



PIZZA PIZZA ROYALTY INCOME FUND

Consolidated Interim Financial Statements
(Unaudited)
For the three months ended March 31, 2008

Pizza Pizza Royalty Income Fund

Interim Consolidated Balance Sheet

March 31, 2008

(Expressed in Thousands of Dollars)

	March 31, 2008 (unaudited)	December 31, 2007 (audited)
Assets		
Current assets:		
Receivable from Pizza Pizza Limited	\$ 150	\$ 150
Receivable from Pizza Pizza Royalty Limited Partnership	1,509	1,509
Total current assets	1,659	1,659
Loan receivable from Pizza Pizza Limited	30,000	30,000
Investment in Pizza Pizza Royalty Limited Partnership (note 4)	188,953	180,984
	\$ 220,612	\$ 212,643
Liabilities and Unitholders' Equity		
Current liabilities:		
Distribution payable to Fund unitholders	1,658	1,658
Future income tax liability (note 5)	9,064	8,208
Unitholders' Equity:		
Fund units (note 8)	212,928	212,928
Contributed surplus (note 3 (c))	14,103	5,401
	227,031	218,329
Accumulated other comprehensive loss	(1,374)	(362)
Deficit	(15,767)	(15,190)
	(17,141)	(15,552)
Total unitholders' equity	209,980	202,777
	\$ 220,612	\$ 212,643

See accompanying notes to consolidated financial statements

Approved by the Trustees:

(Signed) ROBERT NOBES
Trustee

(Signed) ARNOLD CADER
Trustee

(Signed) TERENCE REID
Trustee

Pizza Pizza Royalty Income Fund

Consolidated Statement of Earnings

For the three months ended March 31, 2008 and 2007

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

	March 31, 2008 (unaudited)	March 31, 2007 (unaudited)
System Sales included in the Royalty Pool (note 3(a))	\$ 113,520	\$ 89,518
Equity income in the Partnership (note 3(a))	4,804	3,524
Interest income	450	450
Earnings before income taxes	5,254	3,974
Provision for future income taxes (note 5)	856	-
Net earnings	\$ 4,398	\$ 3,974
Weighted average Fund units (note 6)	21,818,392	17,952,000
Basic earnings per Fund unit	\$ 0.20	\$ 0.22
Weighted average diluted Fund units (note 6)	27,807,841	23,360,915
Diluted earnings per Fund unit (note 6)	\$ 0.20	\$ 0.22

Consolidated Statement of Deficit

For the three months ended March 31, 2008 and 2007

(Expressed in Thousands of Dollars Except Per Unit Amounts)

	March 31, 2008 (unaudited)	March 31, 2007 (unaudited)
Balance, beginning of period	\$ (15,190)	\$ (7,873)
Net earnings	4,398	3,974
Distributions declared (2008 - \$0.228/unit; 2007 - \$0.219/unit)	(4,975)	(3,931)
Balance, end of period	\$ (15,767)	\$ (7,830)

See accompanying notes to consolidated financial statements

Pizza Pizza Royalty Income Fund

Consolidated Statement of Comprehensive Income For the three months ended March 31, 2008 and 2007 (Expressed in Thousands of Dollars)

	March 31, 2008 (unaudited)	March 31, 2007 (unaudited)
Net earnings	\$ 4,398	\$ 3,974
Other comprehensive income (loss)		
Share of other comprehensive income (loss) of the Partnership (notes 4 and 9)	(1,012)	5
Comprehensive income	\$ 3,386	\$ 3,979

Consolidated Statement of Accumulated Other Comprehensive Income (Loss) For the three months ended March 31, 2008 and 2007 (Expressed in Thousands of Dollars)

	March 31, 2008 (unaudited)	March 31, 2007 (unaudited)
Balance, beginning of period	\$ (362)	\$ -
Accounting policy change	-	298
Other comprehensive income (loss) (notes 4 and 9)	(1,012)	5
Balance, end of period, being the Fund's share of the fair value of a cash flow hedge	\$ (1,374)	\$ 303

See accompanying notes to consolidated financial statements

Pizza Pizza Royalty Income Fund

Consolidated Statement of Cash Flows
For the three months ended March 31, 2008 and 2007
(Expressed in Thousands of Dollars)

	March 31, 2008 (unaudited)	March 31, 2007 (unaudited)
Cash provided by (used in):		
Operating activities		
Net earnings	\$ 4,398	\$ 3,974
Equity income, an item not affecting cash (note 3(a))	(4,804)	(3,524)
Distributions received	4,525	3,446
Future income tax expense	856	-
	<u>4,975</u>	<u>3,896</u>
Financing activity		
Distributions paid to unitholders	(4,975)	(3,896)
Increase (decrease) in cash	-	-
Cash, beginning of period	-	-
Cash, end of period	<u>\$ -</u>	<u>\$ -</u>

See supplementary cash flows information (note 11)

See accompanying notes to consolidated financial statements

Pizza Pizza Royalty Income Fund

Notes to Interim Consolidated Financial Statements

For the three months ended March 31, 2008 and 2007

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

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 ("GAAP") on a basis consistent with those used and described in the annual consolidated financial statements for the year-ended December 31, 2007. The disclosures contained in these interim consolidated financial statements do not include all requirements of Canadian GAAP for annual financial statements; however, all requirements for interim financial statements have been satisfied.

These interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year-ended December 31, 2007.

2. Changes in Accounting Policies

(a) General Standards on Financial Statement Presentation

Commencing January 1, 2008, the Fund has adopted the new recommendations of the Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 1400, General Standards on Financial Statement Presentation. Under these new recommendations, the Fund is required to assess and disclose its ability to continue as a going concern. The Fund's adoption of this standard did not have a material impact on disclosure in the Fund's financial statements.

(b) Capital Disclosure

Commencing January 1, 2008, the Fund has adopted the new recommendations of the CICA Handbook Section 1535, Capital Disclosures. Under these new recommendations, the Fund 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 8.

(c) Financial Instruments - Disclosures

Commencing January 1, 2008, the Fund has adopted the new recommendations of the CICA Handbook Section 3862, Financial Instruments – Disclosures. Under these new recommendations, the Fund is required to increase the disclosure to enable users to evaluate the significance of financial instruments for the Fund'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 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 10.

Pizza Pizza Royalty Income Fund

Notes to Interim Consolidated Financial Statements

For the three months ended March 31, 2008 and 2007

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

2. Changes in Accounting Policies, continued

(d) Financial Instrument Presentation

Commencing January 1, 2008, the Fund has adopted the new recommendations of the CICA Handbook Section 3863, Financial Instrument – Presentation, which replaces the existing requirements on presentation of financial instruments which have been carried forward unchanged to this new section. The Fund's adoption of this standard did not have a material impact on disclosure in the Fund's financial statements.

3. Partnership Operations

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

	March 31, 2008	March 31, 2007
(in thousands of dollars, except number of restaurants in the Royalty Pool)		
Restaurants in Royalty Pool	609	531
System sales reported by Pizza Pizza restaurants in the Royalty Pool	\$ 93,970	\$ 89,518
System sales reported by Pizza 73 restaurants in the Royalty Pool	19,550	-
	<u>113,520</u>	<u>89,518</u>
Royalty – 6% on Pizza Pizza system sales	\$ 5,638	\$ 5,371
Royalty – 9% on Pizza 73 system sales	1,760	-
Total royalty on system sales	7,398	5,371
Partnership administrative and interest expenses	(825)	(338)
Partnership earnings before under-noted Pizza Pizza interest and issuance costs	6,573	5,033
Pizza Pizza's interest	(1,769)	(1,509)
Equity income in the Partnership	<u>\$ 4,804</u>	<u>\$ 3,524</u>

- (b) In early January 2008, adjustments to royalty payments and Pizza Pizza's Class B Exchange Multiplier were 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.

Pizza Pizza Royalty Income Fund

Notes to Interim Consolidated Financial Statements

For the three months ended March 31, 2008 and 2007

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

3. Partnership Operations, continued

- (c) 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. 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 increases 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, 2008, once the actual performance of the new restaurants is determined in early 2009.

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 increases 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, 2008, once the actual performance of the new restaurants is determined in early 2009.

As a result of the Adjusted Class B and Class D Exchange Multiplier, Pizza Pizza Limited currently holds Class B and Class D Partnership units exchangeable into 5,989,449 Fund units. As at March 31, 2008, the Fund reported an increase in its investment in the Partnership and a contributed surplus of \$8,702 (2007 – \$5,352) to reflect the increase in value as a result of the vend-in of the new royalty stream.

Pizza Pizza Royalty Income Fund

Notes to Interim Consolidated Financial Statements

For the three months ended March 31, 2008 and 2007

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

4. Investment in Pizza Pizza Royalty Limited Partnership

	March 31, 2008	December 31, 2007
Balance - beginning of year	\$ 180,984	\$ 140,520
Accounting policy change	-	298
Balance – beginning of year, restated	180,984	140,818
Investment in the Partnership, at cost, on July 24, 2007	-	30,257
Investment in the Partnership, at cost, on September 27, 2007	-	4,375
	180,984	175,450
Equity income of the Partnership	4,804	16,650
Accretion of value on change in Royalty Pool	8,702	5,352
Share of other comprehensive loss of the Partnership	(1,012)	(660)
Distributions declared from the Partnership	(4,525)	(15,808)
Balance - end of period	\$ 188,953	\$ 180,984

The business of the Partnership is the ownership and licensing of the “Pizza Pizza Rights” and the “Pizza 73 Rights” and through two separate “Licence and Royalty Agreements” with Pizza Pizza, to exploit the use of the Pizza Pizza and Pizza 73 Rights by Pizza Pizza. Additionally, the Partnership will collect the royalty payable under each “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 Interim Consolidated Financial Statements

For the three months ended March 31, 2008 and 2007

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

5. Future Income Taxes

On October 31, 2006, the Department of Finance (Canada) announced proposed tax legislation which included a provision to eliminate the deduction of distributions from taxable income for certain forms of publicly traded income trusts and partnerships. The proposed legislation became a substantively enacted law on June 12, 2007 at which time the Fund, in accordance with Canadian GAAP, must give accounting recognition to these new taxes.

As a result of the new legislation, the Fund is required to recognize future income tax assets and liabilities with a corresponding adjustment to future tax expense, based on temporary differences expected to reverse after January 1, 2011 at the substantively enacted tax rate applicable to the Fund in 2011 and later. The legislation imposes a rate of 31.5%, which was subsequently lowered to 29.5% for 2011 and 28% for 2012 and thereafter. The future taxes will reverse in the period or periods in which the Rights and Marks in the Partnership are reduced by means of sale or some other event.

The future income tax liability arises as a result of the Fund's proportionate share of the temporary difference between the accounting and tax basis, at the tax rate applicable to the Fund, on the Rights and Marks and financing expenses in the Partnership.

Future income tax expense is a non-cash item, which does not affect cash flow.

The Fund will not be liable for current income taxes until January 1, 2011.

Pizza Pizza Royalty Income Fund

Notes to Interim Consolidated Financial Statements

For the three months ended March 31, 2008 and 2007

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

6. Earnings per Unit

Basic net earnings per unit is calculated by dividing net earnings by the weighted average number of units outstanding during the year. Diluted net earnings per unit includes Pizza Pizza Class B and Class D exchangeable partnership units using the "if converted" method. Under the "if converted" method, earnings are adjusted for earnings allocated to the Class B and Class D exchangeable partnership units interest and the weighted average number of units is adjusted for the conversion of the Pizza Pizza Class B and Class D 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:

	March 31, 2008	March 31, 2007
Basic net earnings	\$ 4,398	\$ 3,974
Equity adjustment allocated to Class B and Class D Exchangeable Partnership units	1,319	1,058
Adjusted net earnings	\$ 5,717	\$ 5,032

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

	March 31, 2008	March 31, 2007
Weighted average number of:		
Units	21,818,392	17,952,000
Pizza Pizza Class B and Class D Partnership units	5,989,449	5,408,915
Weighted average number of units outstanding - diluted	27,807,841	23,360,915
Diluted earnings per Fund unit	\$ 0.20	\$ 0.22

For the quarter ended March 31, 2008, the Class B and Class D Partnership units are anti-dilutive. Accordingly, the diluted earnings per Fund units equals the basic earnings per Fund unit.

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 and Class D 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 Interim Consolidated Financial Statements

For the three months ended March 31, 2008 and 2007

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

8. Fund Units

	March 31, 2008		December 31, 2007	
	Units	Value	Units	Value
Balance - beginning of year	21,818,392	\$ 212,928	17,952,000	\$ 177,795
Public offering on July 24, 2007	-	-	2,600,000	23,790
Private offering on July 24, 2007	-	-	766,392	7,013
Private offering on September 27, 2007	-	-	500,000	4,925
Expense of offering on July 24, 2007	-	-	-	(595)
	-	-	3,866,392	35,133
Balance - end of period	21,818,392	\$ 212,928	21,818,392	\$ 212,928

The Fund's objective when managing capital is to:

- i) safeguard its ability to continue as a going concern, so that it can continue to provide returns for unitholders and benefits for other stakeholders;
- ii) provide an adequate return to unitholders, while maintaining adequate reserves at the Partnership level; and
- iii) ensure sufficient liquidity to pursue its growth strategy, while taking a conservative approach towards financial leverage and management of financial risk.

The Fund evaluates its capital as all components of equity, other than amounts in accumulated other comprehensive income relating to the cash flow hedge, and includes Pizza Pizza's Class B and Class D exchangeable partnership units, as they are convertible to Fund units at the respective Multiplier at the conversion date.

The Fund's amount of capital is set in proportion to risk. The Fund manages its structure and makes adjustments in light of changes in economic conditions and risk characteristics of the underlying assets. The Fund's primary use of capital was to finance acquisitions, supported by the credit facility at the Partnership level.

Pizza Pizza Royalty Income Fund

Notes to Interim Consolidated Financial Statements

For the three months ended March 31, 2008 and 2007

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

9. Cash Flow Hedges

The following is information about the Partnership's cash flow hedges:

	Notional Amount	March 31, 2008 Fair Value	December 31, 2007 Fair Value	Contract Expires
Interest rate swap	\$ 20,000	\$ (87)	\$ 299	July 23, 2012
Interest rate swap	10,000	(616)	(273)	July 23, 2012
Interest rate swap	17,000	(1,047)	(469)	July 23, 2012

The Fund uses equity accounting for its interest in the Partnership's earnings and has recorded its share, effectively 78.5%, of the comprehensive income (loss) generated by the Partnership.

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 amount of the Swaps is \$20,000, \$10,000 and \$17,000 which total to the \$47,000 of the 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 Banker's Acceptance rate.

Fair value of the above-noted items were determined using estimated future discounted cash flows using a comparable current market rate of interest, and the change in values have been accounted for in other comprehensive income (loss).

Pizza Pizza Royalty Income Fund

Notes to Interim Consolidated Financial Statements

For the three months ended March 31, 2008 and 2007

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

10. Financial Instruments

Financial Risk Management

The Fund has minimal financial risk as all financial instruments, with the exception of the loan receivable from Pizza Pizza, are short-term in nature. The Fund is dependent upon the royalty payments generated by the sales of Pizza Pizza and Pizza 73 restaurants. Accordingly, the Fund manages its financial risk on the loans receivable from Pizza Pizza by monitoring the financial results of Pizza Pizza.

Fair Value

The carrying amounts of receivable from Pizza Pizza, receivable from the Partnership and distributions payable to Fund unitholders approximates fair value given the short-term maturity of these instruments.

The fair value of the loan receivable from Pizza Pizza is based on the estimated future discounted cash flows using a comparable market rate of interest.

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

	Carrying Value	Fair Value
Receivable from Pizza Pizza Limited	\$ 150	\$ 150
Receivable from Pizza Pizza Royalty Limited Partnership	1,509	1,509
Loan receivable from Pizza Pizza Limited	30,000	27,142
Distribution payable to Fund unitholders	1,658	1,658

Credit Risk

The Fund is exposed to credit risk in the event of non-payment by Pizza Pizza and the Partnership and that Pizza Pizza's operations are within the same segment; commercial food services. The Fund is of the opinion that this credit risk is mitigated since the Partnership receives monthly royalty payments from Pizza Pizza based on sales generated by a large number of Pizza Pizza and Pizza 73 restaurants in diverse geographical regions. These royalty payments are used to fund the first priority distribution from the Partnership to Pizza Pizza, which is used to fund the interest owing to the Fund on its loan receivable from Pizza Pizza. The remaining royalty payments are used to fund the monthly distribution to the unit holders of the Partnership of which the Fund owns 78.5%. Furthermore, the Fund has reduced its credit risk with Pizza Pizza by obtaining security for its loan.

Liquidity Risk

The Fund is subject to liquidity risk with respect to funding the distributions payable to Fund unit holders. The Fund receives monthly distributions and interest payments from the Partnership and Pizza Pizza, respectively. The Fund is of the opinion that this risk is mitigated by the large number of Pizza Pizza and Pizza 73 restaurants in diverse geographical areas that generate the royalties used to fund the monthly distributions and interest received each month.

Pizza Pizza Royalty Income Fund

Notes to Interim Consolidated Financial Statements

For the three months ended March 31, 2008 and 2007

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

10. Financial Instruments, continued

Cash Flow Risk

The Fund is subject to cash flow risk as it is dependent upon the level of sales generated by the Pizza Pizza and Pizza 73 restaurants to generate the royalties used to fund the cash flows to the Fund. The risk, however, is offset as the Fund cannot distribute more cash than it receives.

Interest Rate Risk

The fair value of the loan receivable from Pizza Pizza will fluctuate based on the general level of interest rates in the economy and the credit worthiness of Pizza Pizza.

If the interest rate was to change by +/- 10% of the existing rate, the other comprehensive loss would change by approximately +/- \$557.

11. Supplementary Cash Flow Information

	Three months ended March 31, 2008	Three months ended March 31, 2007
Supplementary information:		
Interest received	\$ 450	\$ 450

Total cash distributions disclosed in the statement of cash flows are discretionary.

12. Recent Accounting Pronouncements

Recent accounting pronouncements issued and not yet effective:

International Financial Reporting Standards

The CICA plans to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011. The impact of the transition to IFRS on the Fund's financial statements is not yet determinable.