PIZZA PIZZA ROYALTY CORP.

Consolidated Interim Financial Statements
(Unaudited)

For the three months ended March 31, 2015

Pizza Pizza Royalty Corp.

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

	March 31, 2015 $	December 31, 2014 $
Assets		
Current assets		
Cash and cash equivalents	958	1,355
Short-term investments	2,750	2,750
Receivable from Pizza Pizza Limited (note 8)	2,938	3,074
Trade and other receivables	100	75
Total current assets	**6,746**	**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	**340,645**	**335,112**
Liabilities and shareholders' equity		
Current liabilities		
Trade and other payables	427	367
Payable to Pizza Pizza Limited (note 8)	632	1,257
Dividends payable to shareholders	1,642	1,455
Income taxes payable	172	283
Total current liabilities	**2,873**	**3,362**
Non-current liabilities		
Borrowings (note 4)	46,942	46,934
Derivative financial instruments (note 10)	1,525	1,251
Deferred tax liability	15,404	9,592
Total non-current liabilities	**63,871**	**57,777**
Shareholders' equity		
Share capital (note 6)	242,030	212,928
Exchangeable Shares (notes 3 and 5)	63,030	86,129
Accumulated other comprehensive loss	(982)	(738)
Deficit	(30,177)	(24,346)
Total shareholders' equity	**273,901**	**273,973**
Total liabilities and shareholders' equity	**340,645**	**335,112**

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

Pizza Pizza Royalty Corp.

Unaudited Interim Consolidated Statements of Earnings
For the three months ended March 31, 2015 and 2014
(Expressed in thousands of Canadian dollars, except number of shares and per share amounts)

	March 31, 2015 $	March 31, 2014 $
Royalty Pool System Sales (note 7)	128,853	124,433
Royalty income (note 7)	8,439	8,127
Administrative expenses	(125)	(124)
Operating earnings	**8,314**	**8,003**
Interest expense on borrowings (note 4)	(424)	(453)
Earnings for the period before income taxes	**7,890**	**7,550**
Current income tax expense	(1,191)	(1,066)
Deferred tax expense	(254)	(233)
Earnings for the period attributable to shareholders	**6,445**	**6,251**
Weighted average shares – basic and diluted (note 6)	30,742,525	30,300,735
Basic and diluted earnings per share (note 6)	**0.21**	**0.21**

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Pizza Pizza Royalty Corp.

Unaudited Interim Consolidated Statements of Comprehensive Earnings
For the three months ended March 31, 2015 and 2014
(Expressed in thousands of Canadian dollars)

	March 31, 2015 $	March 31, 2014 $
Earnings for the period	**6,445**	**6,251**
Other comprehensive earnings		
Items that may be reclassified subsequently to net earnings:		
Cash flow hedges	(335)	(62)
Deferred tax impact of cash flow hedges	91	9
Total comprehensive earnings	**6,201**	**6,198**

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Pizza Pizza Royalty Corp.

Unaudited Interim Consolidated Statements of Changes in Shareholders' Equity
For the three months ended March 31, 2015 and 2014
(Expressed in thousands of Canadian dollars)

	Share Capital $	Exchangeable Shares $	Accumulated other comprehensive loss $	Deficit $	Total shareholders' equity $
	(note 6)	**(note 5)**			
At December 31, 2014	**212,928**	**86,129**	**(738)**	**(24,346)**	**273,973**
Comprehensive earnings					
Earnings for the period	-	-	-	6,445	6,445
Cash flow hedges	-	-	(335)	-	(335)
Deferred tax impact of cash flow hedges	-	-	91	-	91
Total comprehensive earnings	**-**	**-**	**(244)**	**6,445**	**6,201**
Transactions with shareholders					
Exchangeable Shares (note 5)	-	6,003	-	-	6,003
Conversion of Exchangeable Shares (note 5 and 6)	29,102	(29,102)	-	-	-
Deferred tax impact of conversion of Exchangeable Shares (note 5)	-	-	-	(5,649)	(5,649)
Dividends declared to shareholders	-	-	-	(4,553)	(4,553)
Distributions on Class B and Class D Exchangeable Shares	-	-	-	(2,074)	(2,074)
Total transactions with shareholders	**29,102**	**(23,099)**	**-**	**(12,276)**	**(6,273)**
At March 31, 2015	**242,030**	**63,030**	**(982)**	**(30,177)**	**273,901**
At December 31, 2013	**212,928**	**81,227**	**(886)**	**(23,460)**	**269,809**
Comprehensive earnings					
Earnings for the period	-	-	-	6,251	6,251
Cash flow hedges	-	-	(62)	-	(62)
Deferred tax impact of cash flow hedges	-	-	9	-	9
Total comprehensive earnings	**-**	**-**	**(53)**	**6,251**	**6,198**
Transactions with shareholders					
Exchangeable Shares (note 5)	-	4,902	-	-	4,902
Dividends declared to shareholders	-	-	-	(4,366)	(4,366)
Distributions on Class B and Class D Exchangeable Shares	-	-	-	(2,073)	(2,073)
Total transactions with shareholders	**-**	**4,902**	**-**	(6,439)	(1,537)
At March 31, 2014	**212,928**	**86,129**	**(939)**	**(23,648)**	**274,470**

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

Pizza Pizza Royalty Corp.

Statements of Cash Flows
For the three months ended March 31, 2015 and 2014
(Expressed in thousands of Canadian dollars)

	March 31, 2015 $	March 31, 2014 $
Cash provided by (used in)		
Operating activities		
Earnings for the year	6,445	6,251
Amortization of deferred financing fee	8	8
Swap termination cost	(61)	(61)
Deferred tax expense	254	233
Change in non-cash working capital (note 9)	(565)	(40)
Cash provided by operating activities	**6,081**	**6,391**
Financing activities		
Dividends paid to shareholders	(4,366)	(4,329)
Distributions paid on Class B and Class D Exchangeable Shares	(2,074)	(2,073)
Cash used in financing activities	**(6,440)**	**(6,402)**
Investing activities		
Proceeds on short-term investments	-	1,000
Acquisition of Rights and Marks associated with the vend-in (note 3 and 5)	(38)	(1,136)
Cash used in investing activities	**(38)**	**(136)**
Decrease in cash and cash equivalents	**(397)**	**(147)**
Cash and cash equivalents, beginning of period	**1,355**	**1,267**
Cash and cash equivalents, end of period	**958**	**1,120**
Supplementary information		
Interest paid	477	506

The accompanying notes are an integral part of these unaudited interim condensed 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 license 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 March 31, 2015, there were 630 Pizza Pizza restaurants (December 31, 2014 – 629) and 100 Pizza 73 restaurants (December 31, 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 three months ended March 31, 2015, the Company declared dividends of $0.2001 per share (2014 - $0.2001 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, goods 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 unaudited interim condensed 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 unaudited interim consolidated financial statements in accordance with IAS 34 – Interim Financial Reporting (“IAS 34”). Accordingly, these interim condensed consolidated financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the annual consolidated financial statements of the Company for the year ended December 31, 2014.

The Company preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements were the same as those that applied to the Company’s consolidated financial statements as at and for the year ended December 31, 2014.

These interim condensed consolidated financial statements were authorized for issue by the Board of the Directors on May 7, 2015.

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company’s annual financial statements for the year ended December 31, 2014, except as noted below.

b. Changes in accounting policy and disclosure

Employee Benefits
The amendments to IAS 19 – Employee Benefits, simplified the accounting for contributions to defined benefit plans that are independent of the number of years of service. For the three months ended March 31, 2015, there was no impact on the financial performance or disclosures of the Company upon adoption.

c. 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”)
On July 24, 2014, International Financial Reporting Standard 9, Financial Instruments 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. IFRS 15 is effective

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

for annual periods beginning on or after January 1, 2017. On April 28, 2015, the International Accounting Standards Board (IASB) agreed to publish an Exposure Draft proposing 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.

d. Consolidation

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

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

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 March 31, 2015	**261,712**	**72,187**	**333,899**

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 in exchange for PPL paying a 9% royalty on the system sales of all Pizza 73 restaurants included in the Royalty Pool.

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.

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

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 5).

As a result of adding new restaurants to the Royalty Pool, as described in note 5, the Rights and Marks increased by $3,673 for the three months ended March 31, 2015 (December 31, 2014 – $6,322).

4. Borrowings

	March 31, 2015 $	December 31, 2014 $
Borrowings	47,000	47,000
Less: deferred financing fees	58	66
Total borrowings	**46,942**	**46,934**

The borrowings are a committed, non-revolving, five-year facility maturing on December 6, 2016, 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 1.25% to 2.00%, depending on the level of funded debt to EBITDA of the Partnership, with "EBITDA" defined as annualized earnings before interest, taxes, depreciation and amortization. The original credit facility was scheduled to mature on July 23, 2012; however, it was renewed early on December 6, 2011. In July 2011, the Partnership terminated its then existing swap agreements and entered into two new interest rate swap agreements that fixed the facility interest rate until July 2016 at the Bankers' Acceptance rate of 2.87% plus a credit spread which was initially set at 1.50%. In April 2014, the credit spread decreased from 1.50% to 1.25% as the funded debt to EBITDA covenant decreased below 1.5:1. The effective interest rate as at March 31, 2015 on the $47,000 was 4.12% (December 31, 2014 – 4.12%). The facility is subject to certain financial covenants, all of which have been met as at March 31, 2015 and December 31, 2014. (See note 11 - Subsequent Event)

Interest expense incurred on borrowings for the three months ended March 31, 2015 amounted to $424 (March 31, 2014 – $453). Principal repayments on borrowings of $47,000 are due in December 2016.

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.

5. Exchangeable Shares

As at March 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".

On January 1, 2015, PPL's interest in the Company increased to 29.0% as a result of the 2015 Royalty Pool adjustments. 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%.

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

Subject to the prior rights of the Company's Class C Limited Partnership units, PPL's 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
Add: 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 March 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, have been reduced on a proportionate basis to reflect the reduction in PPL's ownership interest in the Company.

This transaction relates to an exchange of different classes of existing equity and therefore relates solely to an equity transaction. As a result, the deferred income taxes relating to any temporary differences associated with the assets and liabilities attributable to the change of the ownership interest has been accounted for within equity.

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 will be adjusted to be effective January 1, 2015, once the actual performance of the new restaurants is determined in early 2016.

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 and one restaurant closing between September 2, 2013 and September 1, 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 is 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 will be adjusted to be effective January 1, 2015, once the actual performance of the new restaurants is determined in early 2016.

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.

6. 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 March 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.

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

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 March 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 period:

	March 31, 2015		December 31, 2014	
Shareholders' capital	Number of Shares	Amount $	Number of Shares	Amount $
Shares, beginning of period	21,818,392	212,928	21,818,392	212,928
Private offering on March 23, 2015	2,800,000	29,102	-	-
Shares, end of period	**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 period by the weighted average number of shares outstanding during the period. 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 three months ended March 31, 2015 or in 2014.

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

	March 31, 2015	March 31, 2014
Weighted average number of:		
Common shares	22,098,392	21,818,392
Exchangeable Shares (note 5)	8,644,133	8,482,343
Weighted average number of shares outstanding – basic and diluted	30,742,525	30,300,735
Basic and diluted earnings per share	**$0.21**	**$0.21**

7. Royalty income

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

	March 31, 2015	March 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	105,265	102,412
System sales reported by Pizza 73 restaurants in the Royalty Pool	23,588	22,021
Total system sales	**128,853**	**124,433**
Royalty – 6% on Pizza Pizza system sales	6,316	6,145
Royalty – 9% on Pizza 73 system sales	2,123	1,982
Royalty income	**8,439**	**8,127**

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

8. 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 5.

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 period.

The Company has a receivable from PPL as at March 31, 2015 of $2,938 (December 31, 2014 - $3,074) and a payable to PPL as at March 31, 2015 of $632 (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.

Transactions with related parties are in the normal course of operations. No amount of related party balances were written off during the three months ended March 31, 2015 or 2014.

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

9. Statements of Cash Flows information

Changes in non-cash working capital are as follows:

	March 31, 2015 $	March 31, 2014 $
Receivable from Pizza Pizza Limited	136	113
Trade and other receivables	(25)	(1)
Trade and other payables	60	37
Payable to Pizza Pizza Limited	(625)	25
Income taxes payable	(111)	(214)
	(565)	**(40)**

10. 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:

		March 31, 2015		December 31, 2014	
	Category	Carrying value $	Fair value $	Carrying value $	Fair value $
Cash and cash equivalents	L&R	958	958	1,355	1,355
Short term investments	L&R	2,750	2,750	2,750	2,750
Receivable from Pizza Pizza Limited	L&R	2,938	2,938	3,074	3,074
Trade and other receivables	L&R	100	100	75	75
Trade and other payables	OFL	427	427	367	367
Dividends payable to shareholders	OFL	1,642	1,642	1,455	1,455
Payable to Pizza Pizza Limited	OFL	632	632	1,257	1,257
Borrowings	OFL	46,942	47,000	46,934	47,000
Derivative financial instruments	DFH	1,525	1,525	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;
- Level 3: Inputs for the financial asset or financial liability that is not based on observable market data.

As at March 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 discounted 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 period.

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.

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 will obligate 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.

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 $205 as at March 31, 2015 (December 31, 2014 - $242) based on movements in the fair value of the interest rate swaps.

11. Subsequent Event

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 terms of the underlying credit spread were favourably renegotiated. As well, the two existing swap agreements were blended and extended to also mature April 24, 2020. As a result, the credit facility's effective interest rate decreased to 2.75% from 4.12% effective April 24, 2015.

The credit facility's new interest rate is comprised of a fixed portion using the new swap agreements, which, under the new facility is 1.875%, plus a credit spread, which is 0.875% based on the current Debt-to-EBITDA covenant calculation.