

## **For Immediate Release**

**Attention Business Editors:**

### **PIZZA PIZZA ROYALTY INCOME FUND ANNOUNCES SECOND QUARTER 2008 RESULTS**

**Toronto, Ontario, July 31, 2008** – Pizza Pizza Royalty Income Fund (the “Fund”) today reported its financial results for the second quarter ended June 30, 2008.

#### **2008 Quarterly Highlights compared to 2007:**

- Pre-tax earnings per unit increased 9.5%
- Same store sales grew 1.3%
- Royalty Pool system sales increased 24%
- Monthly distribution increased 2% in June

Pizza Pizza continues to report positive sales growth. As previously announced, same store sales growth (SSSG) for the second quarter increased 1.3% and grew 2.7% for the six months ended June 30, 2008, both as compared to the same periods last year. SSSG is the key driver of yield growth for Fund unitholders and includes results of Pizza 73 restaurants.

System Sales for the 609 restaurants in the Royalty Pool increased 24% for the quarter to \$114.3 million compared to \$92.2 million for the 531 restaurants in the Royalty Pool for the same quarter in 2007. Sales for the quarter from the 559 Pizza Pizza restaurants were \$94.2 million and sales from the 50 Pizza 73 restaurants were \$20.1 million. System sales of the Royalty Pool for the six months ended June 30, 2008 increased by 25.3% to \$227.8 million from \$181.7 million in the comparative period in 2007. The increase in system sales and the corresponding royalty income was the result of the positive SSSG plus the 37, net new restaurants added to the Royalty Pool on January 1, 2008, and the 41 Pizza 73 restaurants added to the Royalty Pool on July 24, 2007.

#### **Net earnings after non-cash future income taxes**

As a result of the increase in Royalty Pool sales, pre-tax earnings per unit for the second quarter increased 9.5% over the comparable quarter in 2007, growing to \$0.242 from \$0.221 per unit. Earnings before future income tax were \$5.3 million, or \$0.242 per unit; earnings increased to \$8.4 million as a result of recording a non-cash, future tax recovery of \$0.142 per unit. Earnings for the second quarter in 2007 were \$4 million which were reduced to a loss of \$4.7 million as a result of recording an \$8.7 million non-cash, future tax expense. The provision for future income taxes is unrelated to normal business operations and is the result of federal tax legislation requiring a provision for future income tax expense.

On a year-to-date basis, pre-tax earnings per unit increased 9% to \$0.483 per unit from \$0.443 during the same period in 2007. Earnings before future tax were \$10.5 million and increased to \$12.7 million as a result of a non-cash future tax recovery of \$2.2 million. For the same six month period in 2007, the Fund had earnings before future tax of \$8 million which were reduced to a loss of \$752,000 as a result of a \$8.7 million provision for future income taxes which was unrelated to normal business operations.

#### **Distributions**

As previously announced during the quarter, the Fund increased its monthly cash distribution by 2% in June. The distribution per unit increased to \$0.0775 from \$0.076. The new, monthly distribution equates to an annualized distribution of \$0.93 per Fund unit or a 16.3% increase

over the level at the time of the Fund's initial public offering in July 2005. This is the sixth distribution increase since the initial public offering.

The Fund declared distributions of \$5 million or \$0.230 per unit for the second quarter compared to \$3.9 million or \$0.219 per unit for the same period last year, or a 5% increase per unit. The payout ratio for the quarter was 95%.

As of June 30, 2008, working capital of the Pizza Pizza Royalty Limited Partnership (the "Partnership") increased 21% during the first six months of 2008 to \$2.3 million (December 31, 2007 - \$1.9 million) and is accumulated as a reserve to cover seasonality and any unusual administrative expenditures.

## Restaurants

During the second quarter, the Pizza Pizza brand opened one traditional and five non-traditional locations and closed one non-traditional location. On a year-to-date basis, two traditional and six non-traditional Pizza Pizza locations have opened, and four non-traditional locations have closed. This brings the total number of Pizza Pizza restaurants to 563, of which 369 are traditional restaurants and 194 are non-traditional locations. One non-traditional and two traditional Pizza 73 locations were opened during the quarter. On a year-to-date basis, five non-traditional and two traditional Pizza 73 locations have opened, bringing the total number of Pizza 73 restaurants to 64.

## FINANCIAL HIGHLIGHTS

The following table sets out selected financial highlights of the Fund and the Partnership:

	3 months ended		6 months ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
(in thousands of dollars, except number of restaurants and per unit amounts)				
Restaurants in Royalty Pool <sup>(1)</sup>	609	531	609	531
Same store sales growth	1.3%	4.3%	2.7%	4.9%
System sales reported by Pizza Pizza restaurants in the Royalty Pool	\$ 94,190	\$ 92,162	\$ 188,160	\$ 181,680
System sales reported by Pizza 73 restaurants in the Royalty Pool <sup>(1)</sup>	20,087	-	39,637	-
	\$ 114,277	\$ 92,162	\$ 227,797	\$ 181,680
Royalty – 6% on Pizza Pizza system sales	\$ 5,651	\$ 5,530	\$ 11,289	\$ 10,901
Royalty – 9% on Pizza 73 system sales	1,808	-	3,568	-
Total Royalty on System Sales	7,459	5,530	14,857	10,901
Partnership expenses <sup>(2)</sup>	(854)	(498)	(1,679)	(836)
Earnings available for distribution to the Fund and Pizza Pizza Limited	6,605	5,032	13,178	10,065
Pizza Pizza's interest <sup>(3)</sup>	(1,776)	(1,508)	(3,545)	(3,017)
Equity income	4,829	3,524	9,633	7,048
Interest income <sup>(4)</sup>	450	450	900	900
Net earnings before non-cash future income tax expense	\$ 5,279	\$ 3,974	\$ 10,533	\$ 7,948
Provision for (recovery of) future income taxes	(3,091)	8,700	(2,235)	8,700
Net earnings (loss)	\$ 8,370	\$ (4,726)	\$ 12,768	\$ (752)
Basic earnings per Fund unit excluding the impact of non-cash future income tax expense	\$ 0.242	\$ 0.221	\$ 0.483	\$ 0.443
Basic earnings (loss) per Fund unit	\$ 0.384	\$ (0.263)	\$ 0.585	\$ (0.043)

Diluted earnings (loss) per Fund unit	\$	0.349	\$	(0.263)	\$	0.554	\$	(0.043)
Distributions declared	\$	5,007	\$	3,931	\$	9,982	\$	7,862
Distributions per Fund unit	\$	0.230	\$	0.219	\$	0.458	\$	0.438
Payout ratio		95%		99%		95%		99%

	June 30, 2008		December 31, 2007	
Total assets	\$	221,307	\$	212,643
Total liabilities	\$	7,664	\$	9,866

- (1) The Pizza 73 Rights were acquired on July 24, 2007 and resulted in the addition of 41 restaurants to the Royalty Pool for the balance of 2007. Effective January 1, 2008, there are 50 Pizza 73 restaurants in the Royalty Pool.
- (2) The Fund, indirectly through the Partnership, incurs administrative expenses and interest expense on the \$47,000 outstanding bank loan (2007 - \$20,000). Interest expense on the bank loan for the quarter and six months ended June 30, 2008 was \$687 and \$1,400 respectively (2007 - \$265 and \$527).
- (3) Represents the interest of Pizza Pizza Limited in the earnings of the Partnership from Class B, Class C and Class D Partnership units. The Class B and D units are exchangeable into Fund units based on value of the Class B Exchange Multiplier and the Class D Exchange Multiplier at the time of exchange as defined in the Pizza Pizza Licence and Royalty Agreement and the Pizza 73 Licence and Royalty Agreement, respectively, and represents 21.5% of the fully diluted units of the Fund at June 30, 2008 (2007 - 23%).
- (4) The Fund indirectly earns interest income on the \$30,000 loan to Pizza Pizza, with interest income accruing at 6% per annum, payable monthly.

The unaudited, consolidated financial statements of the Fund, together with its Management's Discussion and Analysis, will be available at [www.sedar.com](http://www.sedar.com) and on the Fund's website at [www.pizzapizzaroyaltyincomefund.com](http://www.pizzapizzaroyaltyincomefund.com) on or before August 1, 2008.

The Fund will host a conference call to discuss the results on August 1, 2008 at 9:00 a.m. EDT. The call can be accessed by dialing 416-642-5212 or 1-866-321-6651. A replay will be available until August 14, 2008 by dialing 647-436-0148 or 1-888-203-1112 and entering the reservation number: 8482654.

### Forward Looking Statements

Certain statements in this report may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this report, such statements include such words as "may", "will", "expect", "believe", "plan", and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this report. These forward-looking statements involve a number of risks and uncertainties. The following are some factors that could cause actual results to differ materially from those expressed in or underlying such forward-looking statements: competition; changes in demographic trends; changing consumer preferences and discretionary spending patterns; changes in national and local business and economic conditions; legislation and governmental regulation; accounting policies and practices; and the results of operations and financial condition of Pizza Pizza. The foregoing list of factors is not exhaustive and should be considered in conjunction with the other risks and uncertainties described in the Fund's Annual Information Form. The Fund assumes no obligation to update these forward looking statements, except as required by applicable securities laws.

### About the Fund, a publicly-traded entity

The Fund is a limited purpose, open-ended trust established under the laws of Ontario. The Fund, indirectly through the Partnership, has acquired the trademarks and trade names used by

Pizza Pizza Limited (“the Company”) in its Pizza Pizza and Pizza 73 restaurants. The Pizza Pizza trademarks were licensed to the Company in 2005 for 99 years, for which the Company pays the Fund a royalty equal to 6% of the system sales of its Pizza Pizza restaurants in the Royalty Pool. There are 559 Pizza Pizza restaurants in the Royalty Pool for 2008. On July 24, 2007, the Partnership acquired the trademarks and other intellectual property of Pizza 73 (the “Pizza 73 Rights”) and licensed them to the Company for 99 years, for which the Company pays the Fund a royalty equal to 9% of the 50 Pizza 73 restaurants in the Royalty Pool for 2008. The 2008 Royalty Pool has 609 total restaurants.

A key attribute of the Fund is that revenues are based on top-line, system sales of the Royalty Pool restaurants and not on the profitability of either the Company or the restaurants in the Royalty Pool. Moreover, the Fund is not subject to the variability of earnings or expenses of the operating companies. The Fund’s only expenses are administration expenses and the interest on debt. Thus, the success of the Fund depends primarily on the ability of Pizza Pizza to maintain and increase system sales of the Royalty Pool restaurants and to meet its royalty obligations.

The Fund’s trust units are listed on the Toronto Stock Exchange under the symbol PZA.UN.

### **About Pizza Pizza Limited, the privately-owned operating company**

The Company, a privately-held Canadian corporation, is one of Canada’s most successful operators in the QSR industry. It operates franchised, owner/operator and corporate restaurants under the brand names Pizza Pizza and Pizza 73. The Pizza Pizza brand celebrated its 40<sup>th</sup> anniversary in 2007 and dominates the Ontario pizza quick service industry. The Pizza 73 brand is celebrating its 23rd anniversary in 2008. The Company is guided by a mission to provide the “best food, made especially for you” and a focus on quality ingredients, customer service, community contribution and continual innovation, especially in offering health-conscious menu choices.

### **For further information:**

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