



PIZZA PIZZA ROYALTY INCOME FUND

Consolidated Interim Financial Statements
(Unaudited)

For the three and six months ended June 30, 2010

Pizza Pizza Royalty Income Fund

CONSOLIDATED BALANCE SHEETS

June 30, 2010

(Expressed in Thousands of Dollars)

	June 30, 2010 (unaudited)	December 31, 2009 (audited)
Assets		
Current assets:		
Receivable from Pizza Pizza Limited	\$ 150	\$ 150
Receivable from Pizza Pizza Royalty Limited Partnership	1,541	1,541
Total current assets	1,691	1,691
Loan receivable from Pizza Pizza Limited	30,000	30,000
Investment in Pizza Pizza Royalty Limited Partnership (note 3)	197,041	195,047
	\$ 228,732	\$ 226,738
Liabilities and Unitholders' Equity		
Current liabilities:		
Distribution payable to Fund unitholders	1,691	1,691
Future income tax liability (note 4)	5,928	5,680
Unitholders' Equity:		
Fund units (note 5)	212,928	212,928
Contributed surplus	22,681	19,863
	235,609	232,791
Accumulated other comprehensive loss	(1,935)	(1,906)
Deficit	(12,561)	(11,518)
	(14,496)	(13,424)
Total unitholders' equity	221,113	219,367
	\$ 228,732	\$ 226,738

See accompanying notes to interim 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 STATEMENTS OF EARNINGS

For the Three and Six Months Ended June 30, 2010 and 2009

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

	Three months ended June 30, 2010 (unaudited)	Three months ended June 30, 2009 (unaudited)	Six months ended June 30, 2010 (unaudited)	Six months ended June 30, 2009 (unaudited)
System Sales included in the Royalty Pool (note 2(a))	\$ 110,461	\$ 109,102	\$ 218,760	\$ 218,487
Equity income in the Partnership (note 2(a))	4,263	4,254	8,450	8,627
Interest income	450	450	900	900
Earnings before income taxes	4,713	4,704	9,350	9,527
Future income taxes expense (recovery)(note 4)	-	-	248	(293)
Net earnings	\$ 4,713	\$ 4,704	\$ 9,102	\$ 9,820
Weighted average Fund units (note 6)	21,818,392	21,818,392	21,818,392	21,818,392
Basic earnings per Fund unit	\$ 0.22	\$ 0.22	\$ 0.42	\$ 0.45
Weighted average diluted Fund units (note 6)	29,595,718	29,022,678	29,595,718	29,022,678
Diluted earnings per Fund unit (note 6)	\$ 0.22	\$ 0.22	\$ 0.42	\$ 0.45

CONSOLIDATED STATEMENTS OF DEFICIT

For the Three and Six Months Ended June 30, 2010 and 2009

(Expressed in Thousands of Dollars Except Per Unit Amounts)

	Three months ended June 30, 2010 (unaudited)	Three months ended June 30, 2009 (unaudited)	Six months ended June 30, 2010 (unaudited)	Six months ended June 30, 2009 (unaudited)
Balance, beginning of period	\$ (12,201)	\$ (11,159)	\$ (11,518)	\$ (11,203)
Net earnings	4,713	4,704	9,102	9,820
Distributions declared (2010 – three months \$0.2325/unit, six months \$0.465/unit; 2009 – three months \$0.2325/unit, six months \$0.465/unit)	(5,073)	(5,073)	(10,145)	(10,145)
Balance, end of period	\$ (12,561)	\$ (11,528)	\$ (12,561)	\$ (11,528)

See accompanying notes to interim consolidated financial statements

Pizza Pizza Royalty Income Fund
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three and Six Months Ended June 30, 2010 and 2009
(Expressed in Thousands of Dollars)

	Three months ended June 30, 2010 (unaudited)	Three months ended June 30, 2009 (unaudited)	Six months ended June 30, 2010 (unaudited)	Six months ended June 30, 2009 (unaudited)
Net earnings	\$ 4,713	\$ 4,704	\$ 9,102	\$ 9,820
Other comprehensive income (loss)				
Share of other comprehensive income (loss) of the Partnership (note 3)	(109)	637	(29)	726
Comprehensive income	4,604	\$ 5,341	9,073	\$ 10,546

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS
For the Three and Six Months Ended June 30, 2010 and 2009
(Expressed in Thousands of Dollars)

	Three months ended June 30, 2010 (unaudited)	Three months ended June 30, 2009 (unaudited)	Six months ended June 30, 2010 (unaudited)	Six months ended June 30, 2009 (unaudited)
Balance, beginning of period	\$ (1,826)	\$ (3,077)	\$ (1,906)	\$ (3,166)
Other comprehensive income (loss) (note 3)	(109)	637	(29)	726
Balance, end of period, being the Fund's share of the fair value of a cash flow hedge	(1,935)	\$ (2,440)	(1,935)	\$ (2,440)

See accompanying notes to interim consolidated financial statements

Pizza Pizza Royalty Income Fund
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three and Six Months Ended June 30, 2010 and 2009
(Expressed in Thousands of Dollars)

	Three months ended June 30, 2010 (unaudited)	Three months ended June 30, 2009 (unaudited)	Six months ended June 30, 2010 (unaudited)	Six months ended June 30, 2009 (unaudited)
Cash provided by (used in):				
Operating activities				
Net earnings	\$ 4,713	\$ 4,704	\$ 9,102	\$ 9,820
Equity income, an item not affecting cash (note 2(a))	(4,263)	(4,254)	(8,450)	(8,627)
Distributions received	4,623	4,623	9,245	9,245
Future income tax expense (recovery)	-	-	248	(293)
	<u>5,073</u>	<u>5,073</u>	<u>10,145</u>	<u>10,145</u>
Financing activity				
Distributions paid to unitholders	(5,073)	(5,073)	(10,145)	(10,145)
Increase (decrease) in cash	-	-	-	-
Cash, beginning of period	-	-	-	-
Cash, end of period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See supplementary cash flows information (note 10)

See accompanying notes to interim consolidated financial statements

Pizza Pizza Royalty Income Fund

Notes to Interim Consolidated Financial Statements

For the Six Months Ended June 30, 2010 and 2009

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

(Unaudited)

1. Organization and Nature of Operations

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, 2009. 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, 2009.

2. Partnership Operations

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

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
(in thousands of dollars, except number of restaurants in the Royalty Pool)				
Restaurants in Royalty Pool	671	637	671	637
System sales reported by Pizza Pizza restaurants in the Royalty Pool	\$ 91,956	\$ 89,342	\$ 181,946	\$ 177,375
System sales reported by Pizza 73 restaurants in the Royalty Pool	18,505	19,760	36,814	41,112
	110,461	109,102	218,760	218,487
Royalty - 6% on Pizza Pizza system sales	\$ 5,517	\$ 5,361	\$ 10,916	\$ 10,643
Royalty - 9% on Pizza 73 system sales	1,665	1,778	3,313	3,700
Total royalty on system sales	7,182	7,139	14,229	14,343
Partnership administrative and interest expenses	(789)	(882)	(1,546)	(1,670)
Partnership earnings for the period before undernoted Pizza Pizza Limited interest	6,393	6,257	12,683	12,673
Pizza Pizza Limited's interest	(2,130)	(2,003)	(4,233)	(4,046)
Equity income in the Partnership	\$ 4,263	\$ 4,254	\$ 8,450	\$ 8,627

- b. 2009 Royalty Pool Adjustment

In early January 2010, adjustments to royalty payments and Pizza Pizza's Class B Exchange Multiplier were made based on the actual performance of the 18 restaurants added to the Royalty Pool on January 1, 2009. As a result of the adjustments, the new Class B Exchange Multiplier was 1.4240 and Pizza Pizza's exchangeable units can be exchanged into 5,800,072 Fund units which is an increase of 56,141 Fund units, effective January 1, 2009.

Pizza Pizza Royalty Income Fund

Notes to Interim Consolidated Financial Statements

For the Six Months Ended June 30, 2010 and 2009

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

(Unaudited)

2. Partnership Operations, continued

In early January 2010, adjustments to royalty payments and Pizza Pizza's Class D Exchange Multiplier were made based on the actual performance of the 19 restaurants added to the Royalty Pool on January 1, 2009. As a result of the adjustments, the new Class D Exchange Multiplier was 15.4543 and Pizza Pizza's exchangeable units can be exchanged into 1,545,432 Fund units which is an increase of 85,077 Fund units, effective January 1, 2009.

c. 2010 Royalty Pool Adjustment – Class B Exchange Multiplier

On January 1, 2010, 22 net, new Pizza Pizza restaurants were added to the Royalty Pool as a result of 31 new restaurants opening and nine closing from January 1, 2009 to December 31, 2009. The additional system sales from the 31 new restaurants are estimated at \$9,985 annually less sales of \$3,075 from nine permanently closed Pizza Pizza restaurants resulting in net, estimated Pizza Pizza sales of \$6,910 added to the Royalty Pool. The total number of Pizza Pizza restaurants in the Royalty Pool has increased to 590. The yield of the Fund units was determined to be 14.2% calculated using \$6.54 as a weighted average unit price. Weighted average unit price is calculated based on the market price of the units traded on the TSX during the period of twenty consecutive days ending on the fifth trading day before January 1, 2010. As a result of the contribution of the additional net sales to the Royalty Pool, Pizza Pizza's Class B Exchange Multiplier increased fractionally by 80% of the total adjustment or 0.0810; the new Class B Multiplier is 1.5050. This adjustment will also increase the entitlement of the holders of the Class B units to distributions of cash and allocations of income from the Partnership. The second adjustment to the Class B Exchange Multiplier will be adjusted to be effective January 1, 2010, once the actual performance of the new restaurants is determined in early 2011.

d. 2010 Royalty Pool Adjustment – Class D Exchange Multiplier

On January 1, 2010, 12 new Pizza 73 restaurants were added to the Royalty Pool as a result of new restaurants opening between September 2, 2008 and September 1, 2009. The additional system sales from the 12 new restaurants are estimated at \$8,230 annually, which was reduced by \$6,807 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 \$1,423 added to the Royalty Pool. The total number of Pizza 73 restaurants in the Royalty Pool has increased to 81. 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 14.2% and \$6.54, respectively. As a result of the contribution of the additional net sales to the Royalty Pool, Pizza Pizza's Class D Exchange Multiplier increased fractionally by 80% of the total adjustment or 1.0191; the new Class D Multiplier is 16.4734. This adjustment will also increase the entitlement of the holders of the Class D units to distributions of cash and allocations of income from the Partnership. The second adjustment to the Class D Exchange Multiplier will be adjusted to be effective January 1, 2010, once the actual performance of the new restaurants is determined in early 2011.

e. Pizza Pizza Royalty Income Fund Outstanding Units

As of January 1, 2010, in exchange for adding the 34 net, new Pizza Pizza and Pizza 73 restaurants to the Royalty Pool, Pizza Pizza has received 329,910 additional Class B equivalent units and 101,912 Class D equivalent units. These units represent 80% of the Class B and Class D entitlements (412,387 and 127,390 units, respectively, represent 100%), with the balance to be received when the 2010 sales performance is known with certainty.

Including the 431,822 exchangeable units described above, Pizza Pizza owns equivalent, exchangeable units equal to 26.3% of the Fund's fully diluted units.

Pizza Pizza Royalty Income Fund

Notes to Interim Consolidated Financial Statements

For the Six Months Ended June 30, 2010 and 2009

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

(Unaudited)

3. Investment in Pizza Pizza Royalty Limited Partnership

	June 30, 2010	December 31, 2009 (audited)
Balance – beginning of year	\$ 195,047	\$ 188,635
Equity income of the Partnership	8,450	17,883
Accretion of value on change in Royalty Pool	2,818	5,760
Share of other comprehensive income (loss) of the Partnership	(29)	1,260
Distributions declared from the Partnership	(9,245)	(18,491)
Balance - end of period	\$ 197,041	\$ 195,047

The business of the Partnership is the ownership and licensing of the “Pizza Pizza Rights” and the “Pizza 73 Rights” 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”.

4. 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, gave 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 imposed a rate of 31.5%, which was subsequently lowered to 28.25% for 2011, 26.25% for 2012, 25.5% for 2013 and 25% for 2014 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 (recovery) 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 Six Months Ended June 30, 2010 and 2009

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

(Unaudited)

5. Unitholders' Equity

	June 30, 2010		December 31, 2009 (audited)	
	Units	Value	Units	Value
Fund units	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 unit holders 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 loss 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.

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 period. 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:

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Basic net earnings	\$ 4,713	\$ 4,704	\$ 9,102	\$ 9,820
Equity adjustment allocated to Class B and Class D exchangeable partnership units	1,680	1,553	3,333	3,146
Adjusted net earnings	6,393	\$ 6,257	\$ 12,435	\$ 12,966

Pizza Pizza Royalty Income Fund

Notes to Interim Consolidated Financial Statements

For the Six Months Ended June 30, 2010 and 2009

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

(Unaudited)

6. Earnings per Unit, continued

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

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Weighted average number of: Fund units	21,818,392	21,818,392	21,818,392	21,818,392
Pizza Pizza Class B and Class D Partnership units	7,777,326	7,204,286	7,777,326	7,204,286
Weighted average number of units outstanding - diluted	29,595,718	29,022,678	29,595,718	29,022,678
Diluted earnings per Fund unit	\$ 0.22	\$ 0.22	\$ 0.42	\$ 0.45

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. Transactions with related parties are in the normal course of operations and are recorded at the exchange amounts.

8. Cash Flow Hedges

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

	Notional Amount	June 30, 2010 Fair Value	December 31, 2009 Fair Value (audited)	Contract Expires
Interest rate swap	\$ 20,000	(513)	-	July 23, 2012
Interest rate swap	10,000	(781)	(880)	July 23, 2012
Interest rate swap	17,000	(1,330)	(1,497)	July 23, 2012
Interest rate swap	20,000	-	(157)	January 6, 2010

The Fund uses equity accounting for its interest in the Partnership's earnings and has recorded its share, effectively 73.7%, of the other comprehensive income (loss) generated by the Partnership.

Pizza Pizza Royalty Income Fund

Notes to Interim Consolidated Financial Statements For the Six Months Ended June 30, 2010 and 2009 (Expressed in Thousands of Dollars Except Number of Units and Per Unit Amounts) (Unaudited)

8. Cash Flow Hedges, continued

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.

On the \$20,000 Swap which expired on January 6, 2010, the Partnership was 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 was obligated to pay the Partnership an amount equal to the Canadian Banker's Acceptance rate up to the expiry of the agreement. During 2009, the Partnership entered into a new Interest Rate Swap Agreement to mitigate the risk associated with the fact that the Swap on the \$20,000 bank loan expired in January 2010. The new Swap agreement became effective on January 6, 2010 and obligates the Partnership to pay the Swap Counterparty an amount based upon a fixed interest rate of 2.68% per annum plus a fee of 1.25% and the Swap Counterparty will be 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 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.

9. 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 cash flow hedge is recorded in the financial statements at fair value using observable inputs available for similar assets and liabilities in the active markets at the measurement date, as provided by sources independent from the Fund.

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	1,541	1,541
Loan receivable from Pizza Pizza Limited	30,000	35,736
Distribution payable to Fund unitholders	1,691	1,691

Pizza Pizza Royalty Income Fund

Notes to Interim Consolidated Financial Statements

For the Six Months Ended June 30, 2010 and 2009

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

(Unaudited)

9. Financial Instruments, continued

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 unitholders of the Partnership of which the Fund owns 73.7%. 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 unitholders. 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.

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 plus/minus 10% of the existing rate, the other comprehensive income would change by approximately plus/minus \$282 (2009 - \$339).

10. Supplementary Cash Flow Information

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Supplementary information:				
Interest received	\$ 450	\$ 450	\$ 900	\$ 900

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

Pizza Pizza Royalty Income Fund

**Notes to Interim Consolidated Financial Statements
For the Six Months Ended June 30, 2010 and 2009
(Expressed in Thousands of Dollars Except Number of Units and Per Unit Amounts)
(Unaudited)**

11. Recent Accounting Pronouncements

Recent accounting pronouncements issued and not yet effective:

Business Combinations

CICA Handbook Section 1582, Business Combinations, which replaces CICA Handbook Section 1581, Business Combinations, establishes standards for the accounting for a business combination. It is the Canadian equivalent to International Financial Reporting Standard IFRS 3, Business Combinations. This standard is effective for the Fund for interim and annual financial statements beginning on January 1, 2011. The Fund has not yet determined the impact of the adoption of this change on its financial statements.

Consolidated Financial Statements and Non-controlling Interests

CICA Handbook Sections 1601, Consolidated Financial Statements and 1602, Non-controlling Interests, replace CICA Handbook Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Section 1602 is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27, Consolidated and Separate Financial Statements. These standards are effective for the Fund for interim and annual financial statements beginning on January 1, 2011. The Fund has not yet determined the impact of the adoption of these changes on its financial statements.

Comprehensive Revaluation of Assets and Liabilities

CICA Handbook Section 1625, Comprehensive Revaluation of Assets and Liabilities, has been amended as a result of issuing Sections 1582, 1601 and 1602. The amendments are effective for the Fund for its interim and annual financial statements beginning on January 1, 2011. The Fund has not yet determined the impact of the adoption of these changes on its financial statements.

Equity

CICA Handbook Section 3251, Equity, has been amended as a result of issuing Section 1602 to require disclosure of non-controlling interests in equity. This amendment is effective for the Fund for its interim and annual financial statements beginning on January 1, 2011. The Fund has not yet determined the impact of the adoption of this change on its financial statements.

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed its plan to converge with International Financial Reporting Standards ("IFRS"). The Fund must prepare its interim and annual consolidated financial statements in accordance with IFRS for the periods beginning on or after January 1, 2011. The Fund has formally established an IFRS project team consisting of members of its finance group and is led by the Chief Financial Officer. The team has performed a review of the impact of IFRS on the Fund's accounting policies, information systems, internal controls over financial reporting, and contractual arrangements and covenants. While the effects of IFRS have not fully been determined, the team has identified that the key areas expected to be impacted, include the accounting for the Fund's interest in the Pizza Pizza Royalty Limited Partnership and the method of calculation of future income taxes.