to be effective January 1, 2006, once the actual performance of the new restaurants is determined in early 2007 (note 9). As a result of the Adjusted Class B Exchange Multiplier, Pizza Pizza now 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 increase in its investment in the Partnership and a contributed surplus of \$599 to reflect the increase in value as a result of the vend-in of the new royalty stream.

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.

# Pizza Pizza Royalty Income Fund

## Notes to Consolidated Financial Statements

Year ended December 31, 2006 and for the period from

commencement of operations July 6, 2005 to December 31, 2005

(Expressed in Thousands of Dollars, Except Number of Units and Per Unit Amounts)

### 4. Pizza Pizza Loan Receivable

	2006		2005	
Loan receivable with interest payable monthly at 6% per annum, due July 6, 2025.	\$	30,000	\$	30,000

The loan arose at the time of the acquisition of the Pizza Pizza Rights from Pizza Pizza in July 2005. The loan is secured by a general security agreement and may not be assigned without the prior consent of Pizza Pizza.

Pizza Pizza, as the holder of 3,000,000 Class C Partnership units, has the right to transfer such units to the Trust in consideration for the assumption by the Trust of, and the concurrent release of Pizza Pizza of its obligations with respect to, an amount of the indebtedness under the PPL Loan equal to \$10.00 for each Class C Partnership unit transferred.

### 5. Investment in Pizza Pizza Royalty Limited Partnership

	2006		2005	
Balance - beginning of period	\$	139,140	\$	-
Acquisition of Partnership units		-		147,795
Accretion of value on change in the royalty pool (note 3c)		599		-
Loss in the initial public offering Partnership Structuring costs		-		(9,479)
Equity income of the Partnership		14,090		6,985
Distributions declared from the Partnership		(13,309)		(6,161)
Balance - end of period	\$	140,520	\$	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, to exploit the use of the "Pizza Pizza Rights" by Pizza Pizza. 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".

# Pizza Pizza Royalty Income Fund

## Notes to Consolidated Financial Statements

Year ended December 31, 2006 and for the period from

commencement of operations July 6, 2005 to December 31, 2005

(Expressed in Thousands of Dollars, Except Number of Units and Per Unit Amounts)

### 6. Unitholders' Equity

#### a) Authorized

The Declaration of the Fund provides that an unlimited number of Fund units may be issued. Each unit is transferable and represents an equal undivided beneficial interest in any distributions of the Fund and in the net assets of the Fund. All units have equal rights and privileges. Each Fund unit entitles the holder thereof to participate equally in the allocations and distribution and to one vote at all meetings of Fund unitholders for each whole Fund unit held. The Fund units issued are not subject to future calls or assessments.

Pursuant to the Declaration of Trust, the holders, other than the Fund or its subsidiaries, of the Class B Partnership units of the Partnership will be entitled to vote in all votes of Fund unitholders as if they were holders of the number of Fund units they would receive if Class B Partnership units were exchanged into Fund units as the record date of such votes, and will be treated in all respects as Fund unitholders for the purpose of any such votes.

Fund units are redeemable at any time at the option of the holder in a price based on market value as defined in the trust agreement, subject to a maximum of \$50 cash redemptions by the Fund in any one month. The limitation may be waived at the discretion of the Trustees of the Fund. Redemption in excess of these amounts, assuming no waiving of the limitation, shall be paid by way of distribution in specie of a pro rata number of securities of the Trust held by the Fund.

#### b) Issued

On July 6, 2005, the Fund issued 16,830,000 Fund units at \$10 per unit pursuant to a public underwriting. On July 27, 2005, the Fund issued an additional 1,122,000 units pursuant to the exercise of the over-allotment option granted to the underwriters in connection with the Fund's initial public offering. The additional units were purchased by the underwriters at a price of \$10.00 per unit. Expenses of the offering of \$1,725,000 were charged to Fund unitholders' equity.

Issue of Fund units	\$ 179,520
Expense of the offering	(1,725)
Fund units as at December 31, 2006 and December 31, 2005	\$ 177,795

# Pizza Pizza Royalty Income Fund

## Notes to Consolidated Financial Statements

Year ended December 31, 2006 and for the period from

commencement of operations July 6, 2005 to December 31, 2005

(Expressed in Thousands of Dollars, Except Number of Units and Per Unit Amounts)

### 6. Unitholders' Equity, cont'd

#### c) Income (Loss) per unit

Basic net income (loss) per unit is calculated by dividing net income (loss) by the weighted average number of units outstanding during the period. Diluted net income (loss) 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 weighted average number of units outstanding, 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:

	2006	July 6, 2005 to December 31, 2005
Basic net income (loss)	\$ 15,890	\$ (1,614)
Equity adjustment allocated to Class B Exchangeable Partnership units	3,588	(623)
<b>Adjusted net income (loss)</b>	<b>\$ 19,478</b>	<b>\$ (2,237)</b>

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

	2006	July 6, 2005 to December 31, 2005 <sup>(1)</sup>
Weighted average number of:		
Units	17,952,000	17,820,000
Pizza Pizza Class B Partnership units	4,563,120	4,488,000
<b>Weighted average number of units outstanding - diluted</b>	<b>22,515,120</b>	<b>22,308,000</b>
<b>Diluted income (loss) per Fund unit</b>	<b>\$ 0.87</b>	<b>\$ (0.10)</b>

(1) In 2005, due to the exercise of the over-allotment option on July 27, 2005, there were 16,830,000 units outstanding for the full 178 days in the period and 1,122,000 units outstanding for 157 days of the period resulting in weighted average number of fund units of approximately 17,820,000.

# Pizza Pizza Royalty Income Fund

## Notes to Consolidated Financial Statements

Year ended December 31, 2006 and for the period from

commencement of operations July 6, 2005 to December 31, 2005

(Expressed in Thousands of Dollars, Except Number of Units and Per Unit Amounts)

### 6. Unitholders' Equity, cont'd

d) Exchangeable units of the Partnership:

	2006	2005
Class B Partnership units	4,563,120	4,488,000

Pizza Pizza indirectly holds an effective 20.3% interest in the Fund by holding all Class B Partnership units. Subject to the Subordination agreement, Pizza Pizza has the right to exchange one Class B Partnership unit indirectly for that number of units equal to the Class B Exchange Multiplier applicable at the date of such exchange, as described under "Licence and Royalty-Adjustment of the Royalty Pool-Changes in the Restaurants in the Royalty Pool". Class B Partnership units held by Pizza Pizza carry voting rights in the Fund equivalent to the number of units into which they are exchangeable at that time. Subject to the prior rights of the holders of Class C Partnership units and to the Subordination agreement, the holders of Class B Partnership units are entitled to receive monthly distributions of remaining Available Cash of the Partnership, if any, on a pro rata basis with Class A Partnership units held by the Trust.

### 7. 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, has been waived for the period.

Pizza Pizza is a related party by virtue of holding 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.

# Pizza Pizza Royalty Income Fund

## Notes to Consolidated Financial Statements

Year ended December 31, 2006 and for the period from

commencement of operations July 6, 2005 to December 31, 2005

(Expressed in Thousands of Dollars, Except Number of Units and Per Unit Amounts)

### 8. Supplementary Cash Flow Information

	2006	July 6, 2005 to December 31, 2005
(a) Change in non-cash working capital:		
Due from Pizza Pizza Limited	\$ -	\$ (150)
(b) Interest received	\$ 1,800	\$ 880

### 9. Subsequent Events

(a) On January 1, 2007, adjustments to royalty payments and Pizza Pizza's Class B Exchange Multiplier were made based on the actual performance of the five restaurants added to the Royalty Pool on January 1, 2006. As a result of the adjustments, the new Class B Exchange Multiplier is 1.02345 and Pizza Pizza's exchangeable units can be exchanged into 4,593,233 Fund units which is an increase of 30,113 Fund units, effective January 1, 2006, which equates to 20.37% of the fully diluted units of the Fund.

(b) 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 are estimated at \$15.4 million annually. The total number of restaurants in the Royalty Pool has 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 Exchange Multiplier increased fractionally by 80% of the total adjustment or 0.18174; the new Class B Multiplier is 1.20519. 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, 2007, once the actual performance of the new restaurants is determined in early 2008.

As a result of the Adjusted Class B Exchange Multiplier, Pizza Pizza Limited will hold Class B Partnership units exchangeable into 5,408,915 Fund units which equates to 23% of the fully diluted units of the Fund as of January 1, 2007.