Hot & Fresh pizza pizza www.pizzapizza.ca

Hot & Fresh PIZZA 73 www.pizza73.com

Pizza Pizza Royalty Corp.
2015 Annual Report

Pizza Pizza Royalty Corp.

The Company, indirectly, through the Pizza Pizza Royalty Limited Partnership ("PPRLP"), owns the trademarks and trade names used by Pizza Pizza Limited ("PPL") in its Pizza Pizza and Pizza 73 restaurants. The Pizza Pizza trademarks were licensed to PPL in 2005 for 99 years, for which PPL pays a royalty equal to 6% of the System Sales of its Pizza Pizza restaurants in the Royalty Pool. On July 24, 2007, the Company acquired the trademarks and other intellectual property of Pizza 73 and licensed them to PPL for 99 years, for which PPL pays a royalty equal to 9% of the System Sales of the Pizza 73 restaurants in the Royalty Pool. For the year 2015, the Royalty Pool consisted of 630 Pizza Pizza restaurants and 100 Pizza 73 restaurants.

A key attribute of the Company is that its revenues are based on top-line, system sales of the Royalty Pool restaurants and not on the profitability of either PPL or the restaurants in the Royalty Pool. Moreover, the Company is not subject to the variability of earnings or expenses of the operating companies. The Company's only expenses are administration expenses, income taxes and interest on debt.

The success of the Company depends primarily on the ability of PPL to maintain and increase system sales of the Royalty Pool and to meet its royalty obligations.

PZA FACTS

at 12/31/15:

24,618,392
public shares outstanding

6,302,849
equivalent shares held by PPL

$13.65
trading price

$0.84
annualized dividend per share

6.1%
dividend yield

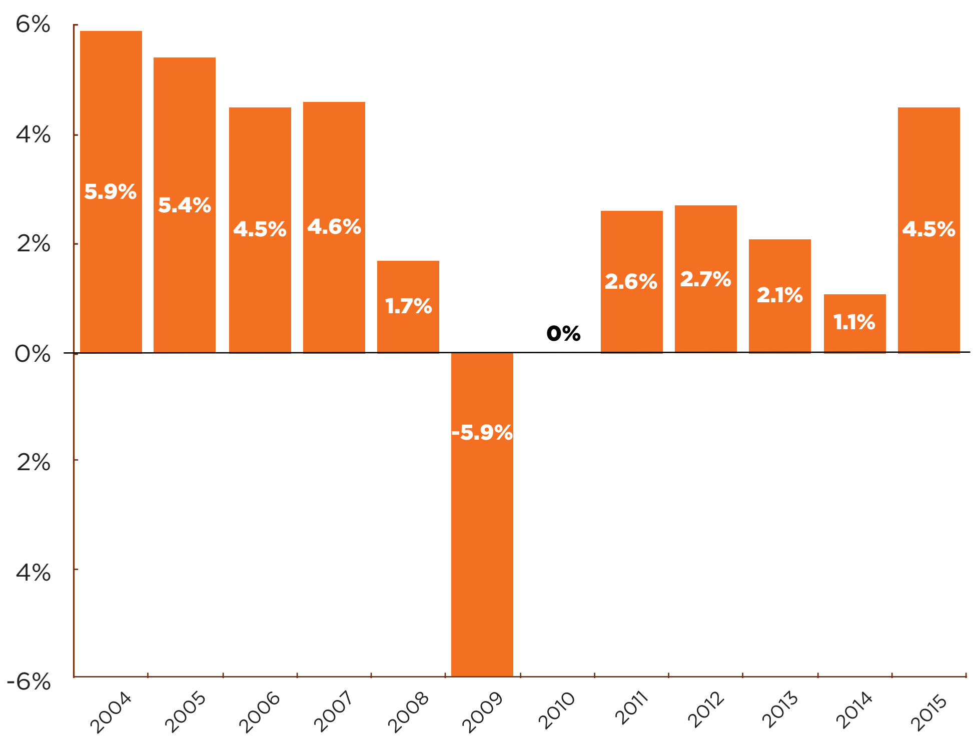
$422 million
market capitalization – fully diluted

Selected Financial Highlights

(Dollars in thousands, except per share data)

	2015	2014	2013
Same Store Sales Growth			
Combined	4.5%	1.1%	2.1%
Pizza Pizza brand	5.2%	-0.3%	1.6%
Pizza 73 brand	1.1%	7.6%	4.4%
Restaurants in Royalty Pool			
Pizza Pizza brand	630	629	605
Pizza 73 brand	100	93	89
Total	730	722	694
Royalty Pool Sales	$ 533,834	$ 505,389	$ 491,058
Royalty income	$ 34,808	$ 33,013	$ 31,942
Partnership earnings available for distribution	$ 32,661	$ 30,422	$ 29,189
Provision for current income taxes	$ (5,132)	$ (4,335)	$ (4,073)
Adjusted earnings from operations	$ 27,529	$ 26,087	$ 25,116
Adjusted earnings per share	$ 0.895	$ 0.861	$ 0.838
Dividends declared to shareholders	$ 19,703	$ 17,463	$ 16,746
Dividends per share	$ 0.8155	$ 0.8004	$ 0.7675
Payout Ratio	95%	99%	97%
Working Capital Reserve	$ 4,916	$ 3,892	$ 5,097
Debt to EBITDA Ratio	1.38:1	1.45:1	1.50:1
Pizza Pizza Limited's ownership	20.4%	28.0%	27.1%
Distributions to Pizza Pizza Limited	$ 6,764	$ 8,441	$ 7,867

Pizza Pizza Limited Same Store Sales Growth



Letter from the Chair

On behalf of the Board of Directors, I am pleased to present Pizza Pizza Royalty Corp.'s (the "Company") operating results for the year ended December 31, 2015.

Financial Highlights

- *Royalty Pool sales grew 5.6% to $533.8 million*
- *Same-Store Sales growth ("SSSG") increased 4.5%*
- *Two dividend increases*
- *Working capital reserve ended the year at $4.9 million*
- *Payout ratio was 95%*

Geographic diversification across Canada has contributed to consistent and stable growth in Royalty Pool sales over the past five years with Royalty Pool sales increasing 5.6% in 2015 to $533.8 million.

The Company reported its fifth consecutive year of positive sales with this year's 4.5% SSSG. Pizza 73, operating largely in Alberta, reported SSSG of 1.1%, while consumers responded particularly well to Pizza Pizza in Ontario and Quebec, reporting a 5.2% increase in same store sales.

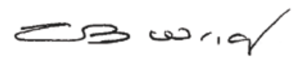
The Company provides shareholders with regular monthly dividends. In 2015, the Company declared dividends of $19.7 million, or $0.8155 per share, compared to $17.5 million, or $0.8004 per share, in 2014 which is a 1.9% year-over-year increase.

The Company is structured to payout the majority of its net cash flow, especially since it has no employees or capital expenditure requirements. In 2015, the Company's payout ratio was 95%.

As of December 31, 2015, a $4.9 million reserve is available to stabilize dividends and fund other expenditures in the event of short– to medium–term variability in System Sales. With this reserve now in place, going forward the Company will target an annual payout ratio at, or near, 100%.

Consistent, positive SSSG shows the strength of the Company's brands and its ability to generate cash. SSSG is the key driver of shareholder yield growth and, along with restaurant development, continues to be the focus of Pizza Pizza Limited's management team.

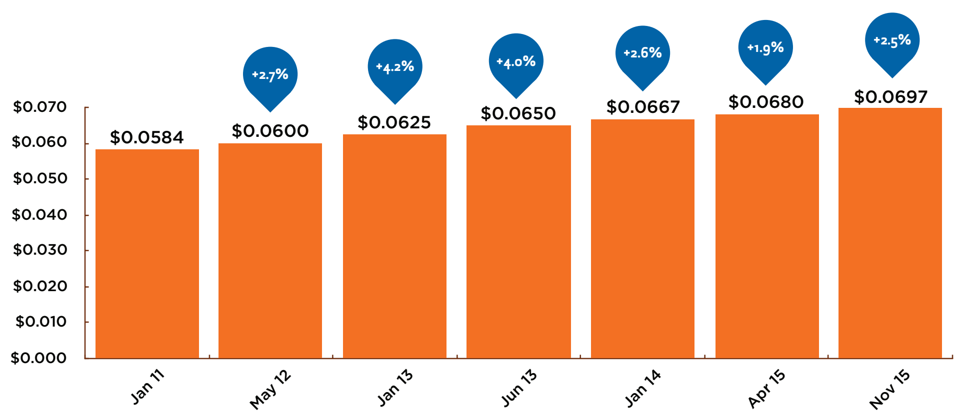
On behalf of the Board of Directors,



Elizabeth Wright
Chair, Pizza Pizza Royalty Corp.

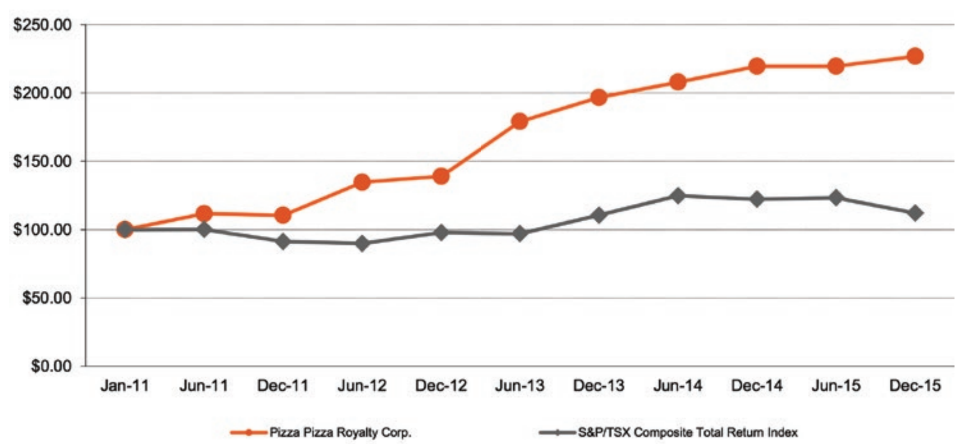
Shareholder Monthly Dividend

Over the eleven years since the Company's initial public offering, dividends have increased twelve times.



Performance Graph

This graph compares the cumulative return on $100 invested in Pizza Pizza Royalty Corp.'s shares with the cumulative return of the S&P/TSX Composite Index for the period from January 1, 2011 to December 31, 2015. Dividends paid are assumed to have been reinvested.



	Jan-11	Jun-11	Dec-11	Jun-12	Dec-12	Jun-13	Dec-13	Jun-14	Dec-14	Jun-15	Dec-15
Pizza Pizza Royalty Corp.	$100.00	$111.65	$110.47	$134.68	$139.04	$179.04	$196.65	$207.87	$219.55	$219.51	$226.85
S&P/TSX Composite Total Return Index	$100.00	$100.16	$91.29	$89.89	$97.85	$96.99	$110.56	$124.79	$122.23	$123.34	$112.06

Paul Goddard
Chief Executive Officer
Pizza Pizza Limited

Pizza Pizza Fundamentals

- *Canada's #1 pizzeria*
- *Seasoned management team*
- *Proven business model*
- *Powerful brands*
- *Geographic diversification*
- *Modernized restaurant chain*
- *Innovation leader since 1967*

Restaurant operators are provided a high level of services by PPL

- *Centralized food distribution*
  - *Volume purchasing*
- *Training Centre - Operator training and certification*
- *Turn-key operation*
- *Centralized financing*
- *Real estate site selection and lease renewal*
- *Centralized payment of operating expenses including rents, mortgages, and sales taxes*
- *Centralized order processing, including an array of digital channels*

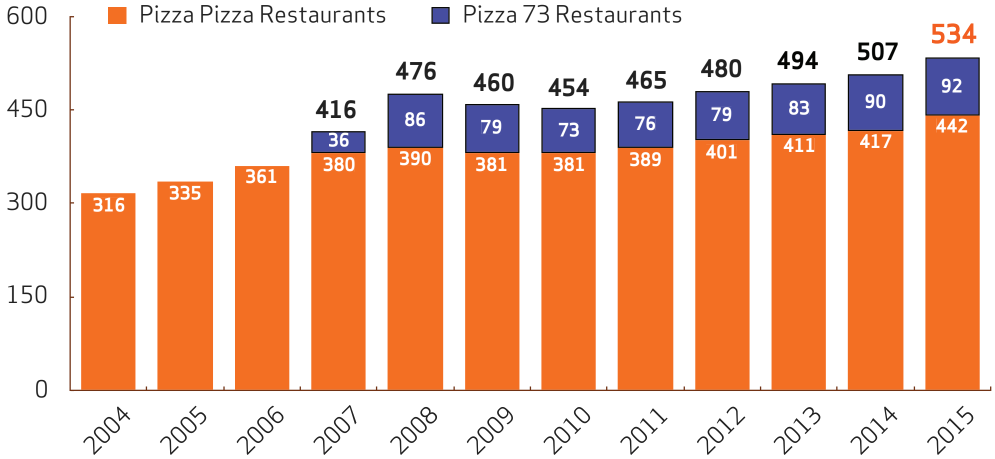
Letter from the CEO of Pizza Pizza Limited

Dear Partners,

Pizza Pizza Limited's 2015 same store sales growth of 4.5% was our strongest annual results since the global recession of 2008. Pizza 73, operating largely in a weakened Alberta economy, reported 1.1% same store sales growth. Pizza Pizza, the market leader in Ontario and Quebec, reported an increase in same store sales of 5.2%.

Our market-leading brands provide customers the convenience of dining in, taking out or choosing delivery when ordering from our high-quality menu. These multiple sales channels have proven to be another major competitive advantage in driving sales within the restaurant industry.

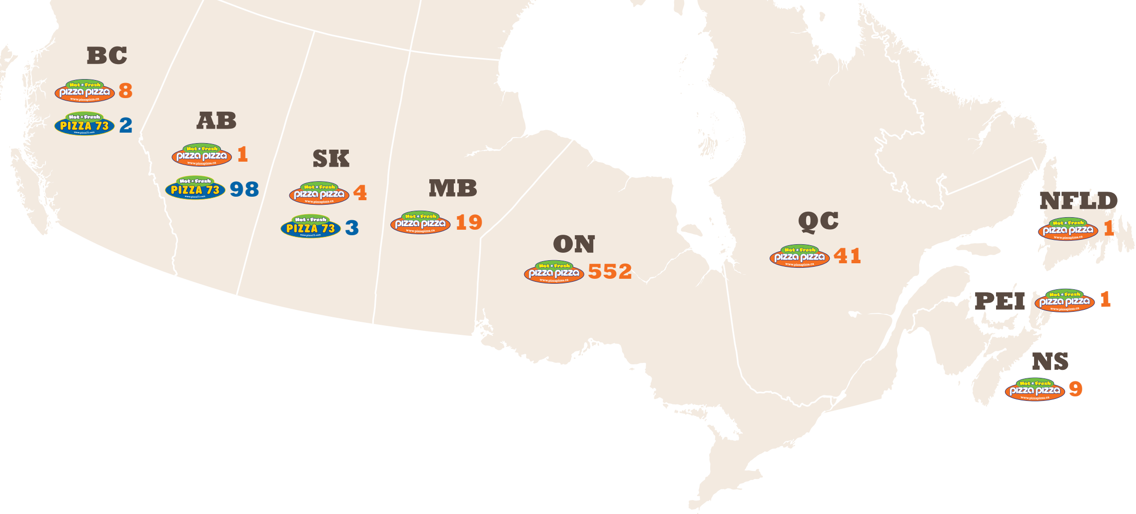
Pizza Pizza Limited Annual System Sales *(dollars in millions)*



Restaurant Growth and National Expansion

The focus of the business continues to be our traditional restaurant format, which represents approximately 91% of the system sales. Traditional restaurants are typically located in high traffic, high visibility areas and offer our full menu. The majority of our traditional restaurants provide seating for, on average, approximately 25 customers. Over the years we have repositioned the Company as a "restaurant with delivery", and consistent with this strategy, our revenue mix has evolved from a 90/10 mix of delivery to take-out, to a 60/40 mix. We also license non-traditional restaurants that serve a limited menu and are targeted to "captured traffic" locations such as sport arenas, entertainment venues, food courts, and universities. Non-traditional restaurants complement our market penetration strategy, by building brand awareness and exposure while also generating additional sales.

During the year we opened 28 new restaurants. At December 31, 2015, there were 739 restaurants in our system, comprised of 636 Pizza Pizza restaurants and 103 Pizza 73 restaurants. Our two brands generated over $534 million in system sales, or a 5.3% increase over 2014. In 2016, we will continue to focus on our national expansion program, with most openings projected to be in Quebec.



Our NEW pizza sauce is made from 100% GMO-free, vine ripened tomatoes exclusively selected for Pizza Pizza. They're harvested at their peak and fresh packed to seal in their bold, vibrant flavours.

Promoting Brand Recognition

We continue to be a pioneer in developing and executing our marketing programs to promote exceptional menu offerings that appeal to a broad customer base whether it's lunch, dinner or late night. Our in-house marketing team, with an annual spending budget of over $33 million, creates marketing messages to help differentiate Pizza Pizza and Pizza 73 from competitors, thereby attracting new customers, building customer loyalty, and increasing frequency of visits.

Both Pizza Pizza and Pizza 73 are market leaders in their respective geographic markets. Pizza Pizza has significantly more market share among pizza restaurant chains in Ontario by sales revenue, while Pizza 73 leads the Alberta market. Additionally, Pizza Pizza and Pizza 73 restaurants are well known in their principal markets due to their memorable phone numbers (967-11-11 in the Greater Toronto Area, and -73-73 in Alberta) and their accompanying jingles.

Track Record of Innovation and Technology Leadership

Innovation is a core competency and the driving force behind our success. Our history of innovations include:

- *One-number telephone ordering system*
- *Insulated pizza delivery bags*
- *Delivery guarantees*
- *Web monitoring of restaurant operations*
- *Award-winning Apple and Android ordering apps*
- *Digital loyalty program*

Our pizza dough is made with 100% Canadian wheat and spring water, and is delivered fresh to our restaurants. Our crust is now thinner and dusted with durum semolina flour for a lighter, artisan flavour.

Our digital ordering platform now accounts for nearly 50% of all orders. We recently improved our Club 11-11 loyalty card program by offering 5% earnings on every purchase, plus redemption after only five orders. Customers redeem their rewards faster and more frequently.

Menu innovation is another competency and evolves in response to customer preferences. In 1967, we began with a limited selection of pizzas; today we offer customers over 30 different pizzas and the ability to create their own from a choice of 40 different toppings. In 2015, new product offerings included:

- *New vine ripened tomato pizza sauce*
- *Thinner pizza dough dusted with durum semolina flour*
- *Funnel Cake Stix*

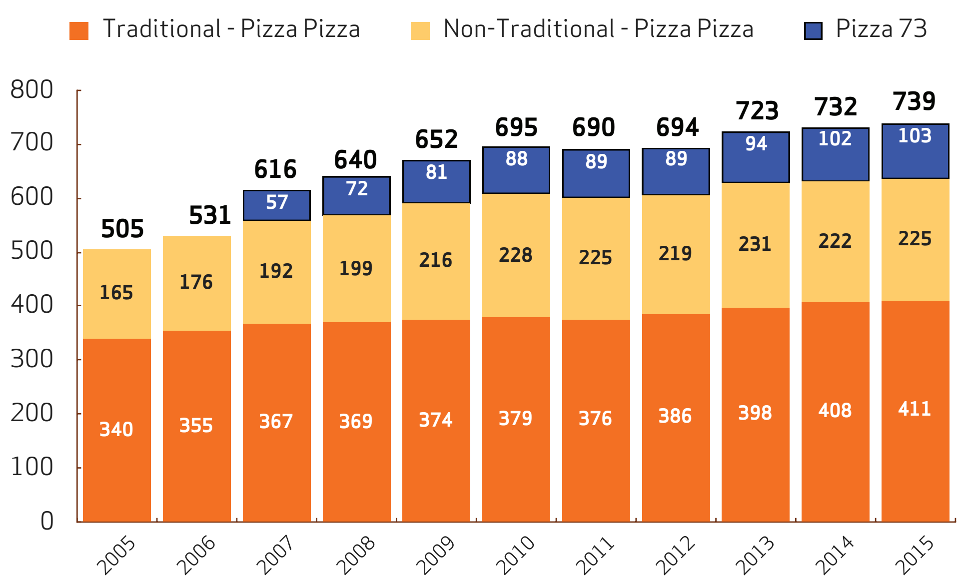
Pizza Pizza and Pizza 73 have a network of 739 restaurants serving over 30 million customers annually. Executing on our national expansion plan, we leverage our non-traditional partners across Canada to gain brand strength prior to opening traditional restaurants. As a result of its solid rankings in franchisee satisfaction, Pizza Pizza was awarded the "2015 Franchisees' Choice" designation by the Canadian Franchise Association.

A Turn Key Restaurant Model

Our brand-based business model operates primarily in two distinct, core geographic markets, but with increasing national presence. We provide a high level of service and operational support to our Franchisees and Partners, including a turn-key restaurant; central food distribution centres, which provide all food and non-food items used in restaurant operations; and monitoring systems intended to ensure high product quality and operational consistency across the chain.

Our management team oversees key aspects of the restaurant business allowing restaurant operators to focus on revenue-generating activities. We also devote substantial resources to franchisee support, as well as training programs, product supply and quality initiatives.

Number of Restaurants



Geographic diversification has proven to be a key driver in providing consistent restaurant sales increases.

Social Responsibility

In 2007, in conjunction with our 40th anniversary, we created the Slices for Smiles Charitable Foundation which is a charity developed to assist in providing the fundamental building blocks of life, education, healthcare, nutrition and social support to children and families in need. Since inception, the Foundation has raised nearly $2.5 million for children's hospitals and charities in Canada.

We also participate in fundraising initiatives focusing on the customers and communities in which we serve by supporting events and sponsoring local organizations. We contribute positively to building stronger local communities by providing hot and fresh pizza to elementary schools, charities and community groups. These sponsorships and donations provide organizations additional resources to raise funds towards equipment, meals, training, education, social support and much more.

In Closing...

I applaud and give thanks to our restaurant operators and the many corporate teams which support our restaurants. The successes we've enjoyed over the past years are a result of working together to fulfill our customer promise of "always the best food, made especially for you". Although part of our business is a publicly-held company, Pizza Pizza operates very much like a family business. We are passionate about our two leading brands and ambitious about our future. We are determined to continue to set the pace in our industry with quality food, convenience and great customer service. Our family extends further to the valuable non-traditional partnerships we have developed, including those with sporting and entertainment venues, universities, colleges and hospitals. Our corporate philosophy of teamwork and supporting respectful relationships are the foundation of our business which has provided shareholders consistent increases in value over the past decade.

Sincerely,

Paul Goddard
Chief Executive Officer
Pizza Pizza Limited

Pizza Pizza Royalty Corp. Board of Directors

Elizabeth Wright
Chair of Board

Robert J. Nobes, FCPA
Chair of Audit Committee

Richard McCoy
Member of Audit Committee

Jay Swartz
Member of Audit Committee

Michelle Savoy

Pizza Pizza Limited Senior Management Team

Paul Goddard
Chief Executive Officer

Curt Feltner
Chief Financial Officer and Senior Vice President, Finance

Pat Finelli
Chief Marketing Officer and Senior Vice President, Marketing

Paul Methot
Senior Vice President, Operations

Sebastian Fuschini
Senior Vice President, Franchising

Philip Goudreau
Senior Vice President, Operations and Development (Western Canada)

Corporate Headquarters

500 Kipling Ave., Toronto ON M8Z 5E5
(416) 967-1010 | www.pizzapizza.ca

Stock Listing

Pizza Pizza's stock is listed on the Toronto Stock Exchange under the symbol PZA.

Annual Meeting

The annual meeting of shareholders will be held May 25, 2016, 10:00 am (ET) at:
The Fairmont Royal York, British Columbia Room

Independent Chartered Professional Accountants

Ernst & Young LLP

Transfer Agent

CIBC Mellon Trust Company
Canadian Stock Transfer Co. Inc.

Investor Relations

Christine D'Sylva, Vice President, Finance and Investor Relations
cdsylva@pizzapizza.ca

Building shareholder value through consistent same store sales growth, dividend increases and a conservative working capital reserve.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of **Pizza Pizza Royalty Corp.**

We have audited the accompanying consolidated financial statements of **Pizza Pizza Royalty Corp.**, which comprise the consolidated statements of financial position as at December 31, 2015 and 2014 and the consolidated statements of earnings, comprehensive earnings, changes in shareholders' equity and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Pizza Pizza Royalty Corp. as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years ended December 31, 2015 and 2014 in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada,
March 7, 2016

Pizza Pizza Royalty Corp.

Consolidated Statements of Financial Position
As at December 31, 2015 and 2014
(Expressed in thousands of Canadian dollars)

	December 31, 2015 $	December 31, 2014 $
Assets		
Current assets		
Cash and cash equivalents	2,236	1,355
Short-term investments	2,750	2,750
Receivable from Pizza Pizza Limited (note 10)	3,381	3,074
Trade and other receivables	120	75
Total current assets	**8,487**	**7,254**
Non-current assets		
Pizza Pizza Rights and Marks (note 3)	261,712	256,925
Pizza 73 Rights and Marks (note 3)	72,187	70,933
Total non-current assets	**333,899**	**327,858**
Total assets	**342,386**	**335,112**
Liabilities and shareholders' equity		
Current liabilities		
Trade and other payables (note 4)	487	367
Payable to Pizza Pizza Limited (note 10)	590	1,257
Dividends payable to shareholders	1,716	1,455
Income taxes payable	778	283
Total current liabilities	**3,571**	**3,362**
Non-current liabilities		
Borrowings (note 5)	46,937	46,934
Derivative financial instruments (note 12)	1,688	1,251
Deferred tax liability (note 7)	16,744	9,592
Total non-current liabilities	**65,369**	**57,777**
Shareholders' equity		
Share capital (note 8)	242,030	212,928
Exchangeable Shares (notes 3 and 6)	63,030	86,129
Accumulated other comprehensive loss	(390)	(738)
Deficit	(31,224)	(24,346)
Total shareholders' equity	**273,446**	**273,973**
Total liabilities and shareholders' equity	**342,386**	**335,112**

The accompanying notes are an integral part of these consolidated financial statements.

Pizza Pizza Royalty Corp.

Consolidated Statements of Earnings
For the years ended December 31, 2015 and 2014
(Expressed in thousands of Canadian dollars, except number of shares and per share amounts)

	December 31, 2015 $	December 31, 2014 $
Royalty Pool System Sales (note 9)	533,834	505,389
Royalty income (note 9)	34,808	33,013
Administrative expenses	(624)	(585)
Operating earnings	**34,184**	**32,428**
Interest expense on borrowings (note 5)	(1,144)	(1,757)
Non-cash swap termination costs (note 12)	(1,245)	-
Earnings for the year before income taxes	**31,795**	**30,671**
Current income tax expense (note 7)	(5,132)	(4,335)
Deferred tax expense (note 7)	(1,425)	(1,318)
Earnings for the year	**25,238**	**25,018**
Weighted average shares – basic and diluted (note 8)	30,742,525	30,300,735
Basic and diluted earnings per share (note 8)	**0.82**	**0.83**

The accompanying notes are an integral part of these consolidated financial statements.

Pizza Pizza Royalty Corp.

Consolidated Statements of Comprehensive Earnings
For the years ended December 31, 2015 and 2014
(Expressed in thousands of Canadian dollars)

	December 31, 2015 $	December 31, 2014 $
Earnings for the year	**25,238**	**25,018**
Other comprehensive earnings		
Items reclassified subsequently to net earnings:		
Cash flow hedges (note 12)	1,245	-
Deferred tax impact of cash flow hedges	(263)	-
Items that may be reclassified subsequently to earnings:		
Cash flow hedges	(818)	186
Deferred tax impact of cash flow hedges	184	(38)
Total comprehensive earnings	**25,586**	**25,166**

The accompanying notes are an integral part of these consolidated financial statements.

Pizza Pizza Royalty Corp.

Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2015 and 2014
(Expressed in thousands of Canadian dollars)

	Share capital $	Exchangeable shares $	Accumulated other comprehensive loss $	Deficit $	Total shareholders' equity $
	(note 8)	**(note 6)**			
At December 31, 2014	**212,928**	**86,129**	**(738)**	**(24,346)**	**273,973**
Comprehensive earnings					
Earnings for the year	-	-	-	25,238	25,238
Cash flow hedges	-	-	427	-	427
Deferred tax impact of cash flow hedges	-	-	(79)	-	(79)
Total comprehensive earnings	**-**	**-**	**348**	**25,238**	**25,586**
Transactions with shareholders					
Exchangeable Shares (note 6)	-	6,003	-	-	6,003
Conversion of Exchangeable Shares (note 6 and 8)	29,102	(29,102)	-	-	-
Deferred tax impact of conversion of Exchangeable Shares	-	-	-	(5,649)	(5,649)
Dividends declared to shareholders	-	-	-	(19,703)	(19,703)
Distributions on Class B and Class D Exchangeable Shares	-	-	-	(6,764)	(6,764)
Total transactions with shareholders	**29,102**	**(23,099)**	**-**	**(32,116)**	**(26,113)**
At December 31, 2015	**242,030**	**63,030**	**(390)**	**(31,224)**	**273,446**
At December 31, 2013	**212,928**	**81,227**	**(886)**	**(23,460)**	**269,809**
Comprehensive earnings					
Earnings for the year	-	-	-	25,018	25,018
Cash flow hedges	-	-	186	-	186
Deferred tax impact of cash flow hedges	-	-	(38)	-	(38)
Total comprehensive earnings	**-**	**-**	**148**	**25,018**	**25,166**
Transactions with shareholders					
Exchangeable Shares (note 6)	-	4,902	-	-	4,902
Dividends declared to shareholders	-	-	-	(17,463)	(17,463)
Distributions on Class B and Class D Exchangeable Shares	-	-	-	(8,441)	(8,441)
Total transactions with shareholders	**-**	**4,902**	**-**	**(25,904)**	**(21,002)**
At December 31, 2014	**212,928**	**86,129**	**(738)**	**(24,346)**	**273,973**

The accompanying notes are an integral part of these consolidated financial statements.

Pizza Pizza Royalty Corp.

Consolidated Statements of Cash Flows
For the years ended December 31, 2015 and 2014
(Expressed in thousands of Canadian dollars)

	December 31, 2015 $	December 31, 2014 $
Cash provided by (used in)		
Operating activities		
Earnings for the year	25,238	25,018
Non-cash swap termination costs (note 12)	1,245	-
Amortization of deferred financing fee	38	32
Swap termination cost	(61)	(250)
Off-market swap payments	(318)	-
Deferred tax expense (note 7)	1,425	1,318
Changes in non-cash working capital (note 11)	(404)	(27)
Cash provided by operating activities	**27,163**	**26,091**
Financing activities		
Debt refinancing fees	(38)	-
Dividends paid to shareholders	(19,442)	(17,426)
Distributions paid on Class B and Class D Exchangeable Shares	(6,764)	(8,441)
Cash used in financing activities	**(26,244)**	**(25,867)**
Investing activities		
Proceeds on short-term investments	-	1,000
Acquisition of Rights and Marks associated with the vend-in (notes 3 and 6)	(38)	(1,136)
Cash used in investing activities	**(38)**	**(136)**
Increase in cash and cash equivalents	**881**	**88**
Cash and cash equivalents, beginning of year	**1,355**	**1,267**
Cash and cash equivalents, end of year	**2,236**	**1,355**
Supplementary information		
Interest paid	1,485	1,725

The accompanying notes are an integral part of these consolidated financial statements.

1. General information

The Pizza Pizza Royalty Corp. (the "Company"), formerly Pizza Pizza Royalty Income Fund (the "Fund"), is governed by the Business Corporations Act (Ontario) pursuant to its articles of incorporation dated April 4, 2012 and articles of arrangement dated December 31, 2012. The Company's common shares are traded on the Toronto Stock Exchange under the stock symbol PZA. The Company is incorporated and domiciled in Canada and the address of its registered office is 500 Kipling Avenue, Toronto, Ontario, Canada.

The Company acquired, through the Pizza Pizza Royalty Limited Partnership (the "Partnership"), the trademarks, trade names, operating procedures, systems and other intellectual property and proprietary rights associated therewith owned by Pizza Pizza Limited ("PPL") used in connection with the operation of all restaurants operated by PPL, its subsidiaries and its franchisees (collectively, the "Pizza Pizza Rights and Marks").

Concurrent with the acquisition of the Pizza Pizza Rights and Marks on July 6, 2005, the Partnership granted PPL an exclusive and unlimited licence to use the Pizza Pizza Rights and Marks 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 Pizza Pizza Licence and Royalty Agreement.

On July 24, 2007, the Company, through the Partnership, acquired the trademarks, trade names, operating procedures and systems and other intellectual property and proprietary rights owned by Pizza 73, Inc. and its affiliated companies (together, "Pizza 73") used in connection with the operation of all restaurants operated by Pizza 73, and its partners (collectively, the "Pizza 73 Rights and Marks").

Concurrent with the acquisition of the Pizza 73 Rights and Marks, the Partnership granted PPL an exclusive and unlimited licence to use the Pizza 73 Rights and Marks for an initial term of 99 years for which PPL pays a royalty equal to 9% of system sales from all Pizza 73 restaurants in the Royalty Pool, as defined in the Pizza 73 Licence and Royalty Agreement.

As at December 31, 2015, there were 630 Pizza Pizza restaurants (December 31, 2014 – 629) and 100 Pizza 73 restaurants (2014 – 93) in the Royalty Pool; the Royalty Pool is adjusted annually on January 1.

The Company pays monthly dividends directly to public shareholders. For the year ended December 31, 2015, the Company declared dividends of $0.8155 per share (2014 - $0.8004 per share).

PPL, a privately owned corporation headquartered in Toronto, Ontario, operates in the food service industry primarily throughout Ontario and Alberta, and primarily franchises and operates quick-service restaurant businesses under the Pizza Pizza and Pizza 73 brands. PPL derives revenues from franchisees through the sale of franchise restaurants, food and supplies, and royalties. PPL also derives revenues from company owned and jointly controlled restaurants through the sale of food products to retail customers. The Company's revenues are earned from certain operations of PPL and, accordingly, the revenues of the Company and its ability to pay dividends to shareholders are dependent on the ability of PPL to generate and pay royalties to the Company.

Historically, PPL's system sales experience a decrease in the first calendar quarter when compared to the fourth quarter, which has historically been the strongest quarter.

2. Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented unless otherwise stated.

a. Basis of preparation

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The policies applied in these consolidated financial statements are based on IFRS standards, which have been applied consistently to all periods presented. These consolidated financial statements were issued and effective as at March 4, 2016, the date the Board of Directors approved the consolidated financial statements.

b. Future changes in accounting policy and disclosure

Standards, amendments and interpretations to existing standards that are not yet effective and have not yet been early adopted by the Company:

IFRS 9, Financial Instruments ("IFRS 9")
International Financial Reporting Standard ("IFRS") 9, Financial Instruments, as issued in 2014, introduces new requirements for the classification and measurement of financial instruments, a new expected-loss impairment model that will require more timely recognition of expected credit losses and a substantially reformed model for hedge accounting, with enhanced disclosures about risk management activity. IFRS 9 also removes the volatility in profit or loss that was caused by changes in an entity's own credit risk for liabilities elected to be measured at fair value. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Company has not yet begun the process of evaluating the impact of this standard on its consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")
In May 2014, the International Accounting Standards Board ("IASB") issued IFRS 15, which covers principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. On July 22, 2015, the IASB confirmed a one-year deferral of the effective date of the revenue Standard to January 1, 2018. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

IFRS 16, Leases ("IFRS 16")
In January 2016 the IASB has issued IFRS 16, Leases, its new leases standard that requires lessees to recognize assets and liabilities for most leases on their balance sheets. Lessees applying IFRS 16 will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The new standard will be effective from January 1, 2019 with limited early application permitted. The Company has not yet begun the process of evaluating the impact of this standard on its consolidated financial statements.

(Expressed in thousands of Canadian dollars, except number of shares and per share amounts)

c. Consolidation

The consolidated financial statements incorporate the assets and liabilities of the Company and its subsidiaries as at December 31, 2015 and 2014 and the results of these subsidiaries for the years ended December 31, 2015 and 2014. The Company's subsidiaries and its respective holding at December 31, 2015 and 2014 are outlined below:

Subsidiary	December 31, 2015	December 31, 2014
Pizza Pizza GP Inc.	80.1%	72%
Pizza Pizza Royalty Limited Partnership	80.1%	72%

An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Furthermore, an investor controls an investee if and only if the investor has all the following: power over the investee; exposure, or rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company and de-consolidated from the date that control ceases. Inter-entity transactions, balances and unrealized gains/losses on transactions between entities are eliminated. There are no unconsolidated structured entities.

d. Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Company operates (the functional currency). These consolidated financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency and is also the functional currency of each of the Company's subsidiaries.

e. Financial assets and liabilities

A financial asset or liability is recognized if the Company becomes a party to the contractual provisions of the asset or liability. A financial asset or liability is recognized initially (at trade date) at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the instrument. Financial assets and liabilities carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the consolidated income statement.

After initial recognition, financial assets are measured at their fair values, except for loans and receivables and held-to-maturity financial assets, which are measured at amortized cost. After initial recognition, financial liabilities are measured at amortized cost except for financial liabilities at fair value through profit or loss which are measured at fair value.

The Company classifies its financial assets and liabilities according to their characteristics and management's choices and intentions related thereto for the purposes of ongoing measurement.

Classification choices for financial assets include:

i) Fair value through profit or loss - measured at fair value with changes in fair value recorded in the consolidated income statement;
ii) Held to maturity - recorded at amortized cost with gains and losses recognized in the consolidated income statement in the period that the asset is no longer recognized or impaired;

iii) Available for sale - measured at fair value with changes in fair value recognized in other comprehensive income for the current period until realized through disposal or impairment; and
iv) Loans and receivables - recorded at amortized cost with gains and losses recognized in profit for the year in the period that the asset is no longer recognized or impaired.

Classification choices for financial liabilities include:
i) Fair value through profit or loss - measured at fair value with changes in fair value recorded in the consolidated income statement; and
ii) Other financial liabilities - measured at amortized cost with gains and losses recognized in the consolidated income statement in the period that the liability is no longer recognized.

The Company's financial assets and liabilities are classified and measured as follows:

Assets/liabilities	**Category**	**Measurement**
Cash and cash equivalents	Loans and receivables	Amortized cost
Short-term investment	Loans and receivables	Amortized cost
Receivable from Pizza Pizza Limited	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost
Payable to Pizza Pizza Limited	Other financial liabilities	Amortized cost
Dividends/Distributions payable to shareholders	Other financial liabilities	Amortized cost
Borrowings	Other financial liabilities	Amortized cost
Derivative financial instruments	Derivative used for hedging	Fair value

Financial assets are derecognized if the Company’s contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognized if the Company’s obligations specified in the contract expire or are discharged or cancelled.

f. Impairment of financial assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets, other than those at fair value through profit or loss, is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the financial asset’s original effective interest rate. The asset’s carrying amount is reduced and the amount of the loss is recognized in the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment losses are reversed.

g. Derivative financial instruments and hedging activities

Derivative financial instruments include interest rate swaps and are initially measured at fair value on the date the derivative contract is entered into and are subsequently re-measured at each reporting date at their fair value. The Company designates its interest rate swaps as cash flow hedges.

The Company documents, at the inception of the transaction, the relationship between the hedging instrument and the hedged item, as well as its risk management objectives and strategy for undertaking the hedging transaction. The Company also documents its assessment, both at inception and at each reporting date, of whether the derivative that is used has been highly effective in offsetting cash flows of hedged items.

The changes in fair value of the interest rate swaps are included in other comprehensive earnings to the extent the hedge continues to be highly effective. The related other comprehensive earnings amounts are allocated to the Consolidated Statements of Earnings in the same period in which the hedged item affects net earnings. To the extent the change in fair value of the derivative financial instruments is not completely offset by the change in the fair value of the hedged item, the ineffective portion of the hedging relationship is recorded immediately in the Consolidated Statements of Earnings.

The fair value of the interest rate swaps is estimated based on the standard swap valuation methodology; that is, the value of the swap is calculated as the difference between the present values of the future cash flows associated with the floating-receive leg and the fixed-pay leg.

h. Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term deposits with a maturity at acquisition of less than 90 days.

i. Short-term investments

The short-term investments include amounts invested in Guaranteed Investment Certificates with a maturity at acquisition between 90 and 365 days.

j. Trade and other receivables

Trade and other receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

k. Pizza Pizza and Pizza 73 Rights and Marks

Rights and Marks that have an indefinite life are recorded at cost and are not being amortized. Management considers the Pizza Pizza and Pizza 73 Rights and Marks to be indefinite lived assets. Indefinite lived intangible assets principally comprise those trademarks for which there is no foreseeable limit to the period over which they are expected to generate net cash inflows. Rights and Marks are considered to have an indefinite life given the strength and durability of the brands and the level of marketing support. Brands that are classified as indefinite have been in the market for many years, and the nature of the industry PPL operates in is such that brand obsolescence is not common if appropriately supported by advertising and marketing spending.

A description of each of the Rights and Marks is as follows:

Pizza Pizza Rights and Marks
The Rights and Marks include the Pizza Pizza Marks and all goodwill associated therewith and the copyrights, the trade names, trade secrets, methods, systems and procedures for the construction, design or operation of Pizza Pizza restaurants using certain types of equipment, supplies, ingredients, recipes, merchandising, advertising and business techniques, together with the rights to order phone numbers and

order website domain names that are currently owned by PPL and used in connection with the operation of Pizza Pizza restaurants.

The Marks include all trademarks that are registered or the subject of pending applications for registration under the Trade-marks Act (Canada) and other unregistered trademarks used in connection with the Pizza Pizza restaurant businesses.

Pizza 73 Rights and Marks
The Rights and Marks include all intellectual property rights, whether registered or not, including the Pizza 73 Marks and all goodwill associated therewith, all know-how and related technical knowledge and all other proprietary rights pertaining to or used in connection with the Pizza 73 business, including all copyrights, trade names, business names, trade secrets, confidential information, uniform standards, methods, systems and procedures for establishment, construction, design, operation or marketing of Pizza 73 Restaurants using certain types of equipment, supplies, ingredients, recipes, merchandising, advertising and business techniques, together with the rights to order phone numbers and order website domain names that are currently owned by Pizza 73 and used in connection with the operation of Pizza 73 Restaurants, and all copyrights in the operations manuals and similar manuals or documents for the Unit Companies, as amended from time to time, as well as all copyrights in all menus and advertising and promotional materials.

The Marks include all trademarks that are registered or the subject of pending applications for registration under the Trade-marks Act (Canada) and other unregistered trademarks, trade dress, distinguishing guises, logos, slogans, brand names, domain names, commercial symbols and other indicia of origin used in connection with the Pizza 73 business.

l. Impairment of Rights and Marks

The Rights and Marks have an indefinite useful life, are not subject to amortization and are tested annually for impairment or more frequently if there are indications that the asset may be impaired. If the estimated recoverable amount of the Rights and Marks is less than their carrying amount, the Rights and Marks are written down to their estimated recoverable amount and an impairment loss is recognized in the Consolidated Statement of Earnings. The recoverable amount of the Rights and Marks is the higher of their fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units or CGUs). There are two CGUs: Pizza Pizza restaurants and Pizza 73 restaurants.

Rights and Marks on which an impairment had previously been recorded are reviewed for possible reversal of the impairment at each reporting date.

m. Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less.

n. Borrowings

Borrowings are initially recognized at fair value net of any financing fees. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for more than 12 months. After initial recognition, borrowings are carried at amortized cost with any difference between the proceeds (net of financing fees) and the redemption value recognized in the Consolidated Statements of Earnings over the period of the borrowing using the effective interest method.

o. Exchangeable Shares

The Class B Units and Class D Units qualify as equity under IAS 32 and are economically equivalent to, and exchangeable into, the common shares of the Company ("Exchangeable Shares"). Therefore, Exchangeable Shares are presented as part of parent equity.

p. Income taxes

Income tax expense for the year is comprised of current and deferred tax. Income tax is recognized in the Consolidated Statements of Earnings except to the extent it relates to items recognized in other comprehensive income or directly in equity.

Current income tax
Current income tax expense is based on the profit for the year as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were substantively enacted at the end of the reporting year. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax
Deferred tax is recognized using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the consolidated balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled. The measurement of deferred tax assets and liabilities reflect the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority where there is an intention to settle the balances on a net basis.

q. Revenue recognition

Royalty income is recognized on an accrual basis equal to 6% of reported sales from specific Pizza Pizza restaurants and 9% of reported sales from specific Pizza 73 restaurants (collectively the "Royalty Pool") provided that it is probable that the economic benefits will flow to the Company and the amount can be measured reliably.

Interest income is recognized using the effective interest rate method.

r. Dividends to shareholders

The amount of dividends is determined with reference to distributable cash, which is calculated as earnings for the year adjusted for non-cash charges less payment of interest on the borrowings and current income tax expense. Dividends to shareholders are recorded when declared, and paid monthly.

(Expressed in thousands of Canadian dollars, except number of shares and per share amounts)

s. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Board of Directors is the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segment. The Company has determined that it has one operating segment being the receipt of royalty income from the ownership of the Pizza Pizza and Pizza 73 Rights and Marks.

t. Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next period are addressed below.

i. Impairment of Rights and Marks
Determining whether the Rights and Marks are impaired requires an estimation of the recoverable amount of the cash generating unit in which the assets are included. The value-in-use calculation requires that the Company estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. The significant estimates and assumptions used in the impairment tests performed at December 31, 2015 and December 31, 2014 are disclosed in note 3.

ii. Consolidation
Determining whether the Partnership is consolidated by the Company or PPL requires judgment. The significant judgments that were used to apply IFRS 10 included assessing which party had the power or current ability to direct decisions over the value creation and maintenance of the Pizza Pizza Rights and Marks and Pizza 73 Rights and Marks in the context of the purpose and design of the Partnership. Based on an assessment of the activities of the Partnership it was concluded that the Company controls the Partnership, and therefore consolidates its operations.

iii. Fair value of derivatives
The fair value of the interest rate swaps that are not traded in an active market is determined using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

3. Pizza Pizza and Pizza 73 Rights and Marks

	Pizza Pizza Rights and Marks $	Pizza 73 Rights and Marks $	Total $
December 31, 2013	**252,023**	**69,513**	**321,536**
Accretion of value – January 1, 2014 vend-in	5,010	1,420	6,430
Accretion of value – January 1, 2013 true-up	(108)	-	(108)
Net book value at December 31, 2014	**256,925**	**70,933**	**327,858**
Accretion of value – January 1, 2015 vend-in	2,457	1,216	3,673
Accretion of value – January 1, 2014 true-up	2,330	38	2,368
Net book value at December 31, 2015	**261,712**	**72,187**	**333,899**

(Expressed in thousands of Canadian dollars, except number of shares and per share amounts)

The Company, through its interest in the Partnership, acquired the Pizza Pizza Rights and Marks used in the Pizza Pizza quick service restaurant business in Canada in July 2005. Funding for the purchase came from the completion of the Fund's initial public offering in July 2005 and from proceeds of the term loan. Concurrent with the acquisition of the Pizza Pizza Rights and Marks, the Partnership granted PPL an exclusive and unlimited licence to use the Pizza Pizza Rights and Marks for an initial term of 99 years, for which PPL pays a royalty equal to 6% of system sales for all Pizza Pizza restaurants in the Royalty Pool, as defined in the Licence and Royalty Agreement.

In July 2007, the Company, through its interest in the Partnership, acquired the Pizza 73 Rights and Marks from Pizza 73. The purchase was funded by a public and private placement of Fund units and proceeds from the term loan. Concurrent with the acquisition of the Pizza 73 Rights and Marks, the Partnership granted PPL an exclusive and unlimited licence to use the Pizza 73 Rights and Marks for an initial term of 99 years, for which PPL pays a royalty equal to 9% of system sales of all Pizza 73 restaurants included in the Royalty Pool, as defined in the Licence and Royalty Agreement.

Annually, on January 1 (the "Adjustment Date"), the Royalty Pool is adjusted to include the forecasted system sales from new Pizza Pizza restaurants opened on or before December 31 of the prior year, less system sales from any Pizza Pizza restaurants that have been permanently closed during the year. Similarly, on the Adjustment Date, the Royalty Pool is adjusted to include the forecasted system sales from new Pizza 73 restaurants opened on or before September 1 of the prior year, less any Pizza 73 restaurants permanently closed during the calendar year. In return for adding net additional royalty revenue, PPL receives the right to indirectly acquire additional shares of the Company through an adjustment to the Class B and Class D Exchange Multiplier (see note 6).

As a result of adding new restaurants to the Royalty Pool on January 1, 2015, as described in note 6, the Rights and Marks increased by $3,673 in 2015 and increased $2,368 related to the January 1, 2014 true-up (December 31, 2014 – $6,322).

Impairment test on the Rights and Marks

The Company performed impairment tests for both the Pizza Pizza and Pizza 73 Rights and Marks at December, 31, 2015 and 2014 in accordance with the accounting policy as described in note 2. The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations used cash flow projections based on financial budgets approved by management covering a one year period and extrapolated for three years. Cash flows beyond the four year period are estimated using a terminal growth rate as stated below.

The key assumptions used for the value-in-use calculation as at December 31, 2015 were as follows:

	Terminal Growth rate	Pre-tax discount rate
Pizza Pizza CGU	2.5%	9.8%
Pizza 73 CGU	2.5%	10.2%

The key assumptions used for the value-in-use calculation as at December 31, 2014 were as follows:

	Terminal Growth rate	Pre-tax discount rate
Pizza Pizza CGU	2.5%	10.0%
Pizza 73 CGU	2.5%	10.0%

The impairment tests performed resulted in no impairment of the Rights and Marks as at December 31, 2015 or 2014.

(Expressed in thousands of Canadian dollars, except number of shares and per share amounts)

4. Trade and Other Payables

	December 31, 2015 $	December 31, 2014 $
Accruals	171	57
Other payables	316	310
Total trade and other payables	**487**	**367**

5. Borrowings

	December 31, 2015 $	December 31, 2014 $
Borrowings	47,000	47,000
Less: deferred financing fees	63	66
Total borrowings	**46,937**	**46,934**

The borrowings are a committed, non-revolving, five-year facility maturing on April 24, 2020, and were used to finance a portion of the acquisition costs of the Pizza Pizza Rights and Marks in 2005 and the Pizza 73 Rights and Marks in 2007. As security for repayment of the facility, PPL grants a continuing, general security interest subject to certain exceptions, in all present and acquired property of PPL which may not be assigned without the prior consent of PPL. The facility bears interest at a fixed Bankers' Acceptance rate plus 0.875% to 1.375%, depending on the level of certain covenant calculations. The previous credit facility was scheduled to mature on December 6, 2016; however, it was renewed early on April 24, 2015. Concurrent with the renewal, the Partnership terminated its then existing swap agreements and entered into two new interest rate swap agreements that fixed the facility interest rate until April 2020 at the Bankers' Acceptance rate of 1.875% plus a credit spread that was initially set at 0.875%. Included in the Bankers' Acceptance rate of 1.875% is 0.6% which relates to blending and extending the two previous swaps agreements.

Interest expense incurred on borrowings for the year ended December 31, 2015 amounted to $1,144 (December 31, 2014 – $1,757). Principal repayments on borrowings of $47,000 are due on April 24, 2020.

The effective interest rate as at December 31, 2015 on the $47,000 was 2.75% (December 31, 2014 – 4.12%). The facility is subject to certain financial covenants, all of which have been met as at December 31, 2015 and 2014.

The borrowings are held within the Partnership and therefore the financial covenants for the borrowings pertain only to the results of the Partnership and not the Company.

6. Exchangeable Shares

As at December 31, 2015, PPL, indirectly, holds an effective 19.9% interest in the Company (December 31, 2014 – 28.0%) by holding all Class B and Class D Units of the Partnership. Subject to the Amended and Restated Exchange Agreement, PPL has the right to exchange one Class B or Class D Unit indirectly for that number of shares equal to the Class B Exchange Multiplier or Class D Exchange Multiplier, respectively, 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".

(Expressed in thousands of Canadian dollars, except number of shares and per share amounts)

On March 23, 2015, PPL entered into an underwriting agreement for the sale by PPL of 2,800,000 common shares of the Company. In order to provide the 2,800,000 common shares to the underwriters, PPL exchanged 1,564,889 Class B Units of the Partnership, applying the Class B Exchange Multiplier of 1.789264. As a result of this transaction, PPL's interest in the Company has decreased from 29.0% to 19.9%.

Subject to the prior rights of the Company's ownership of Class C Limited Partnership units, PPL's ownership of Class B and Class D Units are entitled to receive monthly distributions and the Company's Class A Limited Partnership units receive the remaining available, monthly distributable cash.

The equivalent number of Class B and Class D Exchangeable Shares outstanding are as follows:

	Number of Class B Exchangeable Shares	Number of Class D Exchangeable Shares	Total Number of Exchangeable Shares	Amount $
At December 31, 2013	**6,567,813**	**1,548,071**	**8,115,884**	**81,227**
Add: January 1, 2014 vend-in	377,240	-	377,240	5,010
Less: January 1, 2013 true-up	(10,781)	-	(10,781)	(108)
At December 31, 2014	**6,934,272**	**1,548,071**	**8,482,343**	**86,129**
Add: January 1, 2015 vend-in	178,183	88,162	266,345	3,673
Add: January 1, 2014 true-up	175,445	-	175,445	2,330
Less: March 23, 2015 conversion	(2,800,000)	-	(2,800,000)	(29,102)
At December 31, 2015	**4,487,900**	**1,636,233**	**6,124,133**	**63,030**

The carrying values of Class B and Class D Exchangeable Shares are considered as one pool, and accordingly upon conversion to Shares, have been reduced on a proportionate basis to reflect the reduction in PPL's ownership interest in the Company.

a. 2014 Royalty Pool Adjustment

In early January 2015, adjustments to royalty payments and PPL's Class B Exchange Multiplier were made based on the actual performance of the 30 new restaurants added to the Royalty Pool on January 1, 2014. As a result of the adjustments, the new Class B Exchange Multiplier is 1.745518 and Class B Units can be exchanged for 7,109,717 shares, which is an increase of 175,445 common shares, effective January 1, 2014.

In early January 2015, adjustments to royalty payments and PPL's Class D Exchange Multiplier were made based on the actual performance of the four Pizza 73 restaurants added to the Royalty Pool on January 1, 2014. As a result of the adjustments, the Class D Exchange Multiplier is unchanged and the final cash payment in-lieu of increasing the multiplier is $322, of which $284 was accrued based on the initial forecast at December 31, 2014.

b. 2015 Royalty Pool Adjustment – Class B Exchange Multiplier

On January 1, 2015, one net Pizza Pizza restaurant was added to the Royalty Pool as a result of 23 new restaurants opening and 22 closing from January 1, 2014 to December 31, 2014. The additional system sales from the 23 new restaurants are estimated at $8,950 annually less sales of $4,899 from 22 permanently closed Pizza Pizza restaurants resulting in net estimated Pizza Pizza sales of $4,051 added to the Royalty Pool. The total number of Pizza Pizza restaurants in the Royalty Pool has increased to 630. The yield of the shares was determined to be 5.80% calculated using $13.79 as a weighted average share price. Weighted average share price is calculated based on the market price of the shares traded on the

Toronto Stock Exchange during the period of twenty consecutive days ending on the fifth trading day before January 1, 2015. As a result of the contribution of the additional net sales to the Royalty Pool, the Class B Exchange Multiplier increased fractionally by 80% of the total adjustment or 0.043746; the new Class B Multiplier is 1.789264. 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 was adjusted to be effective January 1, 2015, once the actual performance of the new restaurants was determined in early 2016. See “Subsequent Events – Note 13

c. 2015 Royalty Pool Adjustment – Class D Exchange Multiplier

On January 1, 2015, seven net Pizza 73 restaurants were added to the Royalty Pool as a result of eight new restaurants opening September 2, 2013 and September 1, 2014 and one restaurant closing between January 1, 2014 and December 31, 2014. The forecasted additional system sales from the eight new restaurants are estimated at $1,870 annually less $534 in system sales attributable to the one closed restaurant and the final step-out adjustment for one restaurant added to the Royalty Pool whose territory adjusted a previously existing restaurant. The total number of Pizza 73 restaurants in the Royalty Pool has increased to 100. The yield of and the weighted average share price used in the calculation of the Class D multiplier were determined in the same manner as that of the Class B multiplier calculation at 5.80% and $13.79, respectively. As a result of the contribution of the additional net sales to the Royalty Pool, the Class D Exchange Multiplier increased fractionally by 80% of the total adjustment or 0.88162; the new Class D Multiplier is 16.36233. 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 was adjusted to be effective January 1, 2015, once the actual performance of the new restaurants was determined in early 2016. See “Subsequent Events – Note 13

d. Pizza Pizza Royalty Corp. Outstanding Shares

In exchange for adding the forecasted Pizza Pizza system sales to the Royalty Pool, PPL has received 178,183 additional equivalent Shares (through the change to the Class B Exchange Multiplier). These represent 80% of the forecasted equivalent Shares entitlement to be received (222,729 equivalent Shares represent 100%), with the final equivalent Shares entitlement to be determined when the new restaurants’ 2015 actual sales performance is known with certainty in early 2016.

In exchange for adding the forecasted Pizza 73 system sales to the Royalty Pool, PPL has received 88,162 additional equivalent Shares (through the change to the Class D Exchange Multiplier). These represent 80% of the forecasted equivalent Shares entitlement to be received (110,202 equivalent Shares represent 100%), with the final equivalent Shares entitlement to be determined when the new restaurants’ 2015 actual sales performance is known with certainty in early 2016.

After giving effect to PPL’s entitlement to additional equivalent Shares at January 1, 2015, PPL owned equivalent Shares representing 29.0% of the Company’s fully diluted shares on January 1, 2015.

(Expressed in thousands of Canadian dollars, except number of shares and per share amounts)

7. Income Taxes

The provision for income taxes differs from that which would be obtained by applying the statutory rate as a result of the following:

	December 31, 2015 $	December 31, 2014 $
Earnings for the year before income taxes	31,795	30,671
Combined Canadian federal and provincial rate	26.5%	26.5%
Computed expected income tax expense	**8,426**	**8,128**
Earnings not taxable in the Company	(1,800)	(2,308)
Other	(69)	(167)
Income tax expense	**6,557**	**5,653**

The components of the deferred tax liability are as follows:

	December 31, 2015 $	December 31, 2014 $
Pizza Pizza and Pizza 73 Rights and Marks	16,832	9,825
Deferred financing fees	6	6
Interest rate swap	(94)	(239)
Deferred tax liability	**16,744**	**9,592**

An analysis of the deferred tax liabilities is as follows:

	December 31, 2015 $	December 31, 2014 $
Deferred tax liabilities to be settled after more than a year	16,738	9,586
Deferred tax liabilities to be settled within a year	6	6
Deferred tax liability	**16,744**	**9,592**

The movement in the deferred tax liabilities is as follows:

	December 31, 2015 $	December 31, 2014 $
Opening balance – deferred tax liability	9,592	8,235
Change in Other Comprehensive Income – interest rate swap	79	38
Deferred tax impact of conversion of exchangeable shares	5,649	-
Change in temporary differences	1,424	1,319
Deferred tax liability	**16,744**	**9,592**

(Expressed in thousands of Canadian dollars, except number of shares and per share amounts)

8. Share capital

a. Authorized

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preference shares, issuable in series. As at December 31, 2015, 24,618,392 common shares and no preference shares are issued and fully paid. Each common share carries the right to one vote at meetings of shareholders, other than meetings of holders of another class of shares, and to participate equally and rateably in dividends of the Company, if any, and in the remaining property and assets of the Company upon its liquidation, dissolution or wind-up. Each series of preference shares issued shall have rights, privileges, restrictions and conditions as determined by the Board of Directors prior to their issuance. Preference shares may carry voting rights as determined by the Board and are entitled to a preference over the common shares in the remaining property and assets of the Company in the event of its liquidation, dissolution or wind-up.

b. Issued

On March 23, 2015, the Company issued 2,800,000 common shares through a private placement by Pizza Pizza Limited as part of the conversion of 1,564,889 Class B Partnership Units, equivalent to 2,800,000 common shares of the Company when applied against the Class B Exchange Multiplier. The common shares were not issued for cash consideration, but for a greater entitlement to the income of the Partnership. As at December 31, 2015, a total of 24,618,392 common shares, valued at $242,030, were issued, fully paid and outstanding. The following is a summary of the activity during the year ended:

	December 31, 2015		December 31, 2014	
Shareholders' capital	Number of Shares	Amount $	Number of Shares	Amount $
Shares, beginning of year	21,818,392	212,928	21,818,392	212,928
Private offering on March 23, 2015	2,800,000	29,102	-	-
Shares, end of year	**24,618,392**	**242,030**	**21,818,392**	**212,928**

The Company's objective when managing capital, which remained unchanged, is to:

i) Safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
ii) Provide an adequate return to shareholders while maintaining adequate reserves; and
iii) Ensure sufficient liquidity to pursue its growth strategy while taking a conservative approach towards financial leverage and management of financial risk.

The Company evaluates its capital as all components of equity, other than amounts in accumulated other comprehensive loss relating to the cash flow hedge.

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

c. Earnings per Share

The basic earnings per share is calculated by dividing earnings for the year by the weighted average number of shares outstanding during the year. The denominator in basic earnings per share includes PPL's Class B and Class D Exchangeable Shares, since they are exchangeable into and economically equivalent to the Company's common shares. There were no potentially dilutive instruments outstanding in the years ended December 31, 2015 and 2014.

The following table illustrates the computation of basic and diluted earnings per share for the years ended:

	December 31, 2015	December 31, 2014
Weighted average number of:		
Common shares	23,997,022	21,818,392
Exchangeable Shares (note 6)	6,745,503	8,482,343
Weighted average number of shares outstanding – basic and diluted	30,742,525	30,300,735
Basic and diluted earnings per share	**$0.82**	**$0.83**

9. Royalty income

Royalty income earned by the Company has been derived as shown in the table below for the years ended:

	December 31, 2015	December 31, 2014
(in thousands of dollars, except number of restaurants in the Royalty Pool)		
Restaurants in Royalty Pool	730	722
System sales reported by Pizza Pizza restaurants in the Royalty Pool	441,226	415,719
System sales reported by Pizza 73 restaurants in the Royalty Pool	92,608	89,670
Total system sales	**533,834**	**505,389**
Royalty – 6% on Pizza Pizza system sales	26,473	24,943
Royalty – 9% on Pizza 73 system sales	8,335	8,070
Royalty income	**34,808**	**33,013**

System sales do not represent the consolidated operating results of the Company but are used to calculate the royalty income as presented above.

10. Related party transactions and balances

PPL is a related party by virtue of holding Class B and Class D Exchangeable Shares that are exchangeable into Shares of the Company. Disclosure related to these Shares is provided in note 6.

PPL, pursuant to the Partnership Agreement, is providing certain administrative services to the Company. The fee for these services, which on an annual basis shall not exceed $25, has been waived for the year.

The Company has a receivable from PPL as at December 31, 2015 of $3,381 (December 31, 2014 - $3,074) and a payable to PPL as at December 31, 2015 of $590 (December 31, 2014 - $1,257). This receivable relates to royalty amounts receivable from the Royalty Pool system sales, while the payable to PPL relates to distributions payable to PPL by virtue of holding Class B and Class D Exchangeable Shares and other expenses paid by PPL on behalf of the Partnership.

(Expressed in thousands of Canadian dollars, except number of shares and per share amounts)

Transactions with related parties are in the normal course of operations. No amount of related party balances were written off during the years ended December 31, 2015 and 2014.

11. Statements of Cash Flows information

Changes in non-cash working capital are as follows:

	December 31, 2015 $	December 31, 2014 $
Receivable from Pizza Pizza Limited	(307)	(129)
Trade and other receivables	(45)	25
Trade and other payables	120	23
Payable to Pizza Pizza Limited	(667)	57
Income taxes payable	495	(3)
	(404)	**(27)**

12. Financial risk management

Fair value

The following table presents the carrying amount and the fair value of the Company's financial instruments. Amortized cost is calculated using the effective interest rate method. Fair value is estimated as disclosed below. These amounts represent point-in-time estimates and may not reflect fair value in the future. These calculations are subjective in nature, involve uncertainties and are a matter of significant judgment. The only financial instruments carried at fair value in the consolidated statements of financial position are the derivative financial instruments.

The carrying amounts of the cash and cash equivalents, receivable from PPL, trade and other receivables, trade and other payables and dividends payable to shareholders all approximate their fair value given the short-term maturity of these financial instruments.

The carrying value and fair value of all financial instruments are as follows:

		December 31, 2015		December 31, 2014	
	Category	Carrying value $	Fair value $	Carrying value $	Fair value $
Cash and cash equivalents	L&R	2,236	2,236	1,355	1,355
Short-term investments	L&R	2,750	2,750	2,750	2,750
Receivable from Pizza Pizza Limited	L&R	3,381	3,381	3,074	3,074
Trade and other receivables	L&R	120	120	75	75
Trade and other payables	OFL	487	487	367	367
Dividends payable to shareholders	OFL	1,716	1,716	1,455	1,455
Payable to Pizza Pizza Limited	OFL	590	590	1,257	1,257
Borrowings	OFL	46,937	47,000	46,934	47,000
Derivative financial instruments	DFH	1,688	1,688	1,251	1,251

Financial instruments category guide:

L&R - Loans and receivables
DFH - Derivatives used for hedging
OFL - Other financial liabilities

The different fair value hierarchy levels are as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical financial assets or financial liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the financial asset or financial liability, either directly or indirectly; and
- Level 3: Inputs for the financial asset or financial liability that is not based on observable market data.

As at December 31, 2015, inputs used to fair value the derivative financial instruments were Level 2 and based on observable inputs available for similar assets and liabilities in the active markets as provided by sources independent from the Company.

The fair value of the borrowings was determined using the discounted cash flow method, a generally accepted valuation technique. The discount factor is based on market rates for debt with similar terms and remaining maturities and based on the Company's credit risk. The Company has no plans to prepay these instruments prior to maturity. The valuation is determined using Level 2 inputs which are observable inputs or inputs which can be corroborated by observable market data for substantially the full term of the asset or liability.

Credit risk

The Company is exposed to credit risk in the event of non-payment by PPL and due to the fact that PPL's operations are all within the same segment, commercial food services. The credit risk is mitigated since monthly royalty payments are received from PPL 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 monthly distributions to the Company on its Class A and C Limited Partnership units and to fund distributions to PPL on its Class B and D Partnership units. All trade and other receivables and the amount receivable from PPL are current and no amounts have been written off or provided for during the year.

Credit risk also arises from cash and cash equivalents and derivative financial instruments with banks and financial institutions. The Company places its cash and cash equivalents and transacts in derivative financial instruments with institutions of high creditworthiness.

Maximum credit risk exposure which is equivalent to the carrying amount represents the loss that would be incurred if all of the Company's counterparties were to default at the same time.

Liquidity risk

The Company is subject to liquidity risk with respect to trade and other payables, borrowings, provision for other charges and funding the distributions payable to Company shareholders. The Company receives monthly royalties from PPL and the Company 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 royalties.

The dividends payable to Company shareholders and trade and other payables are expected to be paid within 30 days of the consolidated statements of financial position date.

(Expressed in thousands of Canadian dollars, except number of shares and per share amounts)

Interest rate risk

The Company's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk, which is offset by entering into interest rate swaps that fix the interest payable.

The Company's swaps were blended and extended into two new swap arrangements on April 24, 2015, concurrent with the credit facility renewal. The new swaps will obligate the Partnership to pay the swap counterparties an amount based on a fixed interest rate of 1.875% per annum, plus the current credit spread of 0.875%. Included in the Bankers' Acceptance rate of 1.875% is 0.6% which relates to blending and extending the two previous swaps agreements. The terms of the hedging relationship will end in April 2020. The previous swaps, which were in effect until April 23, 2015, obligated the Partnership to pay the swap counterparties an amount based on a fixed interest rate of 2.87% per annum, which includes the 0.53% termination cost, plus the current credit spread of 1.25%. The swap counterparties will be obligated to pay the Partnership an amount equal to the Canadian Banker's Acceptance rate.

When the previous swap arrangements were blended and extended in April 2015, there was a cumulative, negative mark-to-market value totalling $1,245. This amount represents the ineffective portion of the terminated swaps, and has been moved from other comprehensive income to the Consolidated Statements of Earnings.

The designated hedging relationship was effective as of December 31, 2015.

The interest rate swaps eliminate the Company's cash flow interest rate risk by fixing the rate of interest that is paid on the borrowings. However, the Company is still exposed to fair value interest rate risk as a result of fair value movements in the value of the interest rate swaps that are recorded in other comprehensive earnings to the extent that the interest rate swaps are highly effective as cash flow hedges. If interest rates changed by plus/minus 10% of the existing rate, total comprehensive earnings and equity would change by plus/minus $373 as at December 31, 2015 (December 31, 2014 - $242) based on movements in the fair value of the interest rate swaps.

13. Subsequent Events

The chart below shows the Company shares that would be outstanding if all of the Class B and Class D Units held by PPL were converted to Company shares after accounting for their respective multipliers.

Shares outstanding & issuable on January 1, 2016		
Shares outstanding		24,618,392
Class B equivalent Shares held by PPL at December 31, 2015	4,487,900	
PPL additional Class B equivalent Shares - True-up Holdback as at December 31, 2015	17,641	
Additional PPL Class B equivalent Shares as of January 1, 2016	54,001	4,559,542
Class D equivalent Shares held by PPL at December 31, 2015	1,636,233	
PPL additional Class D equivalent Shares - True-up Holdback as at December 31, 2015	71,099	
Additional PPL Class D equivalent Shares as of January 1, 2016	35,975	1,743,307
Number of fully diluted shares		30,921,241
PPL's proportion of all shares outstanding and available for exchange		20.4%

a. Pizza Pizza Royalty Corp. Outstanding Shares

In exchange for adding the forecasted Pizza Pizza system sales to the Royalty Pool, PPL has received 54,001 additional equivalent Shares (through the change to the Class B Exchange Multiplier). These represent 80% of the forecasted equivalent Shares entitlement to be received (67,501 equivalent Shares represent 100%), with the final equivalent Shares entitlement to be determined when the new restaurants' 2016 actual sales performance is known with certainty in early 2017.

In exchange for adding the forecasted Pizza 73 system sales to the Royalty Pool, PPL has received 35,975 additional equivalent Shares (through the change to the Class D Exchange Multiplier). These represent 80% of the forecasted equivalent Shares entitlement to be received (44,969 equivalent Shares represent 100%), with the final equivalent Shares entitlement to be determined when the new restaurants' 2016 actual sales performance is known with certainty in early 2017.

After giving effect to PPL's entitlement to additional equivalent Shares at January 1, 2016, PPL owns equivalent Shares representing 20.4% of the Company's fully diluted shares.

b. 2016 Royalty Pool Adjustment – Class B Exchange Multiplier

On January 1, 2016, six net Pizza Pizza restaurants were added to the Royalty Pool as a result of 24 new restaurants opening and 18 closing from January 1, 2015 to December 31, 2015. The additional system sales from the 24 new restaurants are estimated at $4,887 annually less sales of $3,630 from 18 permanently closed Pizza Pizza restaurants resulting in net estimated Pizza Pizza sales of $1,257 added to the Royalty Pool. The total number of Pizza Pizza restaurants in the Royalty Pool has increased to 636. The yield of the shares was determined to be 5.89% calculated using $13.85 as a weighted average share price. Weighted average share price is calculated based on the market price of the shares traded on the Toronto Stock Exchange during the period of twenty consecutive days ending on the fifth trading day before January 1, 2016. As a result of the contribution of the additional net sales to the Royalty Pool, the Class B Exchange Multiplier increased fractionally by 80% of the total adjustment or 0.021529; the new Class B Multiplier is 1.817826. 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, 2016, once the actual performance of the new restaurants is determined in early 2017.

c. 2016 Royalty Pool Adjustment – Class D Exchange Multiplier

On January 1, 2016, the Pizza 73 Royalty Pool remained unchanged as a result of two new restaurants opening between September 2, 2014 and September 1, 2015 and two restaurants closing between January 1, 2015 and December 31, 2015. The forecasted additional system sales from the two new restaurants are estimated at $1,070 annually less $512 in system sales attributable to the two closed restaurants. The total number of Pizza 73 restaurants in the Royalty Pool remains at 100 for 2016. The yield of and the weighted average share 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 5.89% and $13.85, respectively. As a result of the contribution of the additional net sales to the Royalty Pool, the Class D Exchange Multiplier increased fractionally by 80% of the total adjustment or 0.35975; the new Class D Multiplier is 17.43307. 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, 2016, once the actual performance of the new restaurants is determined in early 2017.

d. 2015 Royalty Pool Adjustment

In early January 2016, adjustments to royalty payments and PPL's Class B Exchange Multiplier were made based on the actual performance of the 23 new restaurants added to the Royalty Pool on January 1, 2015. As a result of the adjustments, the new Class B Exchange Multiplier is 1.796297 and Class B Units can be exchanged for 4,505,541 shares, which is an increase of 17,641 shares, effective January 1, 2015.

In early January 2016, adjustments to royalty payments and PPL's Class D Exchange Multiplier were made based on the actual performance of the eight Pizza 73 restaurants added to the Royalty Pool on January 1, 2015. As a result of the adjustments, the new Class D Exchange Multiplier is 17.07332 and Class D Units can be exchanged for 1,707,332 shares, which is an increase of 71,099 shares, effective January 1, 2015.

SELECTED FINANCIAL HIGHLIGHTS

The following tables set out selected financial information and other data of Pizza Pizza Royalty Corp. ("PPRC" or the "Company") and should be read in conjunction with the audited consolidated financial statements of the Company. Readers should note that the 2015 results are not directly comparable to the 2014 results because there are 730 restaurants in the 2015 Royalty Pool compared to 722 restaurants in the 2014 Royalty Pool.

(in thousands of dollars, except number of restaurants, days in the year, per Share amounts and as noted otherwise)		2015		2014		2013
Restaurants in Royalty Pool		730		722		694
Same store sales growth(1)		4.5%		1.1%		2.1%
Days in Year		365		365		365
System Sales reported by Pizza Pizza restaurants in the Royalty Pool(5)	$	441,226	$	415,719	$	408,438
System Sales reported by Pizza 73 restaurants in the Royalty Pool(5)		92,608		89,670		82,620
Total System Sales	$	533,834	$	505,389	$	491,058
Royalty – 6% on Pizza Pizza System Sales	$	26,473	$	24,943	$	24,506
Royalty – 9% on Pizza 73 System Sales		8,335		8,070		7,436
Royalty income	$	34,808	$	33,013	$	31,942
Interest paid on borrowings(2)		(1,523)		(2,006)		(2,087)
Administrative expenses		(624)		(585)		(666)
Adjusted earnings available for distribution to the Company and Pizza Pizza Limited(4)	$	32,661	$	30,422	$	29,189
Distribution on Class B and Class D Exchangeable Shares(3)		(6,764)		(8,441)		(7,867)
Current income tax expense		(5,132)		(4,335)		(4,073)
Adjusted earnings available for shareholder dividends(4)	$	20,765	$	17,646	$	17,249
Add back:						
Distribution on Class B and Class D Exchangeable Shares(3)		6,764		8,441		7,867
Adjusted earnings from operations(4)	$	27,529	$	26,087	$	25,116
Adjusted earnings per share(4)	$	0.895	$	0.861	$	0.838
Basic earnings per share	$	0.821	$	0.826	$	0.793
Dividends declared by the Company	$	19,703	$	17,463	$	16,746
Dividend per share	$	0.8155	$	0.8004	$	0.7675
Payout ratio(4)		95%		99%		97%

		2015		2014		2013
Working capital(4)	$	4,916	$	3,892	$	5,097
Total assets	$	342,386	$	335,112	$	329,598
Total liabilities	$	68,940	$	61,139	$	59,789

PIZZA PIZZA ROYALTY CORP.
Management's Discussion & Analysis
For the Quarter and Year ended December 31, 2015

	Q4 2015	Q3 2015	Q2 2015	Q1 2015
(in thousands of dollars, except number of restaurants, days in the Quarter, per share amounts and as noted otherwise)				
Restaurants in Royalty Pool	730	730	730	730
Same store sales growth(1)	3.4%	6.3%	6.0%	2.5%
Days in quarter	92	92	91	90
System Sales reported by Pizza Pizza restaurants in Royalty Pool(5)	$ 117,614	$ 111,209	$ 107,138	$ 105,265
System Sales reported by Pizza 73 restaurants in Royalty Pool(5)	23,792	22,103	23,125	23,588
	$ 141,406	$ 133,312	$ 130,263	$ 128,853
Royalty – 6% on Pizza Pizza System Sales	$ 7,056	$ 6,673	$ 6,428	$ 6,316
Royalty – 9% on Pizza 73 System Sales	2,142	1,989	2,081	2,123
Royalty income	$ 9,198	$ 8,662	$ 8,509	$ 8,439
Interest paid on borrowings(2)	(330)	(329)	(379)	(485)
Administrative expenses	(227)	(133)	(139)	(125)
Adjusted earnings available for distribution to the Company and to Pizza Pizza Limited(4)	$ 8,641	$ 8,200	$ 7,991	$ 7,829
Distribution on Class B and Class D Exchangeable Shares(3)	(1,577)	(1,556)	(1,557)	(2,074)
Current income tax expense	(1,480)	(1,392)	(1,069)	(1,191)
Adjusted earnings available for shareholder dividends(4)	$ 5,584	$ 5,252	$ 5,365	$ 4,564
Add back:				
Pizza Pizza Limited's distribution on Class B and Class D Exchangeable Shares	1,577	1,556	1,557	2,074
Adjusted earnings from operations(4)	$ 7,161	$ 6,808	$ 6,922	$ 6,638
Adjusted earnings per share(4)	$ 0.233	$ 0.221	$ 0.225	$ 0.216
Basic earnings per share	$ 0.225	$ 0.213	$ 0.173	$ 0.210
Dividends declared by the Company	$ 5,106	$ 5,022	$ 5,022	$ 4,553
Dividend per share	$ 0.2074	$ 0.2040	$ 0.2040	$ 0.2001
Payout ratio(4)	91%	96%	94%	100%

	Q4 2014	Q3 2014	Q2 2014	Q1 2014
(in thousands of dollars, except number of restaurants, days in the Quarter, per share amounts and as noted otherwise)				
Restaurants in Royalty Pool	722	722	722	722
Same store sales growth(1)	2.0%	0.8%	-0.3%	1.6%
Days in quarter	92	92	91	90
System Sales reported by Pizza Pizza restaurants in Royalty Pool(5)	$ 110,991	$ 102,485	$ 99,831	$ 102,412
System Sales reported by Pizza 73 restaurants in Royalty Pool(5)	24,464	21,656	21,529	22,021
	$ 135,455	$ 124,141	$ 121,360	$ 124,433
Royalty – 6% on Pizza Pizza System Sales	$ 6,659	$ 6,149	$ 5,990	$ 6,145
Royalty – 9% on Pizza 73 System Sales	2,202	1,949	1,937	1,982
Royalty income	$ 8,861	$ 8,098	$ 7,927	$ 8,127
Interest paid on borrowings(2)	(497)	(497)	(498)	(514)
Administrative expenses	(210)	(134)	(117)	(124)
Adjusted earnings available for distribution to the Company and to Pizza Pizza Limited(4)	$ 8,154	$ 7,467	$ 7,312	$ 7,489
Distribution on Class B and Class D Exchangeable Shares (3)	(2,122)	(2,123)	(2,123)	(2,073)
Current income tax expense	(1,168)	(1,065)	(1,036)	(1,066)
Adjusted earnings available for shareholder dividends(4)	$ 4,864	$ 4,279	$ 4,153	$ 4,350
Add back:				
Pizza Pizza Limited's distribution on Class B and Class D Exchangeable Shares	2,122	2,123	2,123	2,073
Adjusted earnings from operations(4)	$ 6,986	$ 6,402	$ 6,276	$ 6,423
Adjusted earnings per share(4)	$ 0.231	$ 0.211	$ 0.207	$ 0.212
Basic earnings per share	$ 0.222	$ 0.201	$ 0.197	$ 0.206
Dividends declared by the Company	$ 4,365	$ 4,366	$ 4,366	$ 4,366
Dividend per share	$ 0.2001	$ 0.2001	$ 0.2001	$ 0.2001
Payout ratio(4)	90%	102%	105%	100%

(1) Same store sales growth ("SSSG") means the change in period gross sales of Pizza Pizza and Pizza 73 restaurants as compared to sales in the previous period, where the restaurants have been open at least 13 months. Additionally, for a Pizza 73 restaurant whose restaurant territory was adjusted due to an additional restaurant, a Step-Out Payment may be added to sales to arrive at SSSG. SSSG does not have any standardized meaning under International Financial Reporting Standards ("IFRS"). Therefore, these figures may not be comparable to similar figures presented by other companies. See "Reconciliation of Non-IFRS Measures".

(2) The Company, indirectly through the Pizza Pizza Royalty Limited Partnership (the "Partnership"), incurs interest expense on the $47,000 outstanding bank loan. Interest expense also includes amortization of loan fees. See "Interest Expense".

(3) Represents the distribution to Pizza Pizza Limited ("PPL") from the Partnership on Class B and Class D Units of the Partnership. The Class B and D Units are exchangeable into common shares of the Company ("Shares") based on the value of the Class B Exchange Multiplier and the Class D Exchange Multiplier at the time of exchange as defined in the amended and restated Pizza Pizza license and royalty agreement (the "Pizza Pizza License and Royalty Agreement") and the amended and restated Pizza 73 license and royalty agreement (the "Pizza 73 License and Royalty Agreement") (together, the "License and Royalty Agreements"), respectively, and represent 19.9% of the fully diluted Shares at December 31, 2015 (December 31, 2014 – 28.0%). During the quarter ended March 31, 2015, as a result of the final calculation of the equivalent Class B and Class D Share entitlements related to the January 1, 2014 Adjustment to the Royalty Pool, PPL was paid a distribution on additional equivalent Shares as if such Shares were outstanding as of January 1, 2014. Included in the three months ended March 31, 2015, is the receipt of distributions of $80 pursuant to the true-up calculation (March 31, 2014 - PPL returned $41).

(4) "Adjusted earnings available for distribution to the Company and Pizza Pizza Limited", "Adjusted earnings from operations", "Adjusted earnings available for shareholder dividends", "Adjusted earnings per Share", "Payout Ratio", and "Working Capital" do not have any standardized meaning under IFRS. Therefore, these figures may not be comparable to similar figures presented by other companies. See "Reconciliation of Non-IFRS Measures".

(5) System Sales (as defined in the License and Royalty Agreements) reported by Pizza Pizza and Pizza 73 restaurants include the gross sales of Pizza Pizza company-owned, jointly-controlled and franchised restaurants, excluding sales and goods and service tax or similar amounts levied by any governmental or administrative authority. System Sales do not represent the consolidated operating results of the Company but are used to calculate the royalties payable to the Partnership as presented above.

OVERVIEW AND BUSINESS OF THE COMPANY

The following Management's Discussion and Analysis (the "MD&A") is a discussion of the results of operations and financial condition of the Company for the three months (the "Quarter") and year (the "Year") ended December 31, 2015. The audited consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The MD&A has been prepared as of March 7, 2016.

The Company, indirectly through the Partnership, owns the trademarks and trade names used by PPL in its Pizza Pizza and Pizza 73 restaurants. The Pizza Pizza trademarks and other intellectual property (the "Pizza Pizza Rights") were licensed to PPL in 2005 for 99 years for which PPL pays the Partnership a royalty equal to 6% of the System Sales of its Pizza Pizza restaurants in the Royalty Pool. On July 24, 2007, the Partnership acquired the trademarks and other intellectual property of Pizza 73 (the "Pizza 73 Rights") from Pizza 73 Inc. and licensed them to PPL for 99 years, for which PPL pays a royalty equal to 9% of the System Sales of the Pizza 73 restaurants in the Royalty Pool. For 2015, the Royalty Pool consists of 630 Pizza Pizza restaurants and 100 Pizza 73 restaurants.

Readers should note that the number of restaurants added to the Royalty Pool each year may differ from the number of restaurant openings and closings reported by PPL on an annual basis as the periods for which they are reported differ slightly.

About the Pizza Pizza Brand

Pizza Pizza is a franchise-oriented restaurant business operating primarily in the province of Ontario in which it dominates the pizza quick service restaurant ("QSR") segment. Of the 636 Pizza Pizza restaurants at December

31, 2015, 623 are franchised or licensed and 13 are owned and operated as corporate restaurants. Of the 636 restaurants, 225 are non-traditional locations which have limited operating hours and a limited menu.

PPL, a privately-held company, provides a high level of service and operational support to restaurant operators, including turn-key restaurants, a central food distribution centre, which supplies all food and non-food items used in Pizza Pizza restaurant operations, and monitoring systems intended to ensure product and service quality and operational consistency across the chain.

Pizza Pizza has a modern restaurant system. The centrally managed renovation or re-imaging program, funded by PPL's franchisees, allows for the continuous renewal of the Pizza Pizza concept.

About the Pizza 73 Brand
There are 103 Pizza 73 locations operating in the QSR segment, principally in the province of Alberta. The traditional Pizza 73 restaurants are not franchised, but instead are owned and operated as independent businesses. Each restaurant is operated by a corporation, with 74 jointly-owned by PPL and an independent owner/operator; one is 100% owned and operated by PPL as a corporate restaurant. There are 28 non-traditional locations which are sublicenced and have limited operating hours and a limited menu. Pizza 73 currently has five traditional locations outside of Alberta; three in Saskatchewan and two in British Columbia. Sales through its centralized call centre and on-line ordering, together, account for approximately 90% of Pizza 73's system sales. The Pizza 73 business also includes two central food distribution centres.

System Sales and PPL's Interest
A key attribute of the Company is that revenues are based on top-line, System Sales of the Royalty Pool restaurants and not on the profitability of either PPL or the restaurants in the Royalty Pool. Moreover, the Company is not subject to the variability of earnings or expenses of either PPL or the restaurants. The Company's only expenses are administration expenses, interest on debt, and income taxes. Thus, its success depends primarily on the ability of PPL to maintain and increase System Sales of the Royalty Pool and to meet its royalty obligations.

Increases in System Sales are derived from both the development of new Pizza Pizza and Pizza 73 restaurants and SSSG. The key metric for yield growth of the Company is SSSG, which is dependent on maintaining operational excellence within each restaurant, general market conditions, pricing, and marketing programs undertaken by PPL. PPL has historically maintained a low closure rate of traditional restaurants throughout its chain.

As of January 1, 2015, PPL indirectly held an effective 29.0% interest in the Company (December 31, 2014 – 28.0%) by holding all Class B and Class D Units of the Partnership. PPL has the right to exchange one Class B or Class D Unit indirectly for that number of Shares equal to the Class B Exchange Multiplier or Class D Exchange Multiplier, respectively, applicable at the date of such exchange, as described under "Royalty Pool Adjustments". On March 23, 2015, PPL exchanged 1,564,889 Class B Partnership Units, equivalent to 2,800,000 common shares of the Company, when applied against the Class B Exchange Multiplier at that date. PPL immediately sold the 2,800,000 common shares of the Company to a syndicate of underwriters (see "Sale by PPL of 2,800,000 Equivalent Shares"). Subsequent to the sale of shares, and as of December 31, 2015, PPL holds a 19.9% interest in the Company. The Class B and Class D Units are entitled to receive monthly distributions established by PPRC's board of directors. A monthly distribution is paid to both PPL and PPRC on a pro rata ownership basis, with PPRC's ownership held through its Class A and Class C limited partnership units of the Partnership.

SALE BY PPL OF 2,800,000 EQUIVALENT SHARES

On March 23, 2015, PPL entered into an underwriting agreement for the sale by PPL of 2,800,000 common shares of the Company. In order to provide the 2,800,000 common shares to the underwriters, PPL exchanged 1,564,889 Class B Units of the Partnership, applying the Class B Exchange Multiplier of 1.789264.

The table below shows the Shares that would be outstanding if all of the Class B and Class D Units of the Partnership held by PPL were converted to Shares on December 31, 2015.

Shares outstanding & issuable on December 31, 2015		
Shares outstanding		24,618,392
Class B equivalent Shares held by PPL at December 31, 2014	6,934,272	
PPL additional Class B equivalent Shares - True-up Holdback as at December 31, 2014	175,445	
Additional PPL Class B equivalent Shares as of January 1, 2015	178,183	
Conversion of Class B equivalent Shares to common shares of the Company (see "Sale by PPL of 2,800,000 Equivalent Shares")	(2,800,000)	4,487,900
Class D equivalent Shares held by PPL at December 31, 2014	1,548,071	
PPL additional Class D equivalent Shares - True-up Holdback as at December 31, 2014	-	
Additional PPL Class D equivalent Shares as of January 1, 2015	88,162	1,636,233
Number of fully diluted Shares		30,742,525
PPL's proportion of all Shares outstanding and available for exchange		19.9%

ROYALTY POOL ADJUSTMENTS

Annually, on January 1 (the "Adjustment Date"), an adjustment is made to the Royalty Pool to include the forecasted System Sales from new Pizza Pizza restaurants opened on or before December 31 of the prior year, less System Sales from any Pizza Pizza restaurants that have been permanently closed during the year. The change in the amount of the Royalty due to the Partnership as a result of changes in the System Sales of the Royalty Pool will affect PPL's retained interest through an adjustment to the rate at which the Class B Units of the Partnership may ultimately be exchanged for Shares. On the Adjustment Date, the adjustment to the Class B Exchange Multiplier (as defined in the Pizza Pizza License and Royalty Agreement) involves first calculating the "Determined Amount", which is defined as 92.5% of the royalty revenue added to the Royalty Pool, divided by the prevailing yield of the Shares. Beginning January 1, 2012, the Determined Amounts are multiplied by a number equal to (1-Tax%) where "Tax%" is an estimate of the Company's effective tax rate for the year (determined using the total income taxes paid by the Company during the fiscal year divided by the total cash received by the Company during that fiscal year) (i.e., for the Adjustment Date of January 1, 2015, it will be the effective Company tax rate for the year ended December 31, 2014). This estimate of the effective tax rate will be subject to an adjustment when the actual effective entity level tax rate of the Company for the year is known. The Determined Amount is multiplied by 80%, then divided by the current market price of the Shares, and then further divided by the number of Class B units outstanding. This fraction is added to the Class B Exchange Multiplier from the preceding year, which was "one" on the closing of the Fund's initial public offering. On the following Adjustment Date, a second adjustment to the Class B Exchange Multiplier will be made in the same manner once the System Sales for new restaurants are known with certainty. The adjustment for new restaurants rolled into the Royalty Pool is designed to be accretive for current shareholders.

If, during a year, a Pizza Pizza restaurant is closed, the sales of the restaurant from the closing date would no longer be included in the calculation of the royalty payable to the Partnership by PPL. To compensate for this, in certain circumstances, the Pizza Pizza License and Royalty Agreement and the Partnership's Amended and Restated Limited Partnership Agreement (the "Partnership Agreement") provide that an amount (the "Make-Whole Payment") reflecting the reduction in the royalty resulting from the restaurant closure will be paid by PPL to the Partnership for the balance of the year in which the restaurant was closed, commencing from the closing date. The Make-Whole Payment will be the sales of the closed restaurant for the first 52-week period in which it was included in the Royalty Pool multiplied by the royalty rate, one twelfth of which is payable each month until the Adjustment Date.

Similarly, on the Adjustment Date, a separate adjustment is made to the Royalty Pool for the Pizza 73 restaurants. The Royalty Pool is increased to include the forecasted System Sales from new Pizza 73 restaurants opened on or before September 1 of the prior year, less System Sales from any Pizza 73 restaurants that have been permanently closed during the year. On the Adjustment Date, the adjustment to the Class D Exchange Multiplier is calculated in a similar manner as the Class B Exchange Multiplier described above.

RESTAURANTS ADDED TO THE ROYALTY POOL

2014 Royalty Pool Adjustment

In early January 2015, adjustments to royalty payments and PPL's Class B Exchange Multiplier were made based on the actual performance of the 30 new restaurants added to the Royalty Pool on January 1, 2014. As a result of the adjustments, the new Class B Exchange Multiplier was 1.745518 and Class B Units could have been exchanged for 7,109,717 shares, which is an increase of 175,445 shares, effective January 1, 2014.

In early January 2015, adjustments to royalty payments and PPL's Class D Exchange Multiplier were made based on the actual performance of the four Pizza 73 restaurants added to the Royalty Pool on January 1, 2014. As a result of the adjustments, the Class D Exchange Multiplier was unchanged and the final cash payment in-lieu of increasing the multiplier was $322,000, of which $284,000 was accrued at December 31, 2014, based on the initial forecasted sales.

2015 Royalty Pool Adjustment – Class B Exchange Multiplier

On January 1, 2015, one net Pizza Pizza restaurant was added to the Royalty Pool as a result of 23 new restaurants opening and 22 closing from January 1, 2014 to December 31, 2014. The additional system sales from the 23 new restaurants were estimated at $8,950,000 annually, less sales of $4,899,000 from 22 permanently closed Pizza Pizza restaurants, resulting in net forecasted Pizza Pizza sales of $4,051,000 added to the Royalty Pool. The total number of Pizza Pizza restaurants in the Royalty Pool increased to 630. The yield of the shares was determined to be 5.80% calculated using $13.79 as a weighted average share price. Weighted average share price is calculated based on the market price of the shares traded on the Toronto Stock Exchange during the period of twenty consecutive days ending on the fifth trading day before January 1, 2015. As a result of the contribution of the additional net sales to the Royalty Pool, the Class B Exchange Multiplier increased fractionally by 80% of the total adjustment, or 0.043746; the new Class B Multiplier is 1.789264. 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. The second adjustment to the Class B Exchange Multiplier was adjusted to be effective January 1, 2015, once the actual performance of the new restaurants was determined in early 2016. See "Subsequent Events".

2015 Royalty Pool Adjustment – Class D Exchange Multiplier

On January 1, 2015, seven net Pizza 73 restaurants were added to the Royalty Pool as a result of eight new restaurants opening between September 2, 2013 and September 1, 2014 and one restaurant closing between January 1, 2014 and December 31, 2014. The forecasted additional system sales from the eight new restaurants were estimated at $1,870,000 annually less $534,000 in system sales attributable to the one closed restaurant and the final step-out adjustment for one restaurant added to the Royalty Pool whose territory adjusted a previously existing restaurant. The total number of Pizza 73 restaurants in the Royalty Pool increased to 100. The yield of and the weighted average share price used in the calculation of the Class D multiplier were determined in the same manner as that of the Class B multiplier calculation at 5.80% and $13.79, respectively. As a result of the contribution of the additional net sales to the Royalty Pool, the Class D Exchange Multiplier increased fractionally by 80% of the total adjustment or 0.88162; the new Class D Multiplier is 16.36233. This adjustment also increased 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 was adjusted to be effective January 1, 2015, once the actual performance of the new restaurants was determined in early 2016. See "Subsequent Events".

PPL's Ownership of the Company

In exchange for adding the forecasted Pizza Pizza system sales to the Royalty Pool, PPL has received 178,183 additional equivalent Shares (through the change to the Class B Exchange Multiplier). These represent 80% of the forecasted equivalent Shares entitlement to be received (222,729 equivalent Shares represent 100%), with the final equivalent Shares entitlement to be determined when the new restaurants' 2015 actual sales performance is known with certainty in early 2016. See "Subsequent Events".

In exchange for adding the forecasted Pizza 73 system sales to the Royalty Pool, PPL has received 88,162 additional equivalent Shares (through the change to the Class D Exchange Multiplier). These represent 80% of the forecasted equivalent Shares entitlement to be received (110,202 equivalent Shares represent 100%), with the final equivalent Shares entitlement to be determined when the new restaurants' 2015 actual sales performance is known with certainty in early 2016. See "Subsequent Events".

After giving effect to PPL's entitlement to additional equivalent Shares at January 1, 2015, PPL owned equivalent Shares representing 29.0% of the Company's fully diluted shares. The ownership decreased to 19.9% on March 23, 2015 as a result of the sale of 2,800,000 Shares (see "Sale by PPL of 2,800,000 Equivalent Shares").

SAME STORE SALES GROWTH ("SSSG")

SSSG, the key driver of yield growth for shareholders of the Company, increased by 3.4% (2.0% – 2014) for the Quarter when compared to the same period in 2014 and increased by 4.5% (1.1% – 2014) for the Year. See "Reconciliation of Non-IFRS Measures".

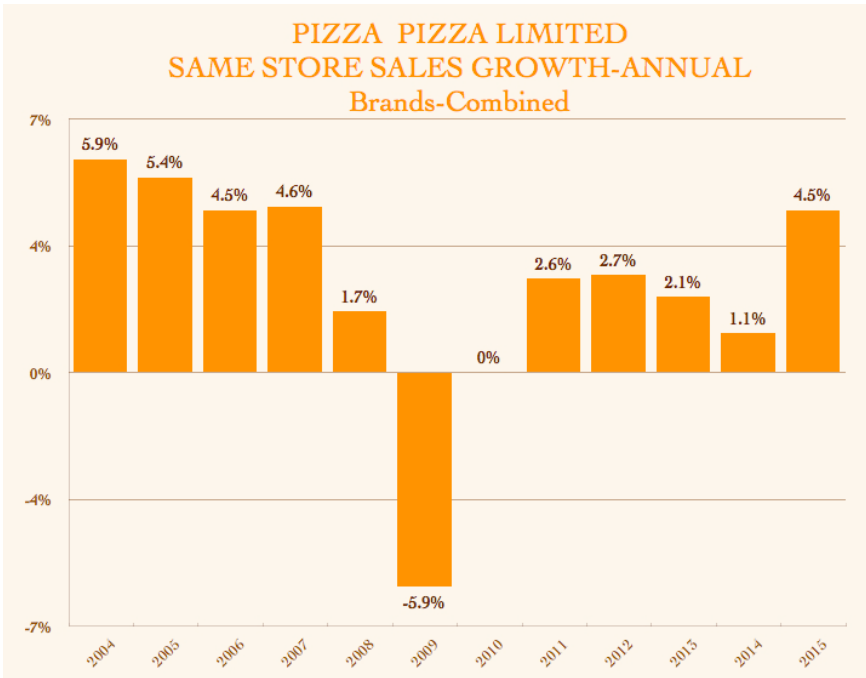
SSSG	Fourth Quarter (%)		Annual (%)	
	2015	**2014**	**2015**	**2014**
Pizza Pizza	5.3	1.3	5.2	-0.3
Pizza 73	(5.3)	5.4	1.1	7.6
Combined	3.4	2.0	4.5	1.1

SSSG is driven by the growth in the average customer check and in customer traffic both of which are affected by changes in pricing and sales mix. On a consolidated basis, during the Quarter and Year, both the average check and traffic increased when compared to the same periods last year. Consumers responded well to Pizza Pizza's marketing campaign which encourages consumers to "get to know our new pizza flavour". In addition, the value messages promoting high quality menu offerings in PPL's major markets continued to attract growth in the average customer traffic and check. The Pizza 73 brand, operating largely in a weakened Alberta economy, reported a decline in customer traffic and check for the Quarter after last year's very strong fourth quarter growth. The declining price of crude oil resulted in increased unemployment and a decline in Alberta's consumer spending. PPL's management believes that geographic diversification has proven to be key to consistent, overall Royalty Pool sales growth.

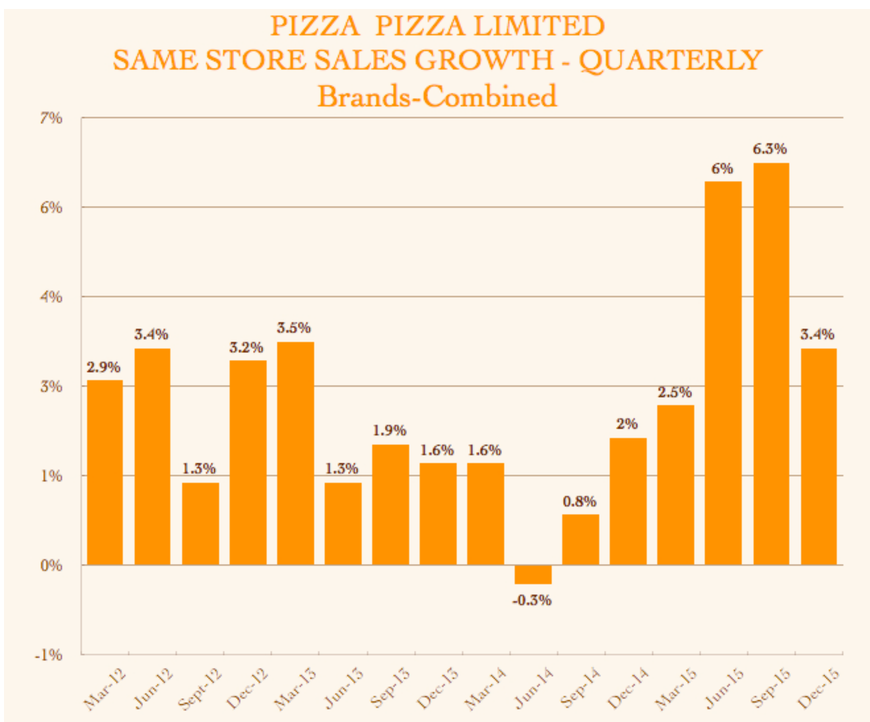
PIZZA PIZZA ROYALTY CORP.
Management's Discussion & Analysis
For the Quarter and Year ended December 31, 2015

The following charts show historical SSSG performance:

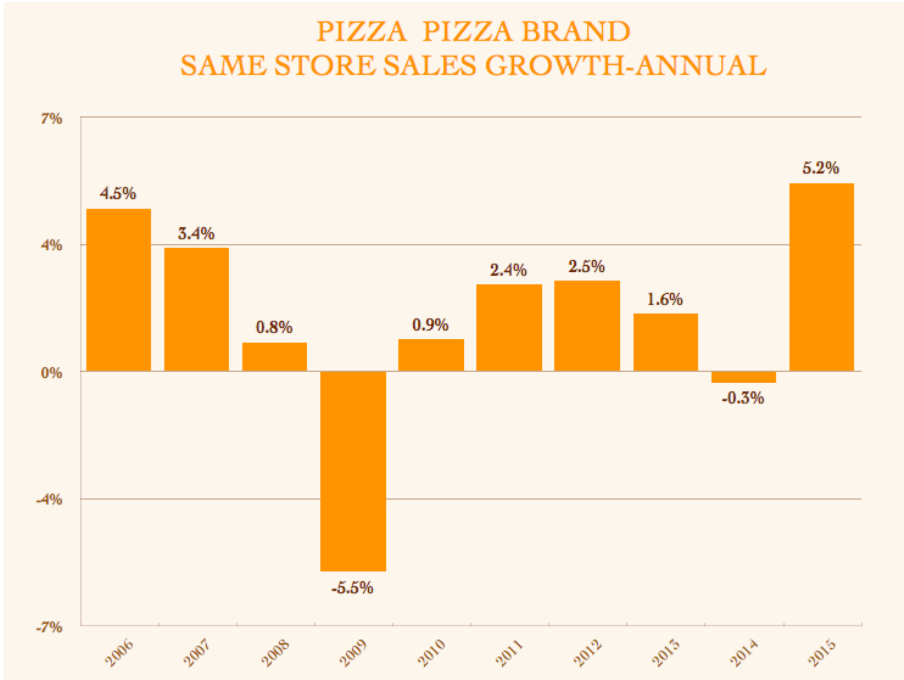
a) Annual SSSG, in which both brands are combined:



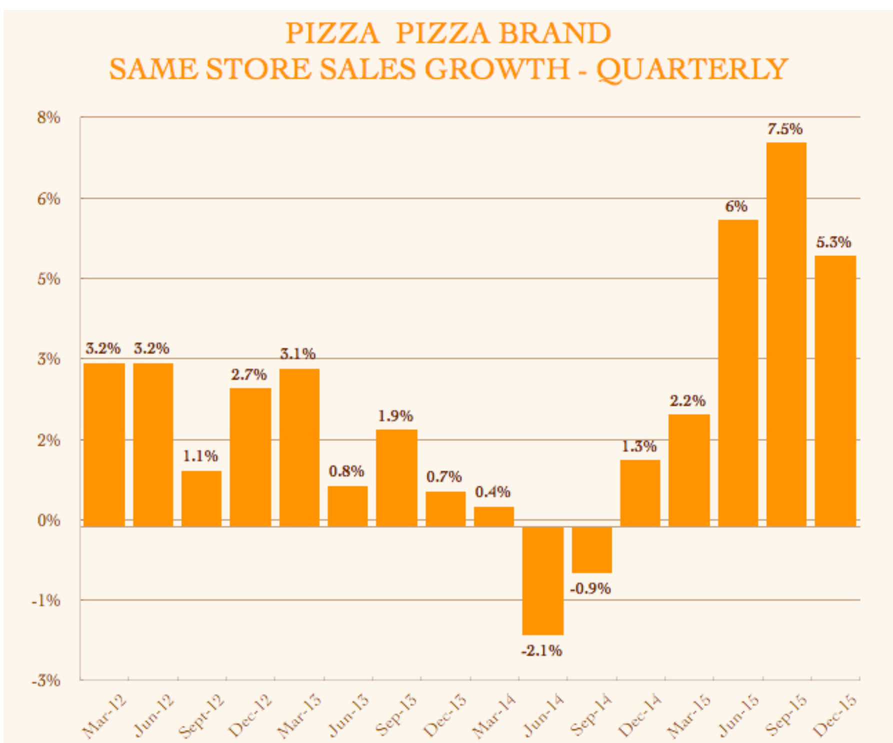
b) Quarterly SSSG chart, in which both brands are combined:



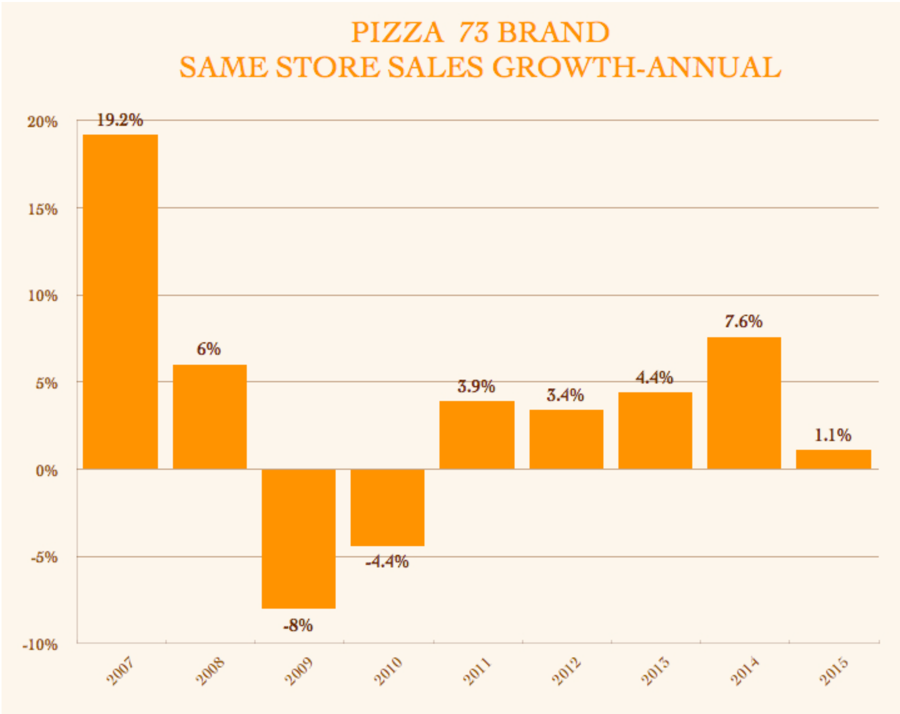
c) Annual SSSG, Pizza Pizza brand only:



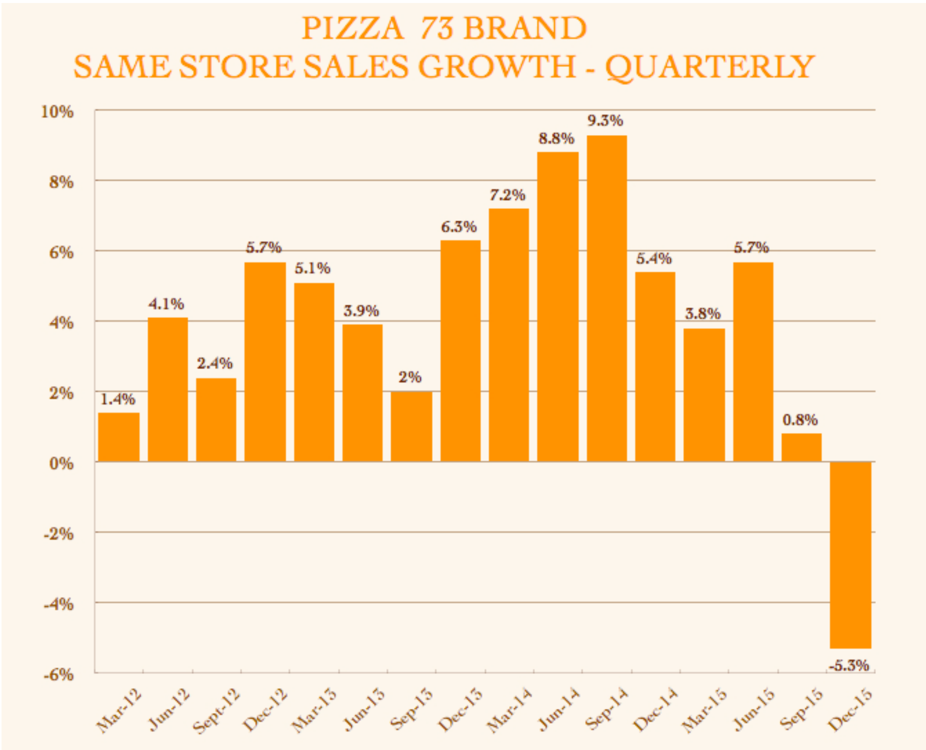
d) Quarterly SSSG, Pizza Pizza brand only:



e) Annual SSSG, Pizza 73 brand only:



f) Quarterly SSSG, Pizza 73 brand only:



ROYALTY POOL SALES

The restaurants in the Royalty Pool increased to 730 on the 2015 Adjustment Date to include 31 new restaurants less 23 closed restaurants. In the prior year, the Royalty Pool included 722 restaurants.

System Sales for the Quarter increased 4.4% to $141.4 million from $135.5 million in the prior year comparable quarter. System Sales for the Year increased 5.6% to $533.8 million from $505.4 million in the prior year.

By brand, sales from the 630 Pizza Pizza restaurants in the Royalty Pool increased 6.0% to $117.6 million for the Quarter compared to $111.0 million in the same quarter last year. Sales from the 100 Pizza 73 restaurants decreased 2.7% to $23.8 million for the Quarter compared to $24.5 million in the same quarter last year.

For the Year, System Sales from the Pizza Pizza restaurants in the Royalty Pool increased 6.1% to $441.2 million compared to $415.7 million in the prior year. System Sales from the Pizza 73 restaurants increased 3.3% to $92.6 million compared to $89.7 million in 2014.

Total royalty Pool System Sales for the Quarter and Year increased over the comparative periods in 2014 as a result of the reported SSSG achieved as well as the impact of net new restaurants added to the Royalty Pool on January 1, 2015. See "Same Store Sales Growth ("SSSG")".

The Pizza Pizza and Pizza 73 restaurants are subject to seasonal variations in their business. System Sales for the quarter ended March 31 have generally been the softest. System Sales for the quarter ended December 31 have generally been the strongest.

ROYALTY POOL SALES - INDEPENDENT AUDIT RESULTS

An independent audited statement of Royalty Pool System Sales is reported each year. For 2015, the independent audit statement is as follows:

System Sales reported by Pizza Pizza Royalty Pool Restaurants
From January 1, 2015 to December 31, 2015
(in thousands of dollars)

Total Pizza Pizza retail sales	$	441,711
New locations(1)		(2,078)
Closed locations		1,593
2015 Pizza Pizza Royalty Pool System Sales	$	441,226

System Sales reported by Pizza 73 Royalty Pool Restaurants
From January 1, 2015 to December 31, 2015

Total Pizza 73 retail sales	$	92,468
New locations(1)		(853)
Step-Out Payments		526
Closed locations		467
2015 Pizza 73 Royalty Pool System Sales	$	92,608
Total 2015 Royalty Pool System Sales	**$**	**533,834**

[1] Reflects sales at newly opened restaurants not yet included in the applicable Royalty Pool.

System Sales (as defined in the License and Royalty Agreements) reported by Pizza Pizza and Pizza 73 restaurants include the gross sales of Pizza Pizza company-owned, jointly-controlled and franchised restaurants, excluding sales and goods and service tax or similar amounts levied by any governmental or administrative authority.

Total Pizza Pizza retail sales for the year ended December 31, 2015 include sales reported by franchisees and sales from PPL-owned locations during the reporting period. Sales from new locations include sales from franchisee or PPL-owned locations that were opened on or after January 1, 2015 and on or prior to December 31, 2015. Sales from closed locations include sales from restaurants that were closed on or after January 1, 2015 and on or prior to December 31, 2015, and for which PPL is required to pay the Make-Whole Payment.

Total Pizza 73 retail sales for the year ended December 31, 2015 include sales reported by the jointly-controlled and PPL-owned locations during the reporting period. Sales from new locations include sales from jointly-controlled or PPL-owned locations that were opened after September 1, 2014 and on or prior to December 31, 2015. Sales from closed locations include sales from restaurants that were closed on or after January 1, 2015 and on or prior to December 31, 2015, and for which PPL is required to pay the Make-Whole Payment. Any amounts calculated as Step-Out Payments, as defined under the Pizza 73 License and Royalty Agreement, are added back to System Sales.

System Sales reported by Pizza Pizza and Pizza 73 restaurants to PPL are self-assessed by each restaurant on a weekly reporting basis and are submitted without audit or other form of independent assurance. However, PPL management has internal controls in place and monitors sales weekly.

COMPANY OPERATING RESULTS

The audited consolidated financial statements incorporate the assets and liabilities of the Company and its subsidiaries as at December 31, 2015 and the operating results of the Company and these subsidiaries for the Quarter and Year ended December 31, 2015. The Company's subsidiaries and its respective holdings are outlined below:

Subsidiary	Holding
Pizza Pizza Royalty Limited Partnership	80.1%
Pizza Pizza GP Inc.	80.1%

Royalty income earned by the Partnership increased 3.8% to $9.2 million for the Quarter and 5.4% to $34.8 million for the Year. A 6% royalty was earned on the Royalty Pool of 630 Pizza Pizza restaurants reporting $117.6 million in System Sales for the Quarter and $441.2 million for the Year. A 9% royalty was earned on the Royalty Pool of 100 Pizza 73 restaurants reporting $23.8 million in System Sales for the Quarter and $92.6 million for the Year.

Royalty income for the prior year's comparative Quarter and Year were $8.9 million and $33.0 million, respectively. The 629 Pizza Pizza restaurants in the Royalty Pool reported System Sales of $111.0 million for the Quarter and $415.7 million for the Year, while the 93 Pizza 73 restaurants reported System Sales of $24.5 million and $89.7 million for the Quarter and Year, respectively.

The increase in royalty income earned on the restaurants in the Pizza Pizza Royalty Pool is largely due to the increase in SSSG (see "Same Store Sales Growth ("SSSG")") plus net, new restaurants added to the Royalty Pool on January 1, 2015. Of particular note is that the royalty income earned on the Pizza 73 Royalty Pool decreased in the Quarter as a result of the decrease in the SSSG (see "Same Store Sales Growth ("SSSG")").

Administrative expenses were $227,000 for the Quarter and $624,000 for the Year. For the prior year comparable periods, administrative expenses were $210,000 and $585,000, respectively. Administrative expenses are incurred in the Partnership, are consistent period over period, and consist of directors fees, audit, legal and public reporting fees as well as directors' & officers' insurance. The modest increase in expenses for the Year relates to an increase in listing fees and printing costs associated with the annual shareholder meeting as well as additional audit fees.

The Company reported a 3.7% increase in **operating earnings** for the Quarter as operating earnings increased to $9.0 million from $8.7 million for the same quarter last year. For the Year, operating earnings increased 5.4% to $34.2 million compared to $32.4 million in the prior year. The period over period increase in earnings is due to the increase in royalty income resulting from the positive SSSG and net restaurant additions to the Royalty Pool.

Interest expense for the Quarter and Year is outlined in the table below which reconciles interest reported on the consolidated statements of earnings to the actual interest paid on the credit facility.

On April 24, 2015, in conjunction with the early renewal of the credit facility, the Partnership terminated its, then existing swap agreements and entered into two new interest rate swap agreements that fixed the facility interest rate until April 2020 at the Bankers' Acceptance rate of 1.875% plus a credit spread which is initially set at 0.875%. The new effective interest rate as at December 31, 2015 on the $47 million bank loan is 2.75% compared to 4.12% prior to April 24, 2015.

At the time of the facility renewal the then existing swap agreements had a negative mark-to-market value of $1.25 million; therefore, the Company elected to blend and extend the amount into the new swap rate. However, as a result of hedge accounting under IFRS, by terminating the previous swap agreements, a non-cash adjustment was required. The $1.25 million was transferred from other comprehensive loss to the statement of earnings and is, therefore, a non-cash transaction. The negative mark-to-market amount has created a timing difference for future periods between "interest expense on borrowings" reported in the statement of earnings and the actual interest paid on the credit facility. Reference the table below and also see "Liquidity & Capital Resources".

	3 months ended		Year ended	
(in thousands of dollars)	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Interest expense	200	427	1,106	1,725
Loan fee amortization	10	8	38	32
Interest paid to draw down swap termination and off market payments	120	62	379	249
Interest paid on borrowings	330	497	1,523	2,006

Non-cash swap termination costs of $1.25 million were recorded in the year as a result of terminating two swap agreements upon the renewal of the credit facility in April 2015. As a result of terminating the swap agreements, the non-cash, negative mark-to-market value, which was previously recorded in comprehensive earnings, was reclassified to the statement of earnings in order to comply with hedge accounting under IFRS. See "Interest expense" above.

Distributions made by the Partnership on the Class B and D Equivalent Shares decreased during the Year due to PPL's sale of 2,800,000 Class B Equivalent Shares. Distributions on a per share basis were $0.2547 for the Quarter compared to $0.2480 in in the same quarter of 2014. For the Year, distributions were $1.0050 per share compared to $0.99 per share in the prior year. Additionally, during the first quarter, PPL received $80,000 in additional distributions relating to the 2014 Royalty Pool true-up adjustment; whereas in first quarter of 2014, the 2013 true-up adjustment required PPL to return $41,000 in distributions. The monthly Partnership distribution to PPL and to PPRC was increased twice in 2015, first in April 2015 to $0.0838 ($1.006 annualized) and again in November 2015 to $0.0855 (1.0256 annualized). Prior to the April 2015 increase, the monthly distribution was increased in January 2014, to $0.0825 per share ($0.99 annualized).

Distributions to the Company by the Partnership on its Class A and Class C LP units are calculated on a pro rata ownership basis; for January and February 2015 the Company owned 71% of the Partnership. On March 23, 2015 the Company's ownership increased to 80.1% and PPL's ownership decreased to 19.9%. (See "Sale by PPL of 2,800,000 Equivalent Shares"). Monthly, available Partnership funds are distributed based on the percentage ownership. The Company reserves a portion of its monthly distribution for taxes and, on occasion, replenishment of the cash reserve, prior to paying the shareholder dividend. See "Dividends".

Earnings before income taxes measures operations after financing costs. For the Quarter, the Company reported earnings of $8.8 million compared to $8.2 million in the comparable quarter of 2014. Earnings for the Year were $31.8 million up from $30.7 million in the prior year. The increase in earnings is attributable to an increase in royalty income and a decrease in interest expense, offset by the non-cash reclassification of the $1.25 million swap costs from other comprehensive earnings to earnings. See "Reconciliation of Non-IFRS Measures".

Current income tax expense for the Quarter was $1.5 million and $5.1 million for the Year. For the 2014 comparative quarter and year, the current tax was $1.2 million and $4.3 million, respectively. The increase in taxable income and corresponding tax expense is mainly due to an increase in royalty income, a decrease in tax amortization and an increase in the Company's share of taxable income from the Partnership, offset by a tax deduction for the swap termination cost of $1.25 million. Of particular note is that the Company's adjusted accounting earnings from operations before income taxes differs significantly from its taxable income due largely to the tax amortization of the Pizza Pizza and Pizza 73 Rights and Marks. The amount of the tax amortization deducted is based on a declining basis and will decrease yearly.

The Company's increase in ownership of the Partnership, a decrease in tax amortization and certain other minor deductions resulted in an effective tax rate of 21.1% for the year (2014 – 20.7%) compared to the Company's applicable statutory tax rate of 26.5% (2014 – 26.5%).

Deferred tax expense, a non-cash item, for the Quarter and Year was $0.4 million and $1.4 million, respectively. Deferred tax expense arises from a temporary timing difference between the accounting and tax basis of the Pizza Pizza and Pizza 73 Rights and Marks.

Earnings for the Quarter increased to $6.9 million from $6.7 million in the comparable quarter last year. The increase in the quarterly earnings is largely attributed to an increase in royalty income and a decrease in interest expense, offset by an increase in current tax expense. For the Year, earnings increased to $25.2 million compared to $25.0 million in 2014. For the Year, earnings increased due to increased royalty income and lower interest expense; however, this was offset by the $1.25 million non-cash swap termination costs and higher current income tax.

RECONCILIATION OF NON-IFRS MEASURES

The Company's net earnings as presented under IFRS includes non-cash items, such as deferred tax, that do not affect the Company's business operations or its ability to pay dividends to shareholders. The Company believes that earnings is not the only, or most meaningful, measurement of the Company's ability to pay dividends or measure the rate at which the Company is paying out its earnings. Therefore, the Company reports the following non-IFRS measures:

- Adjusted earnings available for distribution to the Company and PPL;
- Adjusted earnings from operations;
- Adjusted earnings available for shareholder dividends;
- Adjusted earnings per share ("EPS"); and
- Payout Ratio.

The Company believes that the above noted measures provide investors with more meaningful information regarding the amount of cash that the Company has generated to pay dividends, and help illustrate the Company's operating performance and highlight trends in the Company's business. These measures are also frequently used by analysts, investors, and other interested parties in the evaluation of issuers in the Company's sector, particularly those with a royalty-based model. The adjustments to net earnings as recorded under IFRS relate to non-cash items included in earnings and cash payments accounted for on the statement of financial position. Investors are cautioned, however, that this should not be constructed as an alternative to net earnings as a measure of profitability. The method of calculating Adjusted earnings available for distribution to the Company and Pizza Pizza Limited, Adjusted earnings from operations, Adjusted earnings available for shareholder dividends, Adjusted EPS, and Payout Ratio for the purposes of this MD&A may differ from that used by other issuers and, accordingly, these measures may not be comparable to similar measures used by other issuers.

The following table reconciles Adjusted earnings available for distribution to the Company and Pizza Pizza Limited, Adjusted earnings from operations, and Adjusted earnings available for shareholder dividends to the most directly comparable measure calculated in accordance with IFRS, Earnings for the period before income taxes or Earnings for the year before income taxes:

	3 months ended		Year ended	
(in thousands of dollars)	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Earnings for the period/year before income taxes	**8,761**	**8,216**	**31,795**	**30,671**
Non-cash swap termination costs	-	-	1,245	-
Interest payment related to the swap termination costs	(120)	(62)	(379)	(249)
Adjusted earnings available for distribution to the Company and Pizza Pizza Limited	**8,641**	**8,154**	**32,661**	**30,422**
Current income tax expense	(1,480)	(1,168)	(5,132)	(4,335)
Adjusted earnings from operations	**7,161**	**6,986**	**27,529**	**26,087**
Less: Distribution on Class B and Class D Exchangeable Shares	(1,577)	(2,122)	(6,764)	(8,441)
Adjusted earnings available for shareholder dividends	**5,5584**	**4,864**	**20,765**	**17,646**
Weighted average Shares – diluted	30,742,525	30,300,735	30,742,525	30,300,735

The **Basic EPS** and the **Adjusted EPS** calculations both include PPL's Class B and Class D Exchangeable Shares since they are exchangeable into and economically equivalent to the Shares. See "Adjusted EPS".

Adjusted EPS is measured on Adjusted earnings from operations as explained above. Adjusted EPS for the Quarter increased 0.9% to $0.233 compared to $0.231 in the same quarter last year. When adjusted for non-cash items, Adjusted EPS for the Year increased 3.9% to $0.896 per share compared to adjusted EPS of $0.861 per share in 2014. The period over period increases are attributable to an increase in royalty income and a decrease in interest expense. Basic EPS is adjusted as follows:

	3 months ended		Year ended	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Basic EPS	0.225	0.222	0.821	0.826
Adjustments:				
Non-cash swap termination costs	-	-	0.040	-
Interest rate swap draw down	(0.004)	(0.002)	(0.012)	(0.008)
Deferred tax expense	0.012	0.011	0.046	0.043
Adjusted EPS	**0.233**	**0.231**	**0.895**	**0.861**

Payout Ratio is a non-IFRS financial measure that does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. The Company presents the Payout Ratio to illustrate the earnings being returned to shareholders. The Company's Payout Ratio is calculated by dividing the dividends declared to shareholders by the adjusted earnings from operations, after paying the distribution on Class B and Class D Exchangeable Shares, in that same period.

	3 months ended		Year ended	
(in thousands of dollars)	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Dividends declared to shareholders	5,106	4,365	19,703	17,463
Adjusted earnings available for shareholder dividends	5,584	4,864	20,765	17,646
Payout Ratio	**91%**	**90%**	**95%**	**99%**

Working Capital is defined as total current assets less total current liabilities. The Company views working capital as a measure for assessing overall liquidity and its ability to stabilize dividends and fund unusual expenditures in the event of short- to medium-term variability in Royalty Pool System Sales.

(in thousands of dollars)	December 31, 2015	December 31, 2014
Total current assets	8,487	7,254
Less: Total current liabilities	3,571	3,362
Working Capital	**4,916**	**3,892**

SSSG is a key indicator used by the Company to measure performance against internal targets and prior period results. SSSG is commonly used by financial analysts and investors to compare PPL to other QSR brands. SSSG is defined as the change in period gross revenue of Pizza Pizza and Pizza 73 restaurants as compared to sales in the previous period, where the restaurant has been open at least 13 months. Additionally, for a Pizza 73 restaurant whose restaurant territory was adjusted due to an additional restaurant, a Step-Out Payment may be added to sales to arrive at SSSG. It is a key performance indicator for the Company as this measure excludes sales fluctuations due to store closings, permanent relocations and chain expansion.

	3 months ended		Year ended	
(in thousands of dollars)	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Total Royalty Pool System Sales	**141,406**	**135,455**	**533,834**	**505,389**
Adjustments for stores not in both fiscal years and step-outs	(3,893)	(2,397)	(7,799)	(1,917)
Same Store Sales	137,513	133,058	526,035	503,472
SSSG	**3.4%**	**2.0%**	**4.5%**	**1.1%**

DIVIDENDS

The Company declared shareholder dividends of $5.1 million, or $0.2074 per Share, for the Quarter compared to $4.4 million, or $0.2001 per Share, for the prior year comparable quarter which is a 3.6% increase per share on a quarter-over-quarter basis. The payout ratio was 91% for the Quarter and was 90% in the prior year comparable quarter.

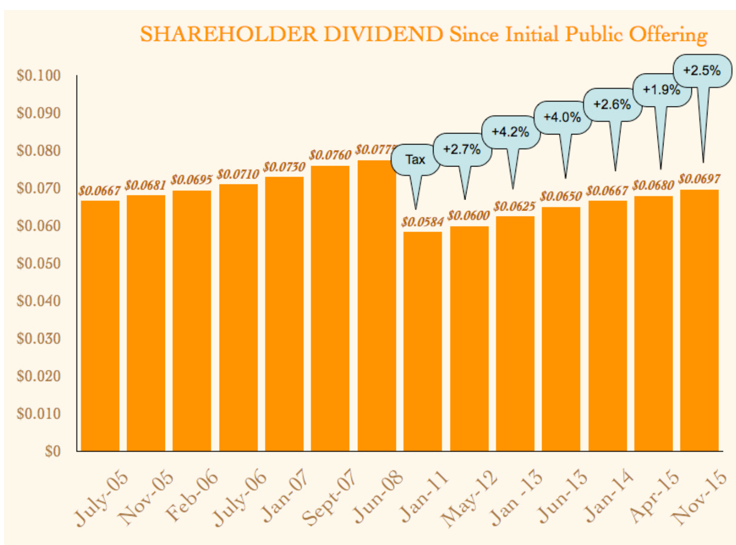
For the Year, the Company declared shareholder dividends of $19.7 million, or $0.8155 per Share, compared to $17.5 million, or $0.8004 per Share in 2014. Dividends declared increased as dividends on a per share basis were increased in April and again in November 2015. As well, the number of shares outstanding increased in March 2015 with the exchange of Class B Partneship Units and subsequent sale by PPL of 2,800,000 equivalent shares.

In 2015, the Company increased the monthly dividend twice. First, in April 2015 the Company increased the monthly dividend by 1.95% to $0.0680 per Share ($0.8160 annualized). Secondly, in November 2015, the Company increased the monthly dividend by 2.5% to $0.0697 per Share ($0.8364 annualized).The previous dividend increase was in January 2014, when the Company increased the monthly dividend by 2.6% to $0.0667 per Share.
Dividends declared for 2015 are as follows:

Period	Payment Date	Amount/share
January 1-31, 2015	February 13, 2015	6.67¢
February 1-28, 2015	March 13, 2015	6.67¢
March 1-31, 2015	April 15, 2015	6.67¢
April 1-30, 2015	May 15, 2015	6.80¢
May 1-31, 2015	June 15, 2015	6.80¢
June 1-30, 2015	July 15, 2015	6.80¢
July 1-31, 2015	August 14, 2015	6.80¢
August 1-31, 2015	September 15, 2015	6.80¢
September 1-30, 2015	October 15, 2015	6.80¢
October 1-31, 2015	November 13, 2015	6.80¢
November 1-30, 2015	December 15, 2015	6.97¢
December 1-31, 2015	January 15, 2016	6.97¢
Total		81.55¢

Dividends were funded entirely by cash flow from operations. No debt was incurred during the year to fund dividends.

From July 2005 to June 2008, the Company increased distributions six times. In January 2011, the Company began paying the new Specified Investment Flow-Through Tax, or SIFT Tax. This corporate income tax required an adjustment to the distribution in January 2011. Subsequent to January 2011, the distribution became an eligible dividend as opposed to its previous treatment as interest income. Since January 2011, the dividend has been increased six times, including May 2012, January 2013, June 2013, January 2014, April 2015, and most recently in November 2015, as depicted in the chart below.



LIQUIDITY & CAPITAL RESOURCES

The Company's policy is to distribute all available cash in order to maximize returns to shareholders over time, after allowing for reasonable reserves. Despite seasonal variations inherent to the restaurant industry, the Company's policy is to make equal dividend payments to shareholders on a monthly basis in order to smooth out income to shareholders. Any further increase in dividends will be implemented with a view to maintain the continuity of uniform monthly distributions. It is expected that future dividends will continue to be funded entirely by cash flow from operations and the cash reserve.

The Company's working capital reserve increased during the Year to $4.9 million at December 31, 2015 ($3.9 million – December 31, 2014). The reserve is available to stabilize dividends and fund other expenditures in the event of short- to medium-term variability in System Sales and, thus, the Company's royalty income. With this reserve now in place, going forward, the Company will target an annual payout ratio at or near 100%. The Company does not have capital expenditure requirements or employees.

Credit Facilities
On April 24, 2015, the Partnership renewed its $47 million credit facility with a syndicate of Canadian chartered banks. The outstanding balance of the facility remains unchanged, however the maturity of the facility has been extended to April 24, 2020; the previous maturity was December 6, 2016. The facility bears interest at the Bankers' Acceptance rate plus a credit spread between 0.875% to 1.375%, depending on the level of debt-to-earnings before interest, taxes, depreciation and amortization ("EBITDA"), with EBITDA defined as annualized earnings before interest, taxes, depreciation and amortization. In conjunction with the early renewal of the credit facility, the Partnership also blended and extended its two existing swaps into two new swap arrangements. Beginning April 24, 2015, the portion of the interest rate which is fixed with the swaps decreased from 2.87% to 1.875% per annum. The Partnership's effective interest rate, beginning April 24, 2015, is 2.75% comprised of a fixed 1.875% plus the credit spread, currently set at 0.875%. Prior to April 24, 2015, the effective interest rate on the facility was 4.12%, comprised of a fixed 2.87% plus the credit spread of 1.25%.

The credit facility includes affirmative and negative covenants customary for agreements of this nature. In particular, the Partnership has agreed to a financial covenant in which, on a four quarter rolling basis, Distributions may not exceed Distributable Cash Flow for such period *plus* the aggregate amount of Distributable Cash Flow for prior Distribution Periods not distributed, which as at December 31, 2015 was $5.6 million (December 31, 2014 - $3.8 million). In addition, the Partnership is required to maintain a funded debt-to-EBITDA ratio not to exceed 2.5:1 on a four quarter rolling average. The debt-to-EBITDA ratio for the last four-quarter rolling average is 1.38 (December 31, 2014 – 1.45:1). The Partnership is presently making interest-only payments on the non-revolving credit facility. The debt-to-EBITDA ratio for the last four quarters' rolling average continues to be below 1.5:1; therefore the credit spread is 0.875%. If, in the future, the ratio increases above 1.5:1, the credit spread will change as follows:

Debt:EBITDA	Credit Spread
< 1.5:1	0.875%
1.5 - 2.0:1	1.125%
> 2.0:1	1.375%

OUTLOOK

The Company's royalty income and shareholder value are driven by PPL's exploitation of the Pizza Pizza and Pizza 73 intellectual property owned by the Partnership.

PPL reported 3.4% SSSG (2.0% - 2014) for the fourth quarter and 4.5% SSSG (1.1% - 2014) for the year ended December 31, 2015. Geographic diversification has proven to be key in maintaining consistent and stable sales growth.

By brand, Pizza 73, operating largely in a weakened Alberta economy, reported a 5.3% decline in same store sales for the Quarter as the declining price of crude oil resulted in increased unemployment and a decline in that province's consumer spending. The Pizza Pizza brand reported 5.3% SSSG for the Quarter as consumer traffic in the Ontario and Quebec markets increased significantly over last year.

For the full year, Pizza 73 reported 1.1% SSSG as the fourth quarter weighed on the successes of the first half of the year. Pizza Pizza reported 5.2% SSSG for the year attributable to brand dominance in Eastern provinces supported by marketing campaigns which promoted Pizza Pizza's quality, value and convenience messages.

The consistent SSSG over the past four years has allowed the Company to increase dividends six times while also building a $4.9 million working capital reserve. The reserve is available to stabilize dividends in the event of short- to medium-term variability in System Sales and to fund any unusual expenditures. Having established the working capital reserve, the Company now targets an annual payout ratio at or near 100%. The Company does not have capital expenditure requirements or employees.

PPL continues to focus on its major growth priorities of staying relevant to the consumer, modernizing the customer experience and maintaining brand dominance in its key markets. PPL believes these priorities align with evolving consumer needs and will drive long-term sustainable growth, especially when combined with its competitive advantages of convenience, innovation, high-quality menu offerings and geographic diversification.

PPL believes its leading market share in its major markets presents long-term opportunities for continued sales growth, especially with new product introductions and the further expansion of digital ordering platforms that increase PPL's convenience factor.

SUBSEQUENT EVENTS

The table below shows the Shares that would be outstanding if all of the Class B and Class D Units held by PPL were converted to Shares after accounting for their respective multipliers.

Shares outstanding & issuable on January 1, 2016		
Shares outstanding		24,618,392
Class B equivalent Shares held by PPL at December 31, 2015	4,487,900	
PPL additional Class B equivalent Shares - True-up Holdback as at December 31, 2015	17,641	
Additional PPL Class B equivalent Shares as of January 1, 2016	54,001	4,559,542
Class D equivalent Shares held by PPL at December 31, 2015	1,636,233	
PPL additional Class D equivalent Shares - True-up Holdback as at December 31, 2015	71,099	
Additional PPL Class D equivalent Shares as of January 1, 2016	35,975	1,743,307
Number of fully diluted shares		30,921,241
PPL's proportion of all shares outstanding and available for exchange		20.4%

a. Pizza Pizza Royalty Corp. Outstanding Shares

In exchange for adding the forecasted Pizza Pizza system sales to the Royalty Pool, PPL has received 54,001 additional equivalent Shares (through the change to the Class B Exchange Multiplier). These represent 80% of the forecasted equivalent Shares entitlement to be received (67,501 equivalent Shares represent 100%), with the final equivalent Shares entitlement to be determined when the new restaurants' 2016 actual sales performance is known with certainty in early 2017.

In exchange for adding the forecasted Pizza 73 system sales to the Royalty Pool, PPL has received 35,975 additional equivalent Shares (through the change to the Class D Exchange Multiplier). These represent 80% of the forecasted equivalent Shares entitlement to be received (44,969 equivalent Shares represent 100%), with the final equivalent Shares entitlement to be determined when the new restaurants' 2016 actual sales performance is known with certainty in early 2017.

After giving effect to PPL's entitlement to additional equivalent Shares at January 1, 2016, PPL owns equivalent Shares representing 20.4% of the Company's fully diluted Shares.

b. 2016 Royalty Pool Adjustment – Class B Exchange Multiplier

On January 1, 2016, six net Pizza Pizza restaurant was added to the Royalty Pool as a result of 24 new restaurants opening and 18 closing from January 1, 2015 to December 31, 2015. The additional system sales from the 24 new restaurants are estimated at $4,887,000 annually less sales of $3,630,000 from 18 permanently closed Pizza Pizza restaurants resulting in net estimated Pizza Pizza sales of $1,257,000 added to the Royalty Pool. The total number of Pizza Pizza restaurants in the Royalty Pool has increased to 636. The yield of the shares was determined to be 5.89% calculated using $13.85 as a weighted average share price. Weighted average share price is calculated based on the market price of the shares traded on the Toronto Stock Exchange during the period of twenty consecutive days ending on the fifth trading day before January 1, 2016. As a result of the contribution of the additional net sales to the Royalty Pool, the Class B Exchange Multiplier increased fractionally by 80% of the total adjustment or 0.021529; the new Class B Multiplier is 1.817826. 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, 2016, once the actual performance of the new restaurants is determined in early 2017.

c. 2016 Royalty Pool Adjustment – Class D Exchange Multiplier

On January 1, 2015, the Pizza 73 Royalty Pool remained unchanged as a result of two new restaurants opening between September 2, 2014 and September 1, 2015 and two restaurants closing between January 1, 2015 and December 31, 2015. The forecasted additional system sales from the two new restaurants are estimated at $1,070,000 annually less $512,000 in system sales attributable to the two closed restaurants. The total number of Pizza 73 restaurants in the Royalty Pool remains at 100 for 2016. The yield of and the weighted average share 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 5.89% and $13.85, respectively. As a result of the contribution of the additional net sales to the Royalty Pool, the Class D Exchange Multiplier increased fractionally by 80% of the total adjustment or 0.35975; the new Class D Multiplier is 17.43307. 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, 2016, once the actual performance of the new restaurants is determined in early 2017.

d. 2015 Royalty Pool Adjustment

In early January 2016, adjustments to royalty payments and PPL's Class B Exchange Multiplier were made based on the actual performance of the 23 new restaurants added to the Royalty Pool on January 1, 2015. As a result of the adjustments, the new Class B Exchange Multiplier is 1.796297 and Class B Units can be exchanged for 4,505,541 shares, which is an increase of 17,641 shares, effective January 1, 2015.

In early January 2016, adjustments to royalty payments and PPL's Class D Exchange Multiplier were made based on the actual performance of the eight Pizza 73 restaurants added to the Royalty Pool on January 1, 2015. As a result of the adjustments, the new Class D Exchange Multiplier is 17.07332 and Class D Units can be exchanged for 1,707,332 shares, which is an increase of 71,099 shares, effective January 1, 2015.

CONTROLS AND PROCEDURES

Internal controls and procedures are designed to provide reasonable assurance that relevant information is gathered and reported to senior management, including the Chief Executive Officer and the Chief Financial Officer of Pizza Pizza GP Inc., managing general partner of the Partnership and administrator of the Company, on a timely basis so that the appropriate decisions can be made regarding public disclosure. Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with IFRS.

Management carried out an evaluation of the effectiveness of design and operation of the Company's disclosure controls and procedures and internal controls over financial reporting as of December 31, 2015. It was determined that the Company's disclosure controls and procedures and internal controls over financial reporting were effective.

During the Quarter, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

TRANSACTIONS WITH RELATED PARTIES

The Company, through its ownership in the Partnership, has entered into related party transactions with PPL. PPL is considered a related party by virtue of holding Class B and Class D Exchangeable Shares that are exchangeable into common shares of PPRC. Transactions with PPL include: the annual vend-in of restaurants into the Royalty Pool, monthly distributions from the Partnership to its partners, and expenses paid by PPL on behalf of the Partnership. These transactions have been entered into in the normal course of business and are measured at the exchange amount. The transactions with PPL are all pursuant to the terms of the Pizza Pizza Royalty Limited Partnership's Partnership Agreement. See note 10 to the audited consolidated financial statements of the Company for further details of the related party transactions.

CRITICAL ACCOUNTING ESTIMATES OF THE COMPANY

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next period are addressed below:

Impairment of Rights and Marks
Determining whether the rights and marks owned by the Partnership are impaired requires an estimation of the recoverable amount of the cash generating unit ("CGU") in which the assets are included. The value-in-use calculation requires the Company to estimate the future cash flows expected to arise from the Pizza Pizza brand and the Pizza 73 brand (the CGU is defined by brand) and a suitable pre-tax discount rate in order to calculate present value. In measuring future cash flows, the Company made assumptions about future sales, vend-in of restaurants to the Royalty Pool, tax rates, and terminal growth rates, by brand, which were based on historical experience and expected future performance. Determining the applicable pre-tax discount rate also involved estimating appropriate adjustments to market risk and to Company-specific risk factors. The two most sensitive assumptions used in the annual impairment tests performed at December 31, 2015 are pre-tax discount rates and terminal growth rates by Pizza Pizza brand and Pizza 73 brand. Pizza Pizza GP Inc. believes that there have been no declines in the carrying value of the intangible assets in the Partnership.

Consolidation
Determining whether the Partnership is consolidated by the Company or PPL requires judgment. The significant judgments that were used to apply IFRS 10 included assessing which party had the power or current ability to direct decisions over the value creation and maintenance of the Pizza Pizza Rights and Marks and Pizza 73 Rights and Marks in the context of the purpose and design of the Partnership. Based on an assessment of the activities of the Partnership it was concluded that the Company controls the Partnership, and therefore consolidates its operations.

Fair value of derivatives
The fair value of the interest rate swaps that are not traded in an active market is determined using valuation techniques, including discounted cash flow models. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of the accompanying 2015 audited consolidated financial statements are consistent with those used in the Company's 2014 audited annual consolidated financial statements, and described in Note 2 therein.

RECENT ACCOUNTING PRONOUNCEMENTS

Standards, amendments and interpretations to existing standards that are not yet effective and have not yet been early adopted by the Company:

IFRS 9, Financial Instruments (IFRS 9)
International Financial Reporting Standard ("IFRS") 9, Financial Instruments, as issued in 2014, introduces new requirements for the classification and measurement of financial instruments, a new expected-loss impairment model that will require more timely recognition of expected credit losses and a substantially reformed model for hedge accounting, with enhanced disclosures about risk management activity. IFRS 9 also removes the volatility in profit or loss that was caused by changes in an entity's own credit risk for liabilities elected to be measured at fair value. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Company has not yet begun the process of evaluating the impact of this standard on its consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")
In May 2014, the IASB issued IFRS 15, which covers principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. On July 22, 2015, the International Accounting Standards Board (IASB) confirmed a one-year deferral of the effective date of the revenue Standard to January 1, 2018. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

IFRS 16, Leases ("IFRS 16")
In January 2016, the IASB has issued IFRS 16, Leases, its new leases standard that requires lessees to recognize assets and liabilities for most leases on their balance sheets. Lessees applying IFRS 16 will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The new standard will be effective from January 1, 2019 with limited early application permitted. The Company has not yet begun the process of evaluating the impact of this standard on its consolidated financial statements.

RISKS & UNCERTAINTIES OF THE COMPANY

The Company continues to recognize certain risks and uncertainties associated with the ordinary course of business, including those associated with the business and operations of PPL, upon which the Company relies solely for its earnings. For a detailed discussion of risks concerning the Company, see "Risk Factors" in the Company's Annual Information Form which is available at www.sedar.com.

The Restaurant Industry
The performance of the Company is directly dependent upon the royalty and interest payments received from PPL. The amount of royalty received from PPL is dependent on various external factors that may affect the limited service sector of the restaurant industry. The restaurant industry, generally, is intensely competitive with respect to price, service, location and food quality. Competitors include national and regional chains, as well as independently owned restaurants and retailers of frozen pizza. If PPL, Pizza Pizza franchisees and Pizza 73 operators are unable to successfully compete in the limited service sector, System Sales may be adversely affected, the amount of royalty reduced and the ability of PPL to pay the royalty may be impaired. Changes in demographic trends, traffic patterns, and the type, number, and location of competing restaurants also affect the restaurant industry. In addition, factors such as government regulations, risk of technology failures and breeches, smoking bylaws, inflation, publicity from any food borne illnesses, increased food, labour and benefits costs, and the availability of experienced management and hourly employees may adversely affect the restaurant industry in general and therefore, potentially, Pizza Pizza

and Pizza 73 System Sales. PPL's success also depends on numerous factors affecting discretionary spending, including economic conditions, disposable consumer income and consumer confidence. Adverse changes in these factors could reduce guest traffic or impose practical limits on pricing, either of which could reduce sales and operating income, which could adversely affect revenue, the royalty and the ability of PPL to pay the royalty to the Company. For additional information concerning the performance of PPL, please refer to the PPL MD&A which is available at www.sedar.com, pizzapizza.ca and www.pizzapizzaroyaltycorp.com.

FORWARD-LOOKING STATEMENTS

Certain statements in this report, may constitute "forward-looking" statements, which involve known and unknown risks, uncertainties and other factors that 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 in conjunction with a discussion of future operating or financial performance. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this report. The Company does not intend to or assume any obligation to update any such forward looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities laws. 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 PPL. The foregoing list of factors is not exhaustive and should be read in conjunction with the Company's Annual Information Form.

ADDITIONAL INFORMATION

Additional information about the Company, including the Company's most recent Annual Information Form, is available on SEDAR at www.sedar.com, www.pizzapizza.ca or at the Company's website www.pizzapizzaroyaltycorp.com.