PIZZA PIZZA ROYALTY CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS

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 three and six months ended June 30, 2018 interim condensed financial statements of the ("Financial Statements"). Readers should note that the 2018 results are not directly comparable to the 2017 results due to there being 758 restaurants in the 2018 Royalty Pool compared to 751 restaurants in the 2017 Royalty Pool.

(in thousands of dollars, except number of restaurants, days in the year, per share amounts, and noted otherwise)	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Restaurants in Royalty Pool[1]	758	751	758	751
Same store sales growth[2]	-3.3%	1.6%	-1.7%	0.5%
Days in the period	91	91	181	181
System Sales reported by Pizza Pizza restaurants in the Royalty Pool[6]	$ 110,265	$ 114,002	$ 223,475	$ 226,510
System Sales reported by Pizza 73 restaurants in the Royalty Pool[6]	20,791	20,560	42,929	41,916
Total System Sales	$ 131,056	$ 134,562	$ 266,404	$ 268,426
Royalty – 6% on Pizza Pizza System Sales	$ 6,616	$ 6,840	$ 13,408	$ 13,591
Royalty – 9% on Pizza 73 System Sales	1,871	1,851	3,864	3,772
Royalty income	$ 8,487	$ 8,691	$ 17,272	$ 17,363
Interest paid on borrowings[3]	(331)	(330)	(658)	(642)
Administrative expenses	(131)	(176)	(276)	(314)
Adjusted earnings available for distribution to the Company and Pizza Pizza Limited[5]	$ 8,025	$ 8,185	$ 16,338	$ 16,407
Distribution on Class B and Class D Exchangeable Shares[4]	(1,861)	(1,743)	(3,833)	(3,477)
Current income tax expense	(1,368)	(1,367)	(2,787)	(2,741)
Adjusted earnings available for shareholder dividends[5]	$ 4,796	$ 5,075	$ 9,718	$ 10,189
Add back:				
Distribution on Class B and Class D Exchangeable Shares[4]	1,861	1,743	3,833	3,477
Adjusted earnings from operations[5]	$ 6,657	$ 6,818	$ 13,551	$ 13,666
Adjusted earnings per share[5]	$ 0.210	$ 0.218	$ 0.428	$ 0.438
Basic earnings per share	$ 0.202	$ 0.212	$ 0.418	$ 0.429
Dividends declared by the Company	$ 5,266	$ 5,266	$ 10,532	$ 10,532
Dividend per share	$ 0.2139	$ 0.2139	$ 0.4278	$ 0.4278
Payout ratio[5]	110%	104%	108%	103%

	June 30, 2018	December 31, 2017
Working capital[5]	$ 4,240	$ 5,050
Total assets	$ 356,137	$ 349,536
Total liabilities	$ 70,171	$ 69,759

	Q2 2018	Q1 2018	Q4 2017	Q3 2017
(in thousands of dollars, except number of restaurants, days in the quarter, per share amounts and as noted otherwise)				
Restaurants in Royalty Pool(1)	758	758	751	751
Same store sales growth(2)	-3.3%	-0.2%	-0.7%	-0.5%
Days in the quarter	91	90	92	92
System Sales reported by Pizza Pizza restaurants in Royalty Pool(6)	$ 110,265	$ 113,210	$ 121,216	$ 118,523
System Sales reported by Pizza 73 restaurants in Royalty Pool(6)	20,791	22,138	22,463	20,500
Total System Sales	$ 131,056	$ 135,348	$ 143,679	$ 139,023
Royalty – 6% on Pizza Pizza System Sales	6,616	$ 6,793	$ 7,273	$ 7,111
Royalty – 9% on Pizza 73 System Sales	1,871	1,992	2,021	1,845
Royalty income	$ 8,487	$ 8,785	$ 9,294	$ 8,956
Interest paid on borrowings(3)	(331)	(327)	(332)	(343)
Administrative expenses	(131)	(145)	(189)	(142)
Adjusted earnings available for distribution to the Company and to Pizza Pizza Limited(5)	$ 8,025	$ 8,313	$ 8,773	$ 8,471
Distribution on Class B and Class D Exchangeable Shares(4)	(1,861)	(1,972)	(1,742)	(1,743)
Current income tax expense	(1,368)	(1,419)	(1,513)	(1,499)
Adjusted earnings available for shareholder dividends(5)	$ 4,796	$ 4,922	$ 5,518	$ 5,229
Add back:				
Distribution on Class B and Class D Exchangeable Shares(4)	1,861	1,972	1,742	1,743
Adjusted earnings from operations(5)	$ 6,657	$ 6,894	$ 7,260	$ 6,972
Adjusted earnings per share(5)	$ 0.210	$ 0.218	$ 0.233	$ 0.223
Basic earnings per share	$ 0.202	$ 0.217	$ 0.222	$ 0.216
Dividends declared by the Company	$ 5,266	$ 5,266	$ 5,265	$ 5,266
Dividend per share	$ 0.2139	$ 0.2139	$ 0.2139	$ 0.2139
Payout ratio(5)	110%	107%	95%	101%

	Q2 2017	Q1 2017	Q4 2016	Q3 2016
(in thousands of dollars, except number of restaurants, days in the quarter, per share amounts and as noted otherwise)				
Restaurants in Royalty Pool(1)	751	751	736	736
Same store sales growth(2)	1.6%	-0.7%	1.8%	2.2%
Days in the quarter	91	90	92	92
System Sales reported by Pizza Pizza restaurants in Royalty Pool(6)	$ 114,002	$ 112,508	$ 119,496	$ 115,424
System Sales reported by Pizza 73 restaurants in Royalty Pool(6)	20,560	21,355	23,189	21,435
Total System Sales	$ 134,562	$ 133,863	$ 142,685	$ 136,859
Royalty – 6% on Pizza Pizza System Sales	$ 6,840	$ 6,751	$ 7,169	$ 6,926
Royalty – 9% on Pizza 73 System Sales	1,851	1,922	2,087	1,929
Royalty income	$ 8,691	$ 8,673	$ 9,256	$ 8,855
Interest paid on borrowings(3)	(330)	(314)	(341)	(337)
Administrative expenses	(176)	(135)	(214)	(139)
Adjusted earnings available for distribution to the Company and to Pizza Pizza Limited(5)	$ 8,185	$ 8,224	$ 8,701	$ 8,379
Distribution on Class B and Class D Exchangeable Shares (4)	(1,743)	(1,735)	(1,654)	(1,654)
Current income tax expense	(1,367)	(1,375)	(1,557)	(1,308)
Adjusted earnings available for shareholder dividends(5)	$ 5,075	$ 5,114	$ 5,490	$ 5,417
Add back:				
Distribution on Class B and Class D Exchangeable Shares(4)	1,743	1,735	1,654	1,654
Adjusted earnings from operations(5)	$ 6,818	$ 6,849	$ 7,144	$ 7,071
Adjusted earnings per share(5)	$ 0.218	$ 0.219	$ 0.231	$ 0.229
Basic earnings per share	$ 0.212	$ 0.217	$ 0.221	$ 0.221
Dividends declared by the Company	$ 5,266	$ 5,266	$ 5,266	$ 5,266
Dividend per share	$ 0.2139	$ 0.2139	$ 0.2139	$ 0.2139
Payout ratio(5)	104%	103%	96%	97%

(1) The number restaurants for which the Pizza Pizza Royalty Limited Partnership (the "Partnership") earns a royalty ("Royalty Pool"), 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"). For the 2018 fiscal period, the Royalty Pool includes 652 Pizza Pizza restaurants and 106 Pizza 73 restaurants. The number of restaurants added to the

Royalty Pool each year may differ from the number of restaurant openings and closings reported by Pizza Pizza Limited ("PPL") on an annual basis as the periods for which they are reported differ slightly (see "Royalty Pool Adjustments").

(2) Same store sales growth ("SSSG") means the change in period gross revenue of a particular Pizza Pizza or Pizza 73 restaurant as compared to sales in the previous comparative 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, the sales used to derive the Step-Out Payment (calculated as the difference between the average monthly Pizza 73 Royalty payment attributable to that Adjusted Restaurant in the 12 months immediately preceding the month in which the territory reduction occurs, less the Pizza 73 Royalty payment attributable to the restaurant in the current month) 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".

(3) The Company, indirectly through the Partnership, incurs interest expense on the $47 million outstanding bank loan. Interest expense also includes amortization of loan fees and off-market swap payments. See "Interest Expense".

(4) Represents the distribution to 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 License and Royalty Agreements, respectively, and represent 22.3% of the fully diluted Shares at June 30, 2018 (December 31, 2017 – 21.1%). During the quarter ended March 31, 2018, as a result of the final calculation of the equivalent Class B and Class D Share entitlements related to the January 1, 2017 Adjustment to the Royalty Pool, PPL was paid a distribution on additional equivalent Shares as if such Shares were outstanding as of January 1, 2017. Included in the three months ended March 31, 2018, is the payment of $111 in distributions to PPL pursuant to the true-up calculation (March 31, 2017 - PPL was paid $8).

(5) "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".

(6) 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 six months (the "Period") ended June 30, 2018. The Company prepares its Financial Statements in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting ("IAS 34"). The MD&A has been prepared as of August 8, 2018.

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 2018, the Royalty Pool consists of 652 Pizza Pizza restaurants and 106 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 (see "Royalty Pool Adjustments").

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 659 Pizza Pizza restaurants at June 30, 2018, 654 are franchised or licensed and 5 are owned and operated as corporate restaurants. Of the 659 restaurants, 234 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 112 Pizza 73 locations operating in the QSR segment, principally in the province of Alberta. The majority of the traditional Pizza 73 restaurants are not franchised, but instead are owned and operated as independent businesses. Of the 86 traditional restaurants at June 30, 2018, six are franchised or licensed and 80 are jointly-owned by PPL and an independent owner/operator. There are 26 non-traditional locations which have limited operating hours and a limited menu. Pizza 73 currently has seven traditional locations outside of Alberta; four in Saskatchewan, two in British Columbia and one in the Yukon. 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 restaurants in the Royalty Pool and not on the profitability of either PPL or the restaurants. 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 opening 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 June 30, 2018, PPL indirectly held an effective 22.3% interest in the Company (December 31, 2017 – 21.1%) 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". 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.

SAME STORE SALES GROWTH ("SSSG")

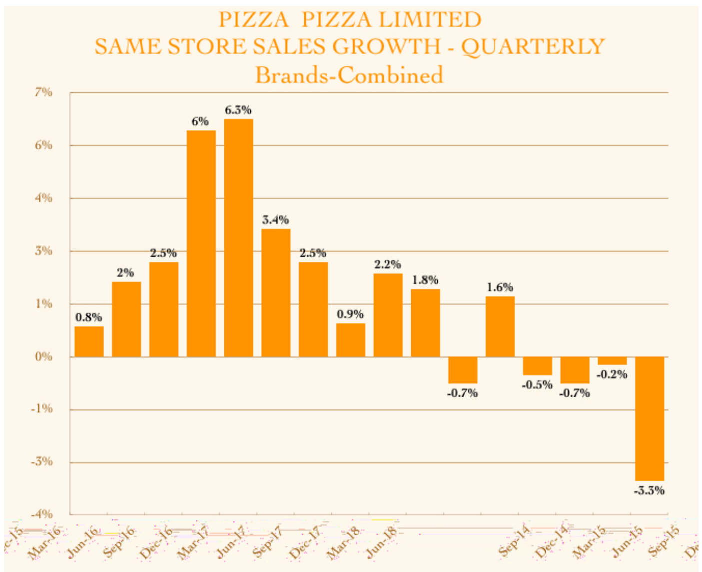
SSSG, the key driver of yield growth for shareholders of the Company, decreased by 3.3% (2017 – increased 1.6%) for the Quarter and decreased 1.7% (2017 – increased 0.5%) for the Period when compared to the same period in 2017. See "Reconciliation of Non-IFRS Measures".

SSSG	Second Quarter (%)		Year-to-Date (%)	
	2018	**2017**	**2018**	**2017**
Pizza Pizza	(3.5)	2.3	(1.7)	0.8
Pizza 73	(1.7)	(2.1)	(1.8)	(1.4)
Combined	(3.3)	1.6	(1.7)	0.5

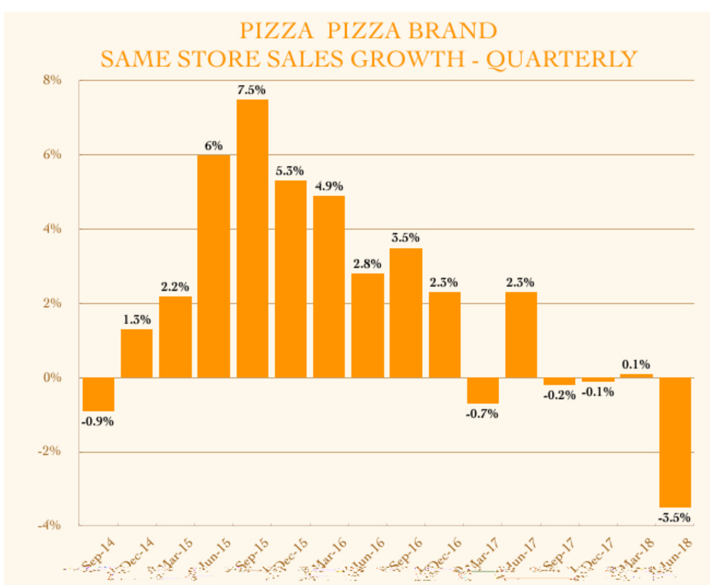
SSSG is driven by the change in the customer check and customer traffic, both of which are affected by changes in pricing and sales mix. During the Quarter and Period, the average customer check increased, when the two brands are combined, while the customer traffic count decreased. The average customer check increased as a result of increasing retail prices to partially offset provincial minimum wage increases. The price increases resulted in softness in traffic counts compared to one year ago. Management is closely monitoring consumer reaction to retail pricing strategies, in what continues to be, a highly competitive, value-oriented retail environment.

The following charts show historical SSSG performance:

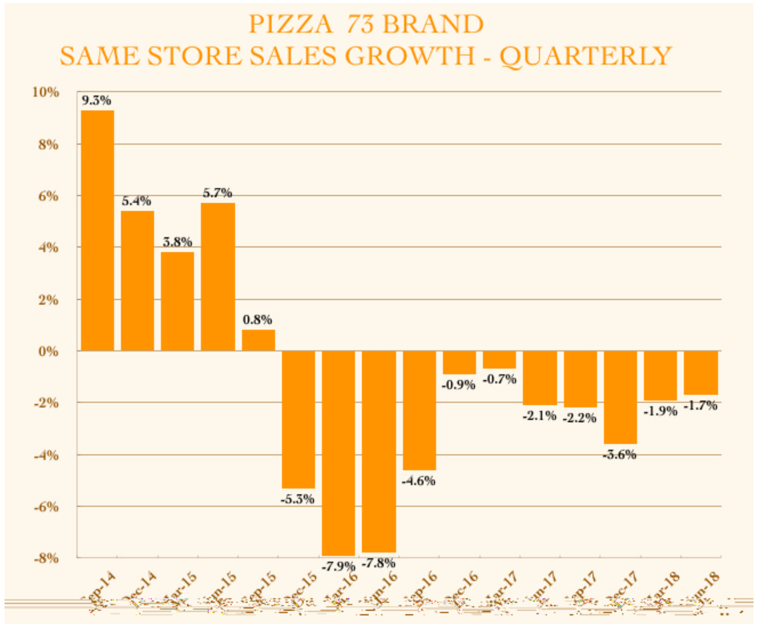
a) Quarterly SSSG, in which both brands are combined:



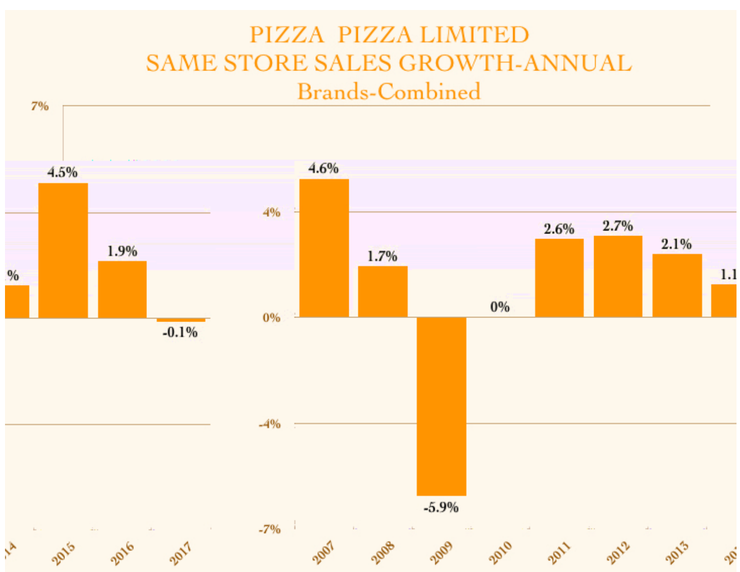
b) Quarterly SSSG, Pizza Pizza brand only:



c) Quarterly SSSG, Pizza 73 brand only



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



ROYALTY POOL SALES

The restaurants in the Royalty Pool increased to 758 on January 1, 2018 (the "Adjustment Date") to include 25 new restaurants less 18 closed restaurants. In the prior year, the Royalty Pool included 751 restaurants.

Interest expense for the Quarter and Period is outlined in the table below, which reconciles interest reported on the Financial Statements 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. The new agreements fixed the facility interest rate until April 2020 at the Bankers' Acceptance rate of 1.875% plus a credit spread which was initially set at 0.875%. The effective interest rate on the $47 million bank loan is currently 2.75% (2016 - 2.75%).

	Three months ended		Six months ended	
(in thousands of dollars)	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Interest expense	301	207	585	412
Loan fee amortization	2	2	4	4
Interest expense per financial statements	303	209	589	416
Interest paid to draw down swap termination and out-of-market costs	28	121	69	226
Interest paid on borrowings and loan fee amortization	331	330	658	642

Distributions made by the Partnership on the Class B and D Equivalent Shares on a per share basis were $0.2613 for the Quarter which is unchanged from the same quarter in 2017. For the Period, distributions were $0.5226 per share which is unchanged from the same period of 2017. The monthly Partnership distribution to both PPL and PPRC was last increased in June 2016 to $0.0871 ($1.046 annualized). While the distribution per unit remained unchanged, the increase in the number of Class B and Class D Equivalent Shares relating to the January 1, 2018 vend-in increased the overall distributions paid.

Distributions to the Company by the Partnership on its Class A and Class C LP units are calculated on a pro rata ownership basis; the Company owns 77.7% of the Partnership and PPL owns 22.3%. 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 measure operations after financing costs. For the Quarter, the Company reported earnings of $8.1 million compared to $8.3 million in the comparable quarter of 2017. Earnings for the Period were $16.4 million compared to $16.6 million in the prior year comparable period. The decrease in earnings in the Quarter and Period is attributable to a decrease in royalty income.

Current income tax expense for the Quarter was $1.4 million and $2.8 million for the Period. For the 2017 comparable quarter and period, the current tax was $1.4 million and $2.7 million, respectively. The tax expense for the Period increased slightly due to a decrease in available tax amortization on undepreciated capital assets.

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 tax amortization deducted is based on a declining balance basis and will decrease annually.

The Company's decrease in ownership of the Partnership, decrease in royalty income, and decrease in tax amortization resulted in an effective tax rate of 21.7% for the Period (2017 – 21.3%) compared to the Company's applicable statutory tax rate of 26.5% (2017 – 26.5%).

Deferred tax expense for the Quarter and Period**,** a non-cash item, was $0.3 million and $0.4 million, respectively, and were consistent with the comparable periods in 2017. 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 period attributable to shareholders decreased 3.5% to $6.4 million from $6.6 million in the comparable quarter last year. For the Period, earnings were $13.3 million compared to $13.4 million in the same period of 2017. The decrease in earnings resulted from a decrease in royalty income.

RECONCILIATION OF NON-IFRS MEASURES

The Company's 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 construed 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 table below reconciles the following to "Earnings for the period before income taxes" which is the most directly comparable measure calculated in accordance with IFRS:

- Adjusted earnings available for distribution to the Company and Pizza Pizza Limited,
- Adjusted earnings from operations, and
- Adjusted earnings available for shareholder dividends

	Three months ended		Six months ended	
(in thousands of dollars, except number of shares)	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Earnings for the period before income taxes	**8,053**	**8,306**	**16,407**	**16,633**
Interest payment related to the 2015 swap termination costs	(28)	(121)	(69)	(226)
Adjusted earnings available for distribution to the Company and Pizza Pizza Limited	**8,025**	**8,185**	**16,338**	**16,407**
Current income tax expense	(1,368)	(1,367)	(2,787)	(2,741)
Adjusted earnings from operations	**6,657**	**6,818**	**13,551**	**13,666**
Less: Distribution on Class B and Class D Exchangeable Shares	(1,861)	(1,743)	(3,833)	(3,477)
Adjusted earnings available for shareholder dividends	**4,796**	**5,075**	**9,718**	**10,189**
Weighted average Shares – diluted	31,666,003	31,213,495	31,666,003	31,213,495

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 decreased 3.8% to $0.21 when compared to the same period of 2017, and decreased 2.3% for the Period.

Basic EPS is adjusted as follows:

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Basic EPS	0.202	0.212	0.418	0.429
Adjustments:				
Interest rate swap draw down	(0.001)	(0.004)	(0.002)	(0.007)
Deferred tax expense	0.009	0.010	0.012	0.016
Adjusted EPS	**0.210**	**0.218**	**0.428**	**0.438**

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.

	Three months ended		Six months ended	
(in thousands of dollars, except as noted otherwise)	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Dividends declared to shareholders	5,266	5,266	10,532	10,532
Adjusted earnings available for shareholder dividends	4,796	5,075	9,718	10,189
Payout Ratio	**110%**	**104%**	**108%**	**103%**

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)	June 30, 2018	December 31, 2017
Total current assets	7,450	8,225
Less: Total current liabilities	3,210	3,175
Working Capital	**4,240**	**5,050**

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 comparative 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, the sales used to derive the Step-Out Payment may be added to sales to arrive at SSSG (as defined in footnote 2 on page 3). It is a key performance indicator for the Company as this measure excludes sales fluctuations due to store closings, permanent relocations and chain expansion.

The following table calculates SSSG by reconciling Royalty Pool System Sales, based on calendar year, to PPL's 13-week sales reporting period used in calculating same store sales.

	Three months ended		Six months ended	
(in thousands of dollars)	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Total Royalty Pool System Sales	131,056	134,562	266,404	268,426
Adjustments for stores not in both periods, Step-Out payments, and the impact of calendar reporting	(232)	664	(346)	2,355
Same Store Sales	130,824	135,226	266,058	270,781
SSSG	**-3.3%**	**1.6%**	**-1.7%**	**0.5%**

DIVIDENDS

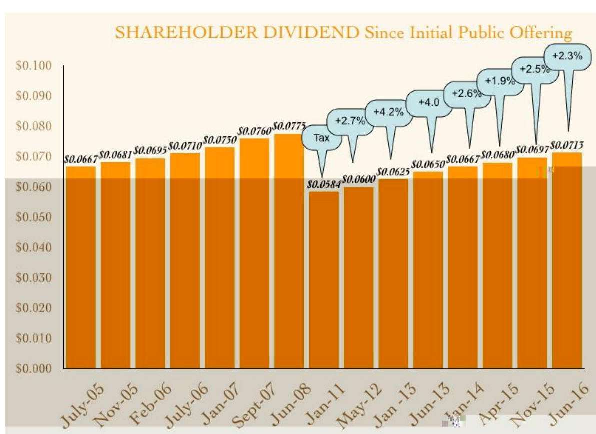
The Company declared shareholder dividends of $5.3 million, or $0.2139 per Share, for the current Quarter and for the comparative quarter in 2017. The payout ratio was 110% for the Quarter and was 104% in the prior year comparable quarter. For the Period, the Company declared shareholder dividends of $10.5 million, or $0.4278 per Share, which was unchanged from the comparable period in 2018. The payout ratio was 108% for the Period and was 103% in the prior year comparable period.

Dividends declared for 2018 are as follows:

Period	Payment Date	Amount/share
January 1-31, 2018	February 15, 2018	7.13¢
February 1-28, 2018	March 15, 2018	7.13¢
March 1-31, 2018	April 13, 2018	7.13¢
April 1-30, 2018	May 15, 2018	7.13¢
May 1-31, 2018	June 15, 2018	7.13¢
June 1-30, 2018	July 13, 2018	7.13¢
Total		42.78¢

Dividends were funded entirely by cash flow from operations and the working capital reserve. 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 in the hands of shareholders as opposed to its previous treatment as interest income. Since January 2011, the dividend has been increased seven times 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 is $4.2 million at June 30, 2018, which is a decrease of $810,000 since December 31, 2017. The decrease in the reserve is attributable to the reported negative SSSG, as well as a 2017 true-up payment to Pizza Pizza Limited of $111,000 made as part of the January 1 Adjustment Date in the first quarter.

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 continue to 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 was unchanged, however the maturity of the facility was extended to April 24, 2020; the previous maturity was December 6, 2016. The credit facility bears interest at the Canadian 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%, and is fixed until April 2020. 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 June 30, 2018 was $7.8 million (December 31, 2017 - $7.8 million). In addition, the Partnership is required to maintain a funded debt-to-EBITDA ratio not to exceed 2.0:1 on a four quarter rolling average. The debt-to-EBITDA ratio for the last four-quarter rolling average is 1.35:1 (December 31, 2017 – 1.34:1). 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%

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. Once adjusted, the Royalty Pool remains fixed for the year, consequently, the number of stores in the Royalty Pool may vary from the number of stores actually open at any given time during the year. As the Royalty Pool does not reflect current year changes until the next Adjustment Date. 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, 2018, it will be the effective Company tax rate for the year ended December 31, 2017). 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

2017 Royalty Pool Adjustment

In early January 2018, 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, 2017. As a result of the adjustments, the new Class B Exchange Multiplier is 2.000691 and Class B Units can be exchanged for 5,018,210 shares, which is an increase of 175,727 shares, effective January 1, 2017.

In early January 2018, 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, 2017. As a result of the adjustments, the new Class D Exchange Multiplier remains unchanged at 17.52620 and Class D Units can be exchanged for 1,752,620 shares effective January 1, 2017.

2018 Royalty Pool Adjustment – Class B Exchange Multiplier

On January 1, 2018, one net Pizza Pizza restaurant was added to the Royalty Pool as a result of 17 new restaurants opening and 16 closing from January 1, 2017 to December 31, 2017. The total number of Pizza Pizza restaurants in the Royalty Pool has increased to 652. The additional system sales from the 17 new restaurants are estimated at $3.9 million annually, less sales of $3.9 million from 16 permanently closed Pizza Pizza restaurants, resulting in the Estimated Determined Amount being ($1,000). As per the Pizza Pizza Royalty Limited Partnership agreement, whenever the Estimated Determined Amount is negative it shall be deemed to be zero. Accordingly, the Class B Exchange Multiplier remained unchanged at 2.000691. The second adjustment to the Class B Exchange Multiplier will be adjusted to be effective January 1, 2018, once the actual performance of the new restaurants is determined in early 2019.

2018 Royalty Pool Adjustment – Class D Exchange Multiplier
On January 1, 2018, six, net Pizza 73 restaurants were added to the Royalty Pool as a result of eight new restaurants opening between September 2, 2016 and September 1, 2017 and two restaurants closing between January 1, 2017 and December 31, 2017. The forecasted additional system sales from the eight new restaurants are estimated at $4.8 million annually, less $0.3 million in system sales attributable to the two closed Pizza 73 restaurants, resulting in net estimated Pizza 73 sales of $4.6 million added to the Royalty Pool. The total number of Pizza 73 restaurants in the Royalty Pool has increased to 106. The yield of the shares was determined to be 5.39% calculated using $15.88 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, 2018. 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 2.76781 (or 276,781 exchangeable shares); the new Class D Multiplier is 20.29401 and the Class D Units can be exchanged for 2,029,401 shares effective January 1, 2018. 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, 2018, once the actual performance of the new restaurants is determined in early 2019.

Pizza Pizza Royalty Corp. Outstanding Shares
PPL's Class B equivalent Share entitlement is unchanged for 2018, due to the fact that, in any year that the forecasted system sales (less closed restaurants sales and other adjustments) is negative, as was the case with the Class B equivalent Share entitlement calculation for 2018, no increase or decrease in the Exchange Multiplier is made. PPL will only have a Class B equivalent Share entitlement for 2018 if the actual sales performance of the 17 new Pizza Pizza restaurants, significantly exceeds forecasted system sales and yields net, positive sales which will be determined in early 2019.

In exchange for adding the forecasted Pizza 73 system sales to the Royalty Pool, PPL has received 276,781 additional equivalent Shares (through the change to the Class D Exchange Multiplier). These represent 80% of the forecasted equivalent Shares entitlement to be received (345,977 equivalent Shares represent 100%), with the final equivalent Shares entitlement to be determined when the new restaurants' 2018 actual sales performance is known with certainty in early 2019.

After giving effect to PPL's entitlement to additional equivalent Shares at January 1, 2018, PPL owns equivalent Shares representing 22.3% of the Company's fully diluted shares.

The chart 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 and adjustments as described below.

Shares outstanding & issuable on July 1, 2018		
Shares outstanding		24,618,392
Class B equivalent Shares held by PPL at December 31, 2017	4,842,483	
PPL additional Class B equivalent Shares - True-up Holdback as at December 31, 2017	175,727	
Additional PPL Class B equivalent Shares as of January 1, 2018	-	5,018,210
Class D equivalent Shares held by PPL at December 31, 2017	1,752,620	
PPL additional Class D equivalent Shares - True-up Holdback as at December 31, 2017	-	
Additional PPL Class D equivalent Shares as of January 1, 2018	276,781	2,029,401
Number of fully diluted shares		31,666,003
PPL's proportion of all shares outstanding and available for exchange		22.3%

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. As Canada's #1 pizzeria, PPL leverages its market-leading positions by staying top-of-mind with consumers. PPL believes its leading market share is the result of providing a variety of high-quality menu offerings, introducing new products, and investing heavily in technological innovation.

The success of Pizza Pizza Royalty Corp depends primarily on the ability of PPL to maintain and increase restaurant sales and to meet its royalty obligations. Increases in restaurant sales are derived from both the opening of new Pizza Pizza and Pizza 73 restaurants and increases in SSSG. SSSG, is the key metric for shareholder yield growth.

In 2018, the total number of restaurants are projected to increase 2% with growth to come from a continuation of the national expansion strategy which will further geographic diversification. SSSG is driven by the change in the average customer check and in customer traffic, both of which are affected by changes in pricing and sales mix. At both brands, as many provinces increase minimum wage, PPL's 2018 marketing strategies will be structured to optimize restaurant profitability while also driving customer traffic to the restaurants and encouraging customers to place orders using our wide array of digital ordering platforms.

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.

Pizza Pizza Royalty Corp has accumulated a $4.2 million working capital reserve which 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 is targeting an annual payout ratio at or near 100% in 2018. The Company does not have capital expenditure requirements or employees.

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 June 30, 2018. 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 8 of the 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, 2017 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. 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 Financial Statements are consistent with those used in the Company's 2017 audit 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 16, Leases ("IFRS 16")
In January 2016, the IASB has issued IFRS 16, 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 formed a project team and has begun the process of evaluating the impact of this standard on its consolidated financial statements..

On January 1, 2018, the Company has applied, for the first time, IFRS 15, *Revenue from Contracts with Customer,* and IFRS 9, *Financial Instruments*. As required by IAS 34, the nature and effect of these changes are disclosed below.

a. IFRS 15, *Revenue from Contracts with Customers*

IFRS 15 *Revenue from Contracts with Customers* (IFRS 15), establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The Company adopted IFRS 15 using the modified retrospective method and has elected to apply the standard retrospectively only to contracts that are not completed contracts at the date of initial application. The Company applied certain practical expedients, as permitted by the standard in determining the impact on transition.

The Company's accounting policy for revenue recognition is described below and was determined to be in compliance with the requirements of IFRS 15.

The Company collects royalty income from Pizza Pizza Limited based on system sales of Pizza Pizza and Pizza 73 restaurants. Prior to the adoption of IFRS 15, Royalty income was recognized on an accrual basis equal to 6% of system sales from all Pizza Pizza restaurants in the Royalty Pool and 9% of system sales from all Pizza 73 restaurants in the Royalty Pool.

Under the new standard, there have been no changes to the recognition of royalty income and no retrospective restatements have been made. IFRS 15 includes an exception relating to the recognition of sales or usage based royalties from licenses of intellectual property, which the Company has applied.

b. IFRS 9, *Financial Instruments*

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39") for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The Company is applying IFRS 9 retrospectively, with no adjustment to retained earnings as of January 1, 2018.

Classification and measurement

With the new standard, the Company notes there have been no changes in classification and measurement of its financial instruments. The classification is based on two criteria: The Company's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion'). Based on the Company's assessment cash equivalents, short-term investments, receivable from PPL, and trade and other receivables are carried at amortized cost, as these financial assets are held within a business model with the objective to hold the financial assets in order to collect the contractual cash flows that meet the SPPI criterion.

The assessment of the Company's business models was made as of the date of initial application, January 1, 2018, and then applied retrospectively to those financial assets that were not derecognized before January 1, 2018. The assessment on whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Company's financial liabilities remains largely the same as it was under IAS 39. Similar to the requirements of IAS 39, the Company continues to measure its financial liabilities at amortized cost.

Impairment

The adoption of IFRS 9 has changed the accounting for impairment losses, with respect to financial assets, by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. However, given the nature of the Company's business, it is not expected that impairment losses will be materially different under IFRS 9, as compared to the incurred loss approach.

IFRS 9 requires the Company to record an allowance for expected credit losses ("ECLs") for all loans and other debt financial assets that are not held at fair value through profit and loss.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

The Company notes that its cash equivalents and short term investments are high grade investments that are held with reputable financial institutions. As such, these assets are considered to be low credit risk investments. It is the Company's policy to measure such instruments on a 12-month ECL basis. In all cases, the Company will consider that there has been an increase in credit risk when contractual payments are past due.

For trade and other receivables as well as the receivable from PPL, the Company has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Company has established a provision matrix that is based on the Company's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The adoption of the ECL requirements of IFRS 9 resulted in no changes to impairment allowances of the Company's financial assets. As such there were no retrospective adjustments made upon transition.

Hedge Accounting

The Company has applied hedge accounting prospectively. At the date of initial application, all of the Company's existing hedging relationships were eligible to be treated as continuing hedging relationships. Consistent with prior periods, the Company has continued to designate the change in fair value of the entire forward contract in the Company's cash flow hedge relationship and will continue to measure changes in fair value of the interest rate swaps in other comprehensive earnings (loss) to the extent the hedge continues to be highly effective. The related other comprehensive earnings (loss) amounts are allocated to the consolidated statements of earnings in the same period in which the hedged item affects 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 adoption of the new hedge accounting requirements resulted in no transitional adjustment to how the Company has applied hedge accounting under IFRS 9. As such there were no retrospective adjustments made upon transition.

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 breaches, 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.