PIZZA PIZZA ROYALTY CORP.
2016 ANNUAL REPORT

pizza pizza PIZZA 73

PIZZA PIZZA ROYALTY CORP.

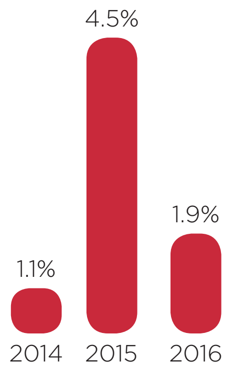
The Company, indirectly, through the Pizza Pizza Royalty Limited Partnership (“PPRLP”), owns the trademarks and trade names used by Pizza Pizza Limited (“PPL”) in its Pizza Pizza and Pizza 73 restaurants.

The Pizza Pizza trademarks were licensed to PPL in 2005 for 99 years, for which PPL pays a royalty equal to 6% of the System Sales of its Pizza Pizza restaurants in the Royalty Pool. On July 24, 2007, the Company acquired the trademarks and other intellectual property of Pizza 73 and licensed them to PPL for 99 years, for which PPL pays a royalty equal to 9% of the System Sales of the Pizza 73 restaurants in the Royalty Pool. For the year 2016, the Royalty Pool consisted of 636 Pizza Pizza restaurants and 100 Pizza 73 restaurants.

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

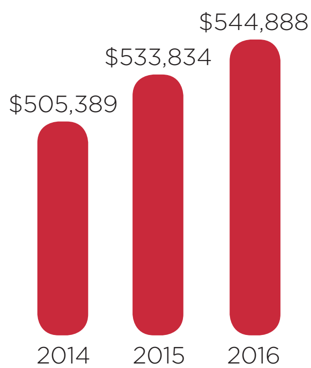
The success of the Company depends primarily on the ability of PPL to maintain and increase system sales of the Royalty Pool and to meet its royalty obligations.

SELECTED FINANCIAL HIGHLIGHTS

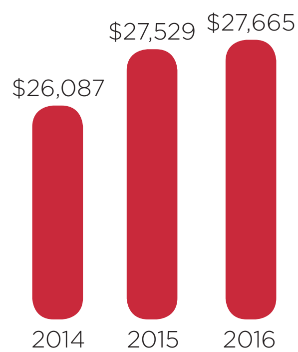


Same Store Sales Growth (combined)

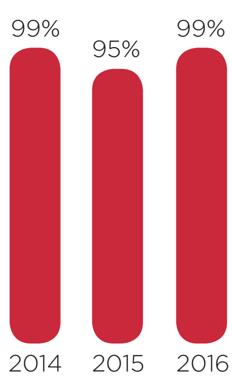
Restaurants in the Royalty Pool



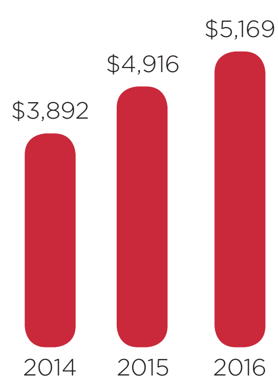
Royalty Pool Sales (000's)



Adjusted earnings from operations (000's)



Payout Ratio



Working Capital Reserve (000's)

LETTER FROM THE CHAIR

On behalf of the Board of Directors, I am pleased to present Pizza Pizza Royalty Corp.'s (the "Company") operating results for the year ended December 31, 2016.

Financial Highlights

- Royalty Pool Sales grew 2.1% to $544.9 million
- Same Store Sales Growth increased 1.9%
- Monthly dividend increased in June
- Working capital reserve increased to $5.2 million
- Payout ratio was 99%

Geographic diversification across Canada has, historically, contributed to consistent and stable growth in Royalty Pool Sales. In 2016, sales increased 2.1% to $544.9 million compared to $533.8 million in the previous year. Same store sales growth, the key driver of shareholder yield growth, increased 1.9% for the year and marks the sixth consecutive year of positive same store sales. The Company provides shareholders with regular monthly dividends and in June 2016, increased the monthly dividend by 2.3% to $0.0713 per share, or $0.8556 per share annualized. This was the seventh dividend increase in five years.

Pizza Pizza Royalty Corp. is structured to pay out the majority of its net cash flow, especially since it has no employees or capital expenditure requirements. In 2016, the Company's payout ratio was 99%; the targeted payout ratio was 100%, which will also be the targeted payout ratio in 2017.

A $5.2 million working capital reserve is available to stabilize dividends and fund any other unusual expenditures in the event of short- to medium-term variability in Royalty Pool Sales. Consistent, positive same store sales growth, coupled with this reserve, reflects the strength of the Company's brands and its ability to increase shareholder value.

On behalf of the Board of Directors,

Elizabeth Wright, Chair

PZA FACTS

AT 12/31/16:

6,302,849
equivalent shares held by PPL

$0.8556
annualized dividend per share

$546 million
market capitalization – fully diluted

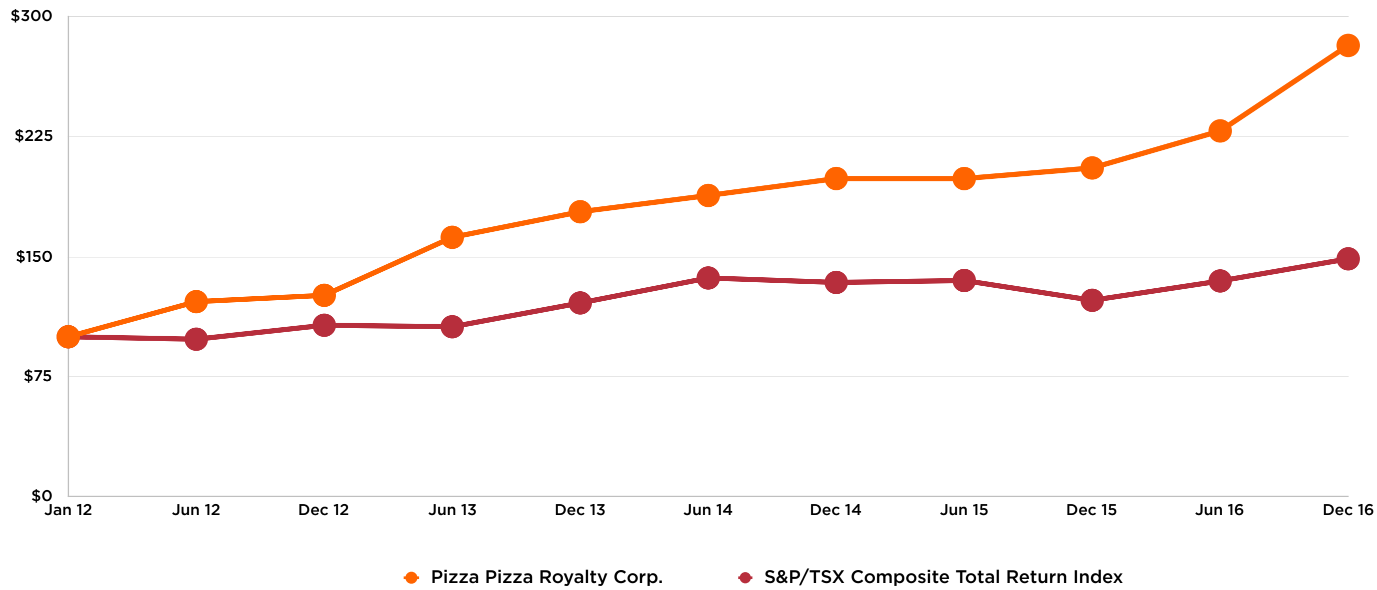
24,618,392
public shares outstanding

$17.66
trading price

4.8%
dividend yield

PZA share price increased from **$13.65** to **$17.66** in 2016. Total return, with dividend: **35.6%**

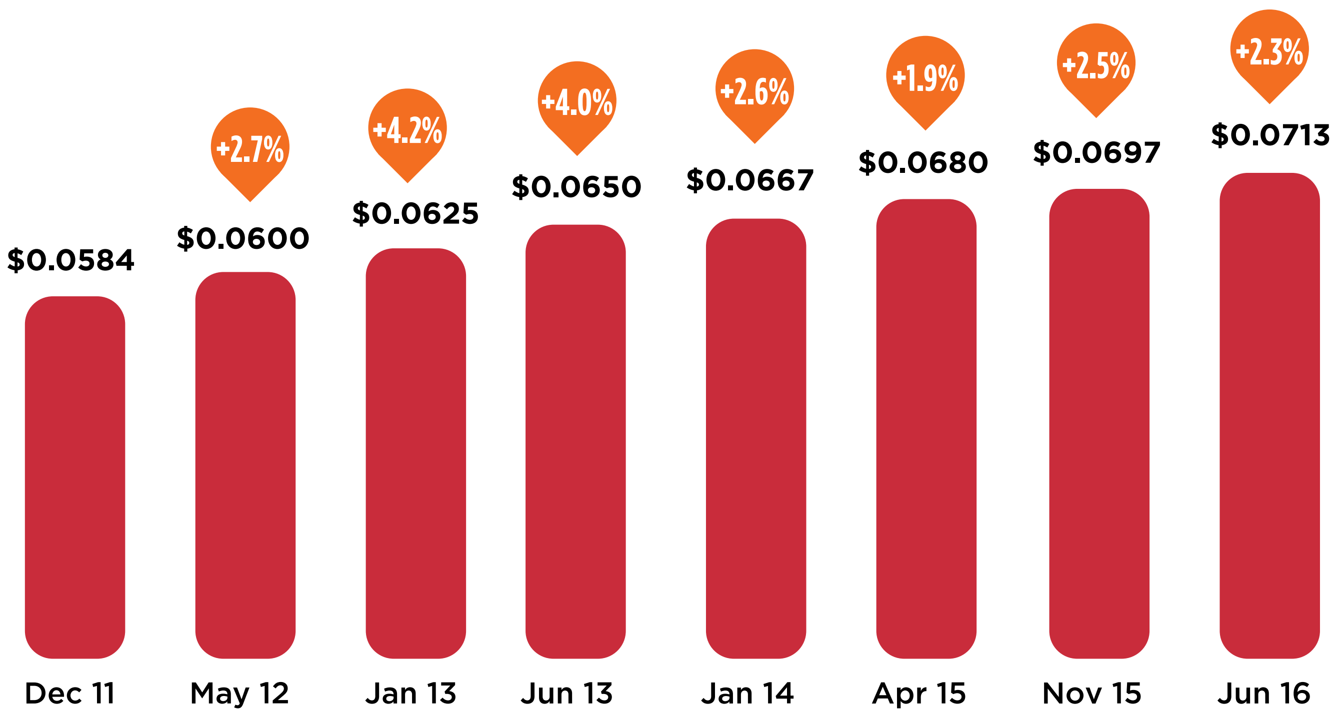
PERFORMANCE GRAPH



	Jan 12	Jun 12	Dec 12	Jun 13	Dec 13	Jun 14	Dec 14	Jun 15	Dec 15	Jun 16	Dec 16
Pizza Pizza Royalty Corp.	$100.00	$121.92	$125.87	$162.07	$178.02	$188.18	$198.75	$198.72	$205.36	$228.47	$281.81
S&P/TSX Composite Total Return Index	$100.00	$98.47	$107.19	$106.24	$121.11	$136.69	$133.90	$135.11	$122.76	$134.83	$148.64

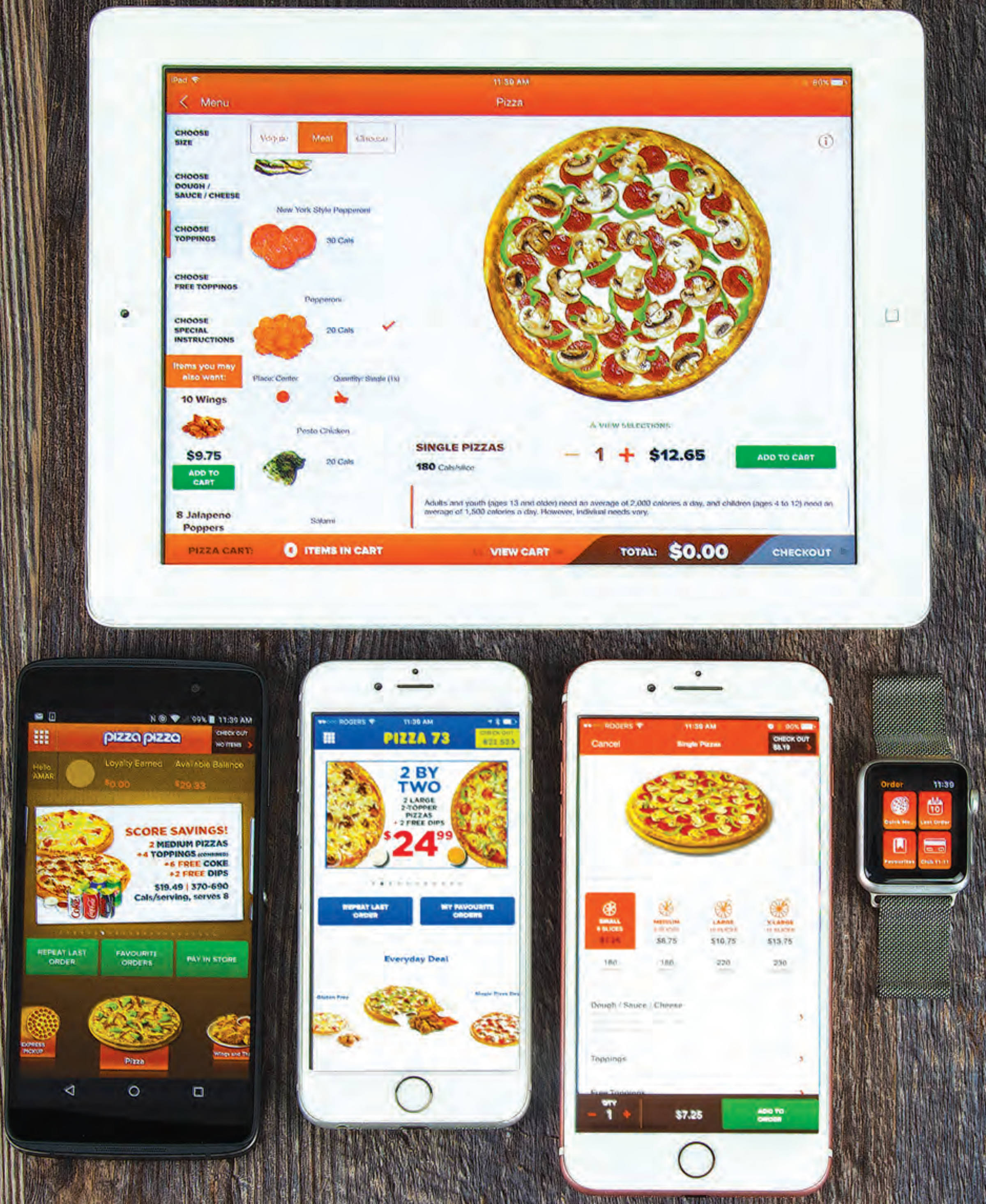
SHAREHOLDER MONTHLY DIVIDEND

Over the last 5 years the Company's dividends have increased 7 times.






PIZZA PIZZA FUNDAMENTALS & STRATEGY



INNOVATE ACROSS ALL ASPECTS OF THE BUSINESS

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

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

Our digital ordering platform now accounts for over 50% of all orders. Our popular Club 11-11 loyalty card program offers 5% earnings on every purchase, plus redemption after five visits.

Menu innovation is another competency and it continues to evolve in response to customer preferences. In 1967, we began with a limited selection of pizzas; today we offer customers over 30 different pizzas and the ability to create their own from a choice of 50 toppings. In 2016, new product offerings included:

- Gluten-free Chicken Bites
- Chicken Raised without Antibiotics

GROW AND DEVELOP RESTAURANT NETWORK

The focus of the business continues to be our traditional restaurant format, including delivery and walk-in. Traditional restaurants are typically located in high traffic, high visibility areas and offer our full menu. The majority of our traditional Pizza Pizza restaurants provide seating for, on average, approximately 25 customers. Over the years we have repositioned the brand as a “restaurant with delivery”, and consistent with this strategy, our revenue mix has evolved from a 90/10 mix of delivery to take-out, to a 60/40 mix. At our Pizza 73 brand, restaurants offer limited seating and delivery sales account for 90% of the sales mix.

We also license non-traditional restaurants that serve a limited menu and are targeted to “captured traffic” locations such as sports arenas, entertainment venues, food courts, and universities. Non-traditional restaurants complement our market penetration strategy by building brand awareness and exposure while also generating additional sales.

During the year we opened 25 new restaurants. At December 31, 2016, there were 752 restaurants in our system, comprised of 651 Pizza Pizza restaurants and 101 Pizza 73 restaurants. Our two brands generated over $545 million in system sales, or a 1.9% increase over 2015. In 2017, we will continue to focus on our national expansion program, with most openings projected to be in Quebec for the near future.

pizza pizza
Pick up your
tap 2 eat
Mobile order here
vitaminwater

SUPPORT THE BRAND

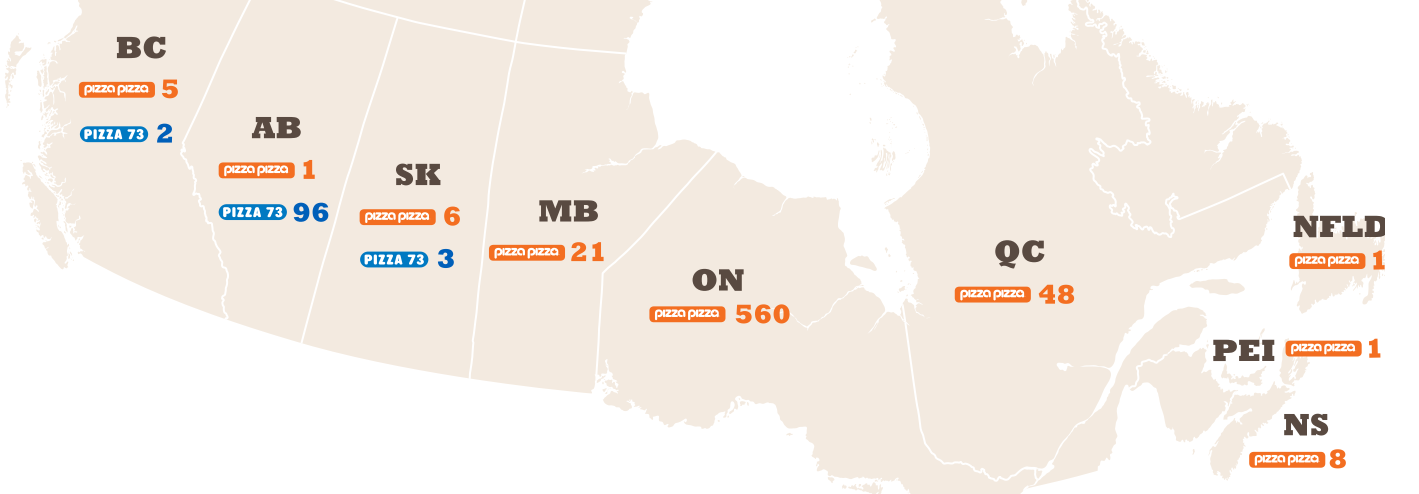
We continue to be a pioneer in developing and executing our marketing programs to promote exceptional menu offerings that appeal to a broad customer base whether it's lunch, dinner or late night. Our in-house marketing team, with an annual budget of over $33 million, creates marketing messages to help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

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

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

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

DRIVE NATIONAL EXPANSION ACROSS CANADA



ACT IN A SOCIALLY RESPONSIBLE MANNER

In 2007, in conjunction with its 40th anniversary, Pizza Pizza Limited created the Slices for Smiles Foundation to assist in providing the fundamental building blocks of life, education, healthcare, nutrition and social support to children and families in need. Since inception, the Foundation has raised over $3.0 million for children's hospitals and charities in Canada.

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

IN CLOSING...

I applaud and give thanks to our restaurant operators and the many corporate teams which support our restaurants. The successes we've enjoyed over the past years are a result of working together to fulfill our customer promise of "always the best food, made especially for you". Although part of our business is a publicly-held company, Pizza Pizza operates very much like a family business. We are passionate about our two leading brands and excited about our future. We are determined to continue to set the pace in our industry with quality food, convenience and great customer service. Our family extends further to the valuable non-traditional partnerships we have developed, including those with sporting and entertainment venues, universities, colleges and hospitals. Our corporate philosophy of teamwork and supporting respectful relationships is the foundation of our business which has provided shareholders consistent increases in value since our IPO in 2005.

PAUL GODDARD
Chief Executive Officer
Pizza Pizza Limited

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of **Pizza Pizza Royalty Corp.**, which comprise the consolidated statements of financial position as at December 31, 2016 and 2015 and the consolidated statements of earnings, comprehensive earnings, changes in shareholders' equity and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Pizza Pizza Royalty Corp. as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years ended December 31, 2016 and 2015 in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada,
March 8, 2017

Pizza Pizza Royalty Corp.

Consolidated Statements of Financial Position
As at December 31, 2016 and 2015
(Expressed in thousands of Canadian dollars)

	December 31, 2016 $	December 31, 2015 $
Assets		
Current assets		
Cash and cash equivalents	2,134	2,236
Short-term investments	2,750	2,750
Receivable from Pizza Pizza Limited (note 10)	3,311	3,381
Trade and other receivables	81	120
Total current assets	**8,276**	**8,487**
Non-current assets		
Pizza Pizza Rights and Marks (note 3)	262,703	261,712
Pizza 73 Rights and Marks (note 3)	73,667	72,187
Total non-current assets	**336,370**	**333,899**
Total assets	**344,646**	**342,386**
Liabilities and shareholders' equity		
Current liabilities		
Trade and other payables (note 4)	480	487
Payable to Pizza Pizza Limited (note 10)	573	590
Dividends payable to shareholders	1,755	1,716
Income taxes payable	299	778
Total current liabilities	**3,107**	**3,571**
Non-current liabilities		
Borrowings (note 5)	46,977	46,937
Derivative financial instruments (note 12)	959	1,688
Deferred tax liability (note 7)	18,207	16,744
Total non-current liabilities	**66,143**	**65,369**
Shareholders' equity		
Share capital (note 8)	242,030	242,030
Exchangeable Shares (notes 3 and 6)	65,501	63,030
Accumulated other comprehensive loss	(190)	(390)
Deficit	(31,945)	(31,224)
Total shareholders' equity	**275,396**	**273,446**
Total liabilities and shareholders' equity	**344,646**	**342,386**

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

Pizza Pizza Royalty Corp.

Consolidated Statements of Earnings
For the years ended December 31, 2016 and 2015
(Expressed in thousands of Canadian dollars, except number of shares and per share amounts)

	December 31, 2016 $	December 31, 2015 $
Royalty Pool System Sales (note 9)	544,888	533,834
Royalty income (note 9)	35,333	34,808
Administrative expenses	(678)	(624)
Operating earnings	**34,655**	**34,184**
Interest expense on borrowings (note 5)	(867)	(1,144)
Non-cash swap termination costs	-	(1,245)
Earnings for the year before income taxes	**33,788**	**31,795**
Current tax expense (note 7)	(5,649)	(5,132)
Deferred tax expense (note 7)	(1,408)	(1,425)
Earnings for the year attributable to shareholders	**26,731**	**25,238**
Weighted average number of shares – basic and diluted (note 8)	30,921,241	30,742,525
Basic and diluted earnings per share (note 8)	**0.86**	**0.82**

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

Pizza Pizza Royalty Corp.

Consolidated Statements of Comprehensive Earnings
For the years ended December 31, 2016 and 2015
(Expressed in thousands of Canadian dollars)

	December 31, 2016 $	December 31, 2015 $
Earnings for the year	**26,731**	**25,238**
Other comprehensive earnings (loss)		
Items reclassified subsequently to net earnings:		
Cash flow hedges	-	1,245
Deferred tax impact of cash flow hedges	-	(263)
Items that may be reclassified subsequently to net earnings:		
Cash flow hedges	254	(818)
Deferred tax impact of cash flow hedges	(54)	184
Total comprehensive earnings	**26,931**	**25,586**

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

Pizza Pizza Royalty Corp.

Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2016 and 2015
(Expressed in thousands of Canadian dollars)

	Share capital $	Exchangeable Shares $	Accumulated other comprehensive loss $	Deficit $	Total shareholders' equity $
	(note 8)	**(note 6)**			
At December 31, 2015	**242,030**	**63,030**	**(390)**	**(31,224)**	**273,446**
Comprehensive earnings					
Earnings for the year	-	-	-	26,731	26,731
Cash flow hedges	-	-	254	-	254
Deferred tax impact of cash flow hedges	-	-	(54)	-	(54)
Total comprehensive earnings	**-**	**-**	**200**	**26,731**	**26,931**
Transactions with shareholders					
Exchangeable Shares (note 6)	-	2,471	-	-	2,471
Dividends declared to shareholders	-	-	-	(20,867)	(20,867)
Distributions on Class B and Class D Exchangeable Shares	-	-	-	(6,585)	(6,585)
Total transactions with shareholders	**-**	**2,471**	**-**	**(27,452)**	**(24,981)**
At December 31, 2016	**242,030**	**65,501**	**(190)**	**(31,945)**	**275,396**
At December 31, 2014	**212,928**	**86,129**	**(738)**	**(24,346)**	**273,973**
Comprehensive earnings					
Earnings for the year	-	-	-	25,238	25,238
Cash flow hedges	-	-	427	-	427
Deferred tax impact of cash flow hedges	-	-	(79)	-	(79)
Total comprehensive earnings	**-**	**-**	**348**	**25,238**	**25,586**
Transactions with shareholders					
Exchangeable Shares (note 6)	-	6,003	-	-	6,003
Conversion of Exchangeable Shares	29,102	(29,102)	-	-	-
Deferred tax impact of conversion of Exchangeable Shares	-	-	-	(5,649)	(5,649)
Dividends declared to shareholders	-	-	-	(19,703)	(19,703)
Distributions on Class B and Class D Exchangeable Shares	-	-	-	(6,764)	(6,764)
Total transactions with shareholders	**29,102**	**(23,099)**	**-**	**(32,116)**	**(26,113)**
At December 31, 2015	**242,030**	**63,030**	**(390)**	**(31,224)**	**273,446**

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

Pizza Pizza Royalty Corp.

Consolidated Statements of Cash Flows
For the years ended December 31, 2016 and 2015
(Expressed in thousands of Canadian dollars)

	December 31, 2016 $	December 31, 2015 $
Cash provided by (used in)		
Operating activities		
Earnings for the year	26,731	25,238
Non-cash swap termination costs	-	1,245
Amortization of deferred financing fees	40	38
Swap termination cost	-	(61)
Off-market swap payments	(474)	(318)
Deferred tax expense (note 7)	1,408	1,425
Changes in non-cash working capital (note 11)	(394)	(404)
Cash provided by operating activities	**27,311**	**27,163**
Financing activities		
Debt refinancing fees	-	(38)
Dividends paid to shareholders	(20,828)	(19,442)
Distributions on Class B and Class D Exchangeable Shares	(6,585)	(6,764)
Cash used in financing activities	**(27,413)**	**(26,244)**
Investing activities		
Acquisition of Rights and Marks associated with the vend-in (notes 3 and 6)	-	(38)
Cash used in investing activities	**-**	**(38)**
Increase/(Decrease) in cash and cash equivalents	**(102)**	**881**
Cash and cash equivalents, beginning of year	**2,236**	**1,355**
Cash and cash equivalents, end of year	**2,134**	**2,236**
Supplementary information		
Interest paid	1,301	1,485

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

1. General information

The Pizza Pizza Royalty Corp. (the "Company") 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 PPL pays a royalty equal to 6% of system sales from all Pizza Pizza restaurants in the Royalty Pool, as defined in the Pizza Pizza Licence and Royalty Agreement.

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

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

As at December 31, 2016, there were 636 Pizza Pizza restaurants (2015 – 630) and 100 Pizza 73 restaurants (2015 – 100) in the Royalty Pool; the Royalty Pool is adjusted annually on January 1.

The Company pays monthly dividends directly to public shareholders. For the year ended December 31, 2016, the Company declared dividends of $0.8476 per share (2015 – $0.8155 per share).

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

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

2. Significant accounting policies

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

a. Basis of presentation

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

The policies applied in these consolidated financial statements are based on IFRS standards, which have been applied consistently to all periods presented. These consolidated financial statements were issued and effective as at March 8, 2017, the date the Board of Directors approved the consolidated financial statements.

b. Future changes in accounting policy and disclosure

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

IFRS 9, Financial Instruments ("IFRS 9")
IFRS 9, 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. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018. The new revenue standards may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. While the Company is still in the process of assessing the anticipated impact of the amended standard on its consolidated financial statements, it generally anticipates that the accounting for ongoing royalty revenues will not materially change. The Company has formed a project team to evaluate and implement the standard and currently anticipates adopting this standard in its first quarter of 2018 without restatement of prior periods presented.

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 not yet begun the process of evaluating the impact of this standard on its consolidated financial statements.

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

c. Consolidation

The consolidated financial statements incorporate the assets and liabilities of the Company and its subsidiaries as at December 31, 2016 and 2015 and the results of these subsidiaries for the years ended December 31, 2016 and 2015. The Company's subsidiaries and its respective holding at December 31, 2016 and 2015 are outlined below:

Subsidiary	December 31, 2016	December 31, 2015
Pizza Pizza GP Inc.	79.6%	80.1%
Pizza Pizza Royalty Limited Partnership	79.6%	80.1%

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

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

d. Functional and presentation currency

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

e. Financial assets and liabilities

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

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

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

Classification choices for financial assets include:

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

comprehensive income for the current period until realized through disposal or impairment; and

iv) Loans and receivables - recorded at amortized cost with gains and losses recognized in profit for the year in the period that the asset is no longer recognized or impaired.

Classification choices for financial liabilities include:

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

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

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

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

f. Impairment of financial assets

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

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

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

g. Derivative financial instruments and hedging activities

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

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

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

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

h. Cash and cash equivalents

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

i. Short-term investments

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

j. Trade and other receivables

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

k. Pizza Pizza and Pizza 73 Rights and Marks

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

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

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

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

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

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

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

l. Impairment of Rights and Marks

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

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

m. Trade and other payables

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

n. Borrowings

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

o. Exchangeable Shares

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

p. Income taxes

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

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

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

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

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

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

q. Revenue recognition

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

Interest income is recognized using the effective interest rate method.

r. Dividends to shareholders

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

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

s. Segment reporting

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

t. Critical accounting estimates and assumptions

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

i. Impairment of Rights and Marks
Determining whether the Rights and Marks are impaired requires an estimation of the recoverable amount of the cash generating unit in which the assets are included. The value-in-use calculation requires that the Company estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. The significant estimates and assumptions used in the impairment tests performed at December 31, 2016 and December 31, 2015 are disclosed in note 3.

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

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

3. Pizza Pizza and Pizza 73 Rights and Marks

	Pizza Pizza Rights and Marks $	Pizza 73 Rights and Marks $	Total $
Net book value at December 31, 2014	**256,925**	**70,933**	**327,858**
Accretion of value – January 1, 2015 vend-in	2,457	1,216	3,673
Accretion of value – January 1, 2014 true-up	2,330	38	2,368
Net book value at December 31, 2015	**261,712**	**72,187**	**333,899**
Accretion of value – January 1, 2016 vend-in	748	499	1,247
Accretion of value – January 1, 2015 true-up	243	981	1,224
Net book value at December 31, 2016	**262,703**	**73,667**	**336,370**

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

The Company, through its interest in the Partnership, acquired the Pizza Pizza Rights and Marks used in the Pizza Pizza quick service restaurant business in Canada in July 2005. Funding for the purchase came from the completion of the Pizza Pizza Royalty Income 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 Pizza Pizza Licence and Royalty Agreement.

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

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

As a result of adding new restaurants to the Royalty Pool on January 1, 2016, the Rights and Marks increased by $1,247 in 2016 (2015 – $3,673) and increased by $1,224 related to the January 1, 2015 true-up (for the January 1, 2014 true-up – $2,368).

Impairment test on the Rights and Marks

The Company performed impairment tests for both the Pizza Pizza and Pizza 73 Rights and Marks at December, 31, 2016 and 2015 in accordance with the accounting policy as described in note 2. The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations used cash flow projections based on financial budgets approved by management covering a one year period and extrapolated for three years. Cash flows beyond the four year period are estimated using a terminal growth rate as stated below.

The key assumptions used for the value-in-use calculation as at December 31, 2016 were as follows:

	Terminal Growth rate	Pre-tax discount rate
Pizza Pizza CGU	2.5%	9.1%
Pizza 73 CGU	2.5%	9.5%

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

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

The impairment tests performed resulted in no impairment of the Rights and Marks as at December 31, 2016 or 2015.

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

4. Trade and Other Payables

	December 31, 2016 $	December 31, 2015 $
Accruals	153	171
Other payables	327	316
Total trade and other payables	**480**	**487**

5. Borrowings

	December 31, 2016 $	December 31, 2015 $
Borrowings	47,000	47,000
Less: deferred financing fees	23	63
Total borrowings	**46,977**	**46,937**

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

Interest expense incurred on borrowings for the year ended December 31, 2016 amounted to $867 (2015 – $1,144). Principal repayments on borrowings of $47,000 are due on April 24, 2020. The effective interest rate as at December 31, 2016 on the $47,000 was 2.75% (2015 – 2.75%).

The facility is subject to certain financial covenants, all of which have been met as at December 31, 2016 and 2015. The borrowings are held within the Partnership and therefore the financial covenants for the borrowings pertain only to the results of the Partnership and not the Company.

6. Exchangeable Shares

As at December 31, 2016, PPL indirectly holds an effective 20.4% interest in the Company (December 31, 2015 – 19.9%) 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".

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.

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

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, 2014	**6,934,272**	**1,548,071**	**8,482,343**	**86,129**
Add: January 1, 2015 vend-in	178,183	88,162	266,345	3,673
Add: January 1, 2014 true-up	175,445	-	175,445	2,330
Less: March 23, 2015 conversion	(2,800,000)	-	(2,800,000)	(29,102)
At December 31, 2015	**4,487,900**	**1,636,233**	**6,124,133**	**63,030**
Add: January 1, 2016 vend-in	54,001	35,975	89,976	1,247
Add: January 1, 2015 true-up	17,641	71,099	88,740	1,224
At December 31, 2016	**4,559,542**	**1,743,307**	**6,302,849**	**65,501**

a. 2015 Royalty Pool Adjustment – true-up

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

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

b. 2016 Royalty Pool Adjustment – Class B Exchange Multiplier

On January 1, 2016, six net Pizza Pizza restaurants were added to the Royalty Pool as a result of 24 new restaurants opening and 18 closing from January 1, 2015 to December 31, 2015. The additional system sales from the 24 new restaurants are estimated at $4,887 annually less sales of $3,630 from 18 permanently closed Pizza Pizza restaurants resulting in net estimated Pizza Pizza sales of $1,257 added to the Royalty Pool. The total number of Pizza Pizza restaurants in the Royalty Pool has increased to 636. The yield of the shares was determined to be 5.89% calculated using $13.85 as a weighted average share price. Weighted average share price is calculated based on the market price of the shares traded on the Toronto Stock Exchange during the period of twenty consecutive days ending on the fifth trading day before January 1, 2016. As a result of the contribution of the additional net sales to the Royalty Pool, the Class B Exchange Multiplier increased fractionally by 80% of the total adjustment or 0.021529; the new Class B Multiplier is 1.817826. This adjustment will also increase the entitlement of the holders of the Class B Units to distributions of cash and allocations of income from the Partnership. The second adjustment to the Class B Exchange Multiplier will be adjusted to be effective January 1, 2016, once the actual performance of the new restaurants is determined in early 2017. See Subsequent Events – Note 13.

c. 2016 Royalty Pool Adjustment – Class D Exchange Multiplier

On January 1, 2016, the Pizza 73 Royalty Pool remained unchanged as a result of two new restaurants opening between September 2, 2014 and September 1, 2015 and two restaurants closing between January 1, 2015 and December 31, 2015. The forecasted additional system sales from the two new restaurants are estimated at $1,070 annually less $512 in system sales attributable to the two closed restaurants. The total number of Pizza 73 restaurants in the Royalty Pool remains at 100 for 2016. The yield of and the weighted average share price used in the calculation of the Class D Multiplier is determined in the same manner as that of the Class B Exchange Multiplier calculation at 5.89% and $13.85, respectively. As a result of the contribution of the additional net sales to the Royalty Pool, the Class D Exchange Multiplier increased fractionally by 80% of the total adjustment or 0.35975; the new Class D Multiplier is 17.43307. This adjustment will also increase the entitlement of the holders of the Class D Units to distributions of cash and allocations of income from the Partnership. The second adjustment to the Class D Exchange Multiplier will be adjusted to be effective January 1, 2016, once the actual performance of the new restaurants is determined in early 2017. See Subsequent Events – Note 13.

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

d. Pizza Pizza Royalty Corp. Outstanding Shares

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

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

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

7. Income Taxes

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

	December 31, 2016 $	December 31, 2015 $
Earnings for the year before income taxes	33,788	31,795
Combined Canadian federal and provincial rate	26.5%	26.5%
Computed expected income tax expense	**8,954**	**8,426**
Earnings not taxable in the Company	(1,827)	(1,800)
Other	(70)	(69)
Income tax expense	**7,057**	**6,557**

The components of the deferred tax liability are as follows:

	December 31, 2016 $	December 31, 2015 $
Pizza Pizza and Pizza 73 Rights and Marks	18,142	16,832
Deferred financing fees	4	6
Interest rate swap	61	(94)
Deferred tax liability	**18,207**	**16,744**

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

An analysis of the deferred tax liabilities is as follows:

	December 31, 2016 $	December 31, 2015 $
Deferred tax liabilities to be settled after more than a year	18,203	16,738
Deferred tax liabilities to be settled within a year	4	6
Deferred tax liability	**18,207**	**16,744**

The movement in the deferred tax liabilities is as follows:

	December 31, 2016 $	December 31, 2015 $
Opening balance – deferred tax liability	16,744	9,592
Change in Other Comprehensive Earnings – interest rate swap	54	79
Deferred tax impact of conversion of Exchangeable Shares	-	5,649
Change in temporary differences	1,409	1,424
Deferred tax liability	**18,207**	**16,744**

8. Share capital

a. Authorized

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preference shares, issuable in series. As at December 31, 2016, 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 of Directors and are entitled to a preference over the common shares in the remaining property and assets of the Company in the event of its liquidation, dissolution or wind-up.

b. Issued

On March 23, 2015, the Company issued 2,800,000 common shares through a private placement by PPL as part of the conversion of 1,564,889 Class B Partnership Units, equivalent to 2,800,000 common shares of the Company when applied against the Class B Exchange Multiplier. The common shares were not issued for cash consideration, but for a greater entitlement to the income of the Partnership. As at December 31, 2016, a total of 24,618,392 common shares, valued at $242,030, were issued, fully paid and outstanding.

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

The following is a summary of the activity during the year:

	December 31, 2016		December 31, 2015	
Share capital	Number of Shares	Amount $	Number of Shares	Amount $
Shares, beginning of year	24,618,392	242,030	21,818,392	212,928
Private offering on March 23, 2015	-	-	2,800,000	29,102
Shares, end of year	**24,618,392**	**242,030**	**24,618,392**	**242,030**

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 hedges.

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

c. Earnings per Share

The basic earnings per share is calculated by dividing earnings for the year by the weighted average number of shares outstanding during the year. The denominator in basic earnings per share includes PPL's Class B and Class D Exchangeable Shares, since they are exchangeable into and economically equivalent to the Company's common shares. There were no potentially dilutive instruments outstanding during the year ended December 31, 2016 or December 31, 2015.

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

	December 31, 2016	December 31, 2015
Weighted average number of:		
Common shares	24,618,392	23,787,623
Exchangeable Shares (note 6)	6,302,849	6,954,902
Weighted average number of shares outstanding – basic and diluted	30,921,241	30,742,525
Basic and diluted earnings per share	**$0.87**	**$0.82**

9. Royalty income

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

	December 31, 2016	December 31, 2015
(in thousands of dollars, except number of restaurants in the Royalty Pool)		
Restaurants in Royalty Pool	736	730
System sales reported by Pizza Pizza restaurants in the Royalty Pool	456,899	441,226
System sales reported by Pizza 73 restaurants in the Royalty Pool	87,989	92,608
Total system sales	**544,888**	**533,834**
Royalty – 6% on Pizza Pizza system sales	27,414	26,473
Royalty – 9% on Pizza 73 system sales	7,919	8,335
Royalty income	**35,333**	**34,808**

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

10. Related party transactions and balances

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

PPL, pursuant to the Partnership Agreement, is providing certain administrative services to the Company. The fee for these services, which on an annual basis shall not exceed $25, has been waived for the year (2015 – waived).

The Company has a receivable from PPL as at December 31, 2016 of $3,311 (December 31, 2015 - $3,381) and a payable to PPL as at December 31, 2016 of $573 (December 31, 2015 - $590). 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 years ended December 31, 2016 or 2015.

11. Statements of Cash Flows information

Changes in non-cash working capital are as follows:

	December 31, 2016 $	December 31, 2015 $
Receivable from Pizza Pizza Limited	70	(307)
Trade and other receivables	39	(45)
Trade and other payables	(7)	120
Payable to Pizza Pizza Limited	(17)	(667)
Income taxes payable	(479)	495
Changes in non-cash working capital	**(394)**	**(404)**

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

12. Financial risk management

Fair value

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

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

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

		December 31, 2016		December 31, 2015	
	Category	Carrying value $	Fair value $	Carrying value $	Fair value $
Cash and cash equivalents	L&R	2,134	2,134	2,236	2,236
Short-term investments	L&R	2,750	2,750	2,750	2,750
Receivable from Pizza Pizza Limited	L&R	3,311	3,311	3,381	3,381
Trade and other receivables	L&R	81	81	120	120
Trade and other payables	OFL	480	480	487	487
Dividends payable to shareholders	OFL	1,755	1,755	1,716	1,716
Payable to Pizza Pizza Limited	OFL	573	573	590	590
Borrowings	OFL	46,977	47,000	46,937	47,000
Derivative financial instruments	DFH	959	959	1,688	1,688

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 are not based on observable market data.

As at December 31, 2016, inputs used to fair value the derivative financial instruments are 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 year.

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

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

Liquidity risk

The Company is subject to liquidity risk with respect to trade and other payables, borrowings, provision for other charges and funding the distributions payable to Company shareholders. The Company receives monthly royalties from PPL and the Company is of the opinion that this risk is mitigated by the large number of Pizza Pizza and Pizza 73 restaurants in diverse geographical areas that generate the royalties used to fund the monthly royalties.

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

Interest rate risk

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

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

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

The designated hedging relationship was effective as at December 31, 2016.

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

The interest rate swaps eliminate the Company's interest rate cash flow 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/(loss) 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 $284 as at December 31, 2016 (December 31, 2015 - $373) based on movements in the fair value of the interest rate swaps.

13. Subsequent Events

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

Shares outstanding & issuable on January 1, 2017		
Shares outstanding		24,618,392
Class B equivalent Shares held by PPL at December 31, 2016	4,559,542	
PPL additional Class B equivalent Shares - True-up Holdback as at December 31, 2016	5,422	
Additional PPL Class B equivalent Shares as of January 1, 2017	277,519	4,842,483
Class D equivalent Shares held by PPL at December 31, 2016	1,743,307	
PPL additional Class D equivalent Shares - True-up Holdback as at December 31, 2016	9,313	
Additional PPL Class D equivalent Shares as of January 1, 2017	-	1,752,620
Number of fully diluted shares		31,213,495
PPL's proportion of all shares outstanding and available for exchange		21.1%

a. Pizza Pizza Royalty Corp. Outstanding Shares

In exchange for adding the forecasted Pizza Pizza system sales to the Royalty Pool, PPL has received 277,519 additional equivalent Shares (through the change to the Class B Exchange Multiplier). These represent 80% of the forecasted equivalent Shares entitlement to be received (346,899 equivalent Shares represent 100%), with the final equivalent Shares entitlement to be determined when the new restaurants' 2017 actual sales performance is known with certainty in early 2018.

PPL's Class D equivalent Share entitlement is unchanged for 2017. In any year that the forecasted system sales (less closed restaurants sales and other adjustments) is negative, as was the case with the Class D equivalent Share entitlement calculation for 2017, no increase or decrease in the Exchange Multiplier is made. PPL will only have a Class D equivalent Share entitlement for 2017 if the actual sales performance of the four new Pizza 73 restaurants, less the sales of adjustment restaurants, significantly exceeds forecasted system sales and yields net, positive sales when the actual sales performance is known with certainty in early 2018.

After giving effect to PPL's entitlement to additional equivalent Shares at January 1, 2017, PPL owns equivalent Shares representing 21.1% of the Company's fully diluted shares.

b. 2017 Royalty Pool Adjustment – Class B Exchange Multiplier

On January 1, 2017, 15 net Pizza Pizza restaurants were added to the Royalty Pool as a result of 23 new restaurants opening and eight closing from January 1, 2016 to December 31, 2016. The additional system sales from the 23 new restaurants are estimated at $7,674 annually less sales of $873 from eight permanently closed Pizza Pizza restaurants resulting in net estimated Pizza Pizza sales of $6,801 added to the Royalty Pool. The total number of Pizza Pizza restaurants in the Royalty Pool has increased to 651. The yield of the shares was determined to be 5.16% calculated using $16.43 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, 2017. 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 0.110643; the new Class B Multiplier is 1.930631. 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, 2017, once the actual performance of the new restaurants is determined in early 2018.

c. 2017 Royalty Pool Adjustment – Class D Exchange Multiplier

On January 1, 2017, the Pizza 73 Royalty Pool remained unchanged as a result of four new restaurants opening between September 2, 2015 and September 1, 2016 and four restaurants closing between January 1, 2016 and December 31, 2016. The forecasted additional system sales from the four new restaurants are estimated at $1,226 annually less $179 in system sales attributable to the four closed Pizza 73 restaurants resulting in net estimated Pizza 73 sales of $1,047 added to the Royalty Pool. The net estimated sales were further reduced by $2,086 in system sales attributable to certain restaurants previously added to the Royalty Pool whose territory adjusted a previously existing restaurant, resulting in a negative Pizza 73 Estimated Determined Amount. 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 D Exchange Multiplier remained unchanged at 17.52620. The total number of Pizza 73 restaurants in the Royalty Pool remains at 100 for 2017. Once the actual performance of the new restaurants is determined in early 2018, the Class D Exchange Multiplier may be adjusted to be effective January 1, 2017.

d. 2016 Royalty Pool Adjustment

In early January 2017, adjustments to royalty payments and PPL's Class B Exchange Multiplier were made based on the actual performance of the 24 new restaurants added to the Royalty Pool on January 1, 2016. As a result of the adjustments, the new Class B Exchange Multiplier is 1.819988 and Class B Units can be exchanged for 4,564,964 shares, which is an increase of 5,422 shares, effective January 1, 2016.

In early January 2017, adjustments to royalty payments and PPL's Class D Exchange Multiplier were made based on the actual performance of the two Pizza 73 restaurants added to the Royalty Pool on January 1, 2016. As a result of the adjustments, the new Class D Exchange Multiplier is 17.52620 and Class D Units can be exchanged for 1,752,620 shares, which is an increase of 9,313 shares, effective January 1, 2016.

SELECTED FINANCIAL HIGHLIGHTS

The following tables set out selected financial information and other data of Pizza Pizza Royalty Corp. ("PPRC" or the "Company") and should be read in conjunction with the audited consolidated financial statements of the Company ("Financial Statements"). Readers should note that the 2016 results are not directly comparable to the 2015 results because of an extra day of royalty revenue in 2016 due to the leap year, in addition to the fact that there are 736 restaurants in the 2016 Royalty Pool compared to 730 restaurants in the 2015 Royalty Pool.

(in thousands of dollars, except number of restaurants, days in the year, per share amounts, and noted otherwise)		2016		2015		2014
Restaurants in Royalty Pool(1)		736		730		722
Same store sales growth(2)		1.9%		4.5%		1.1%
Days in the year		366		365		365
System Sales reported by Pizza Pizza restaurants in the Royalty Pool(6)	$	456,899	$	441,226	$	415,719
System Sales reported by Pizza 73 restaurants in the Royalty Pool(6)		87,989		92,608		89,670
Total System Sales	$	544,888	$	533,834	$	505,389
Royalty – 6% on Pizza Pizza System Sales	$	27,414	$	26,473	$	24,943
Royalty – 9% on Pizza 73 System Sales		7,919		8,335		8,070
Royalty income	$	35,333	$	34,808	$	33,013
Interest paid on borrowings(3)		(1,341)		(1,523)		(2,006)
Administrative expenses		(678)		(624)		(585)
Adjusted earnings available for distribution to the Company and Pizza Pizza Limited(5)	$	33,314	$	32,661	$	30,422
Distribution on Class B and Class D Exchangeable Shares(4)		(6,585)		(6,764)		(8,441)
Current income tax expense		(5,649)		(5,132)		(4,335)
Adjusted earnings available for shareholder dividends(5)	$	21,080	$	20,765	$	17,646
Add back:						
Distribution on Class B and Class D Exchangeable Shares(4)		6,585		6,764		8,441
Adjusted earnings from operations(5)	$	27,665	$	27,529	$	26,087
Adjusted earnings per share(5)	$	0.895	$	0.895[1]	$	0.861
Basic earnings per share	$	0.864	$	0.821	$	0.826
Dividends declared by the Company	$	20,867	$	19,703	$	17,463
Dividend per share	$	0.8476	$	0.8155	$	0.8004
Payout ratio(5)		99%		95%		99%

		2016		2015		2014
Working capital(5)	$	5,169	$	4,916	$	3,892
Total assets	$	344,646	$	342,386	$	335,112
Total liabilities	$	69,250	$	68,940	$	61,139

[1] For the year ended December 31, 2015, the Adjusted EPS includes approximately $264,000 of current income tax recovery relating to the non-cash swap termination costs incurred in 2015. The one-time recovery bolstered the adjusted EPS by $0.0086 per fully diluted share.

	Q4 2016	Q3 2016	Q2 2016	Q1 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)	736	736	736	736
Same store sales growth(2)	1.8%	2.2%	0.9%	2.5%
Days in the quarter	92	92	91	91
System Sales reported by Pizza Pizza restaurants in Royalty Pool(6)	$ 119,496	$ 115,424	$ 110,769	$ 111,210
System Sales reported by Pizza 73 restaurants in Royalty Pool(6)	23,189	21,435	21,484	21,881
Total System Sales	$ 142,685	$ 136,859	$ 132,253	$ 133,091
Royalty – 6% on Pizza Pizza System Sales	$ 7,169	$ 6,926	$ 6,646	$ 6,673
Royalty – 9% on Pizza 73 System Sales	2,087	1,929	1,934	1,969
Royalty income	$ 9,256	$ 8,855	$ 8,580	$ 8,642
Interest paid on borrowings(3)	(341)	(337)	(331)	(332)
Administrative expenses	(214)	(139)	(162)	(163)
Adjusted earnings available for distribution to the Company and to Pizza Pizza Limited(5)	$ 8,701	$ 8,379	$ 8,087	$ 8,147
Distribution on Class B and Class D Exchangeable Shares(4)	(1,654)	(1,654)	(1,633)	(1,644)
Current income tax expense	(1,557)	(1,308)	(1,409)	(1,375)
Adjusted earnings available for shareholder dividends(5)	$ 5,490	$ 5,417	$ 5,045	$ 5,128
Add back:				
Distribution on Class B and Class D Exchangeable Shares(4)	1,654	1,654	1,633	1,644
Adjusted earnings from operations(5)	$ 7,144	$ 7,071	$ 6,678	$ 6,772
Adjusted earnings per share(5)	$ 0.231	$ 0.229	$ 0.216	$ 0.219
Basic earnings per share	$ 0.221	$ 0.221	$ 0.208	$ 0.214
Dividends declared by the Company	$ 5,266	$ 5,266	$ 5,186	$ 5,148
Dividend per share	$ 0.2139	$ 0.2139	$ 0.2107	$ 0.2091
Payout ratio(5)	96%	97%	103%	100%

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

(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 2016 fiscal period, the Royalty Pool includes 636 Pizza Pizza restaurants and 100 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. 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 20.4% of the fully diluted Shares at December 31, 2016 (December 31, 2015 – 19.9%). During the quarter ended March 31, 2016, as a result of the final calculation of the equivalent Class B and Class D Share entitlements related to the January 1, 2015 Adjustment to the Royalty Pool, PPL was paid a distribution on additional equivalent Shares as if such Shares were outstanding as of January 1, 2015. Included in the three months ended March 31, 2016, is the payment of $22 in distributions to PPL pursuant to the true-up calculation (March 31, 2015 - PPL was paid $80).

(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 year (the "Year") ended December 31, 2016. The Financial Statements of the Company are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The MD&A has been prepared as of March 8, 2017.

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 2016, the Royalty Pool consists of 636 Pizza Pizza restaurants and 100 Pizza 73 restaurants.

Readers should note that the number of restaurants added to the Royalty Pool each year may differ from the number of restaurant openings and closings reported by PPL on an annual basis as the periods for which they are reported differ slightly (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 651 Pizza Pizza restaurants at December 31, 2016, 641 are franchised or licensed and 10 are owned and operated as corporate restaurants. Of the 651 restaurants, 228 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 101 Pizza 73 locations operating in the QSR segment, principally in the province of Alberta. The traditional Pizza 73 restaurants are not franchised, but instead are owned and operated as independent businesses. Each restaurant is operated by a corporation, with 76 jointly-owned by PPL and an independent owner/operator. There are 25 non-traditional locations which are sublicensed and have limited operating hours and a limited menu. Pizza 73 currently has five traditional locations outside of Alberta; three in Saskatchewan and two in British Columbia. Sales through its centralized call centre and on-line ordering, together, account for approximately 90% of Pizza 73's system sales. The Pizza 73 business also includes two central food distribution centres.

System Sales and PPL's Interest
A key attribute of the Company is that revenues are based on top-line System Sales of the 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 January 1, 2016, PPL indirectly held an effective 20.4% interest in the Company (December 31, 2015 – 19.9%) by holding all Class B and Class D Units of the Partnership. PPL has the right to exchange one Class B or Class D Unit indirectly for that number of Shares equal to the Class B Exchange Multiplier or Class D Exchange Multiplier, respectively, applicable at the date of such exchange, as described under "Royalty Pool Adjustments". On March 23, 2015, PPL exchanged 1,564,889 Class B Partnership Units, equivalent to 2,800,000 common shares of the Company, when applied against the Class B Exchange Multiplier at that date. PPL immediately sold the 2,800,000 common shares of the Company to a syndicate of underwriters. Subsequent to the sale of shares, PPL continues to hold a 20.4% interest in the Company. The Class B and Class D Units are entitled to receive monthly distributions established by PPRC's board of directors. A monthly distribution is paid to both PPL and PPRC on a pro rata ownership basis, with PPRC's ownership held through its Class A and Class C limited partnership units of the Partnership.

The chart below shows the Shares that would be outstanding if all of the Class B and Class D Units of the Partnership held by PPL were converted to Shares on December 31, 2016.

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

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, 2016, it will be the effective Company tax rate for the year ended December 31, 2015). 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

2015 Royalty Pool Adjustment

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

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

2016 Royalty Pool Adjustment – Class B Exchange Multiplier

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

2016 Royalty Pool Adjustment – Class D Exchange Multiplier

On January 1, 2016, the Pizza 73 Royalty Pool remained unchanged as a result of two new restaurants opening between September 2, 2014 and September 1, 2015 and two restaurants closing between January 1, 2015 and December 31, 2015. The forecasted additional system sales from the two new restaurants are estimated at $1,070,000 annually less $512,000 in system sales attributable to the two closed restaurants. The total number of Pizza 73 restaurants in the Royalty Pool remains at 100 for 2016. The yield of and the weighted average share price used in the calculation of the Class D multiplier is determined in the same manner as that of the Class B multiplier calculation at 5.89% and $13.85, respectively. As a result of the contribution of the additional net sales to the Royalty Pool, the Class D Exchange Multiplier increased fractionally by 80% of the total adjustment or 0.35975; the new Class D Multiplier is 17.43307. This adjustment will also increase the entitlement of the holders of the Class D units to distributions of cash and allocations of income from the Partnership. The second adjustment to the Class D Exchange Multiplier will be adjusted to be effective January 1, 2016, once the actual performance of the new restaurants is determined in early 2017. See "Subsequent Events".

PPL's Ownership of the Company

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

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

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

SAME STORE SALES GROWTH ("SSSG")

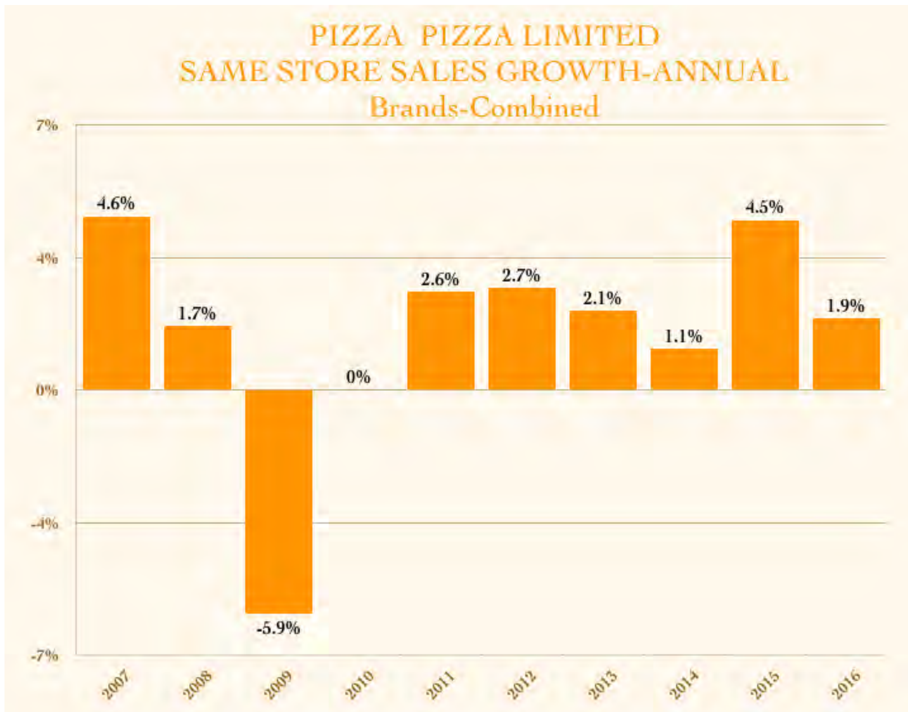
SSSG, the key driver of yield growth for shareholders of the Company, increased by 1.8% (3.4% - 2015) for the Quarter when compared to the same period in 2015 and increased by 1.9% (4.5% – 2015) for the Year. SSSG is not affected by the additional day during the leap year, as SSSG is calculated using a 13-week comparative basis. See "Reconciliation of Non-IFRS Measures".

SSSG	Fourth Quarter (%)		Year-to-Date (%)	
	2016	**2015**	**2016**	**2015**
Pizza Pizza	2.3	5.3	3.3	5.2
Pizza 73	(0.9)	(5.3)	(5.2)	1.1
Combined	1.8	3.4	1.9	4.5

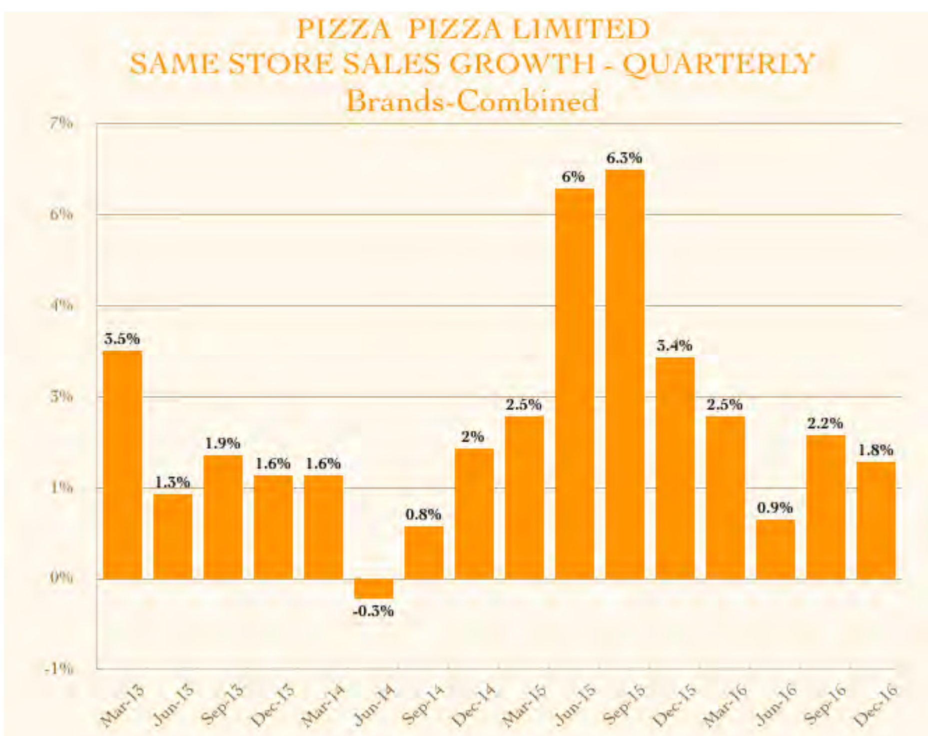
SSSG is driven by the growth in the average customer check and in customer traffic, both of which are affected by changes in pricing and sales mix. During the Quarter and for the Year, the average check increased while customer traffic decreased when compared to the same periods last year, on a consolidated basis. The increase in the average check works to increase restaurant profitability and is a result of creative promotional activity and selective menu price increases. The decrease in traffic is largely due to a decline at the Pizza 73 brand related to the weakened Alberta economy, however a portion of the decline is directly related to certain menu price increases taken at Pizza Pizza restaurants which adversely impacted traffic. PPL's management believes that geographic diversification has proven to be key to consistent, overall Royalty Pool sales growth.

The following charts show historical SSSG performance:

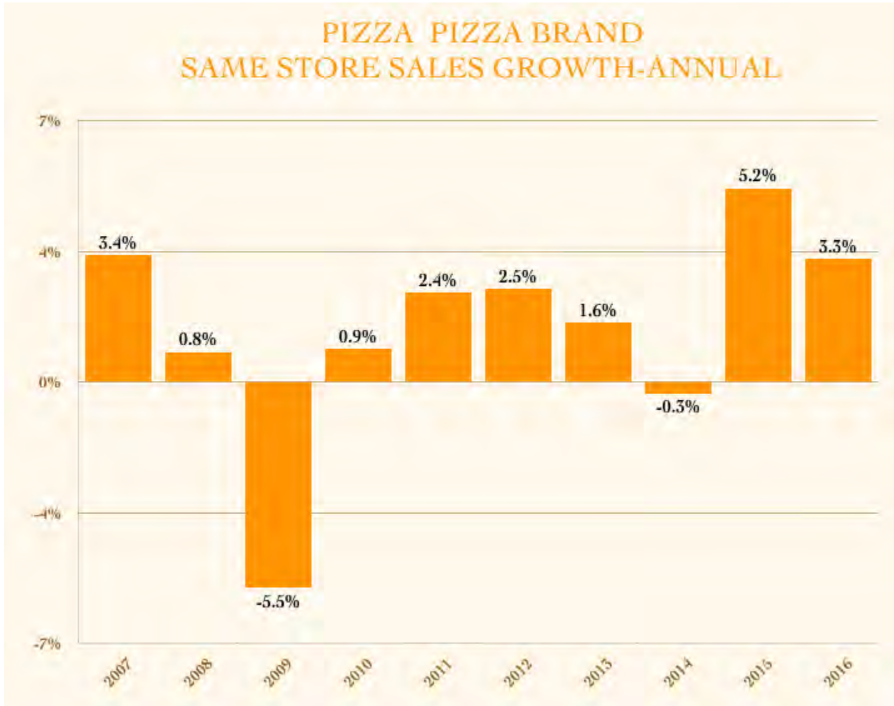
a) Annual SSSG, in which both brands are combined:



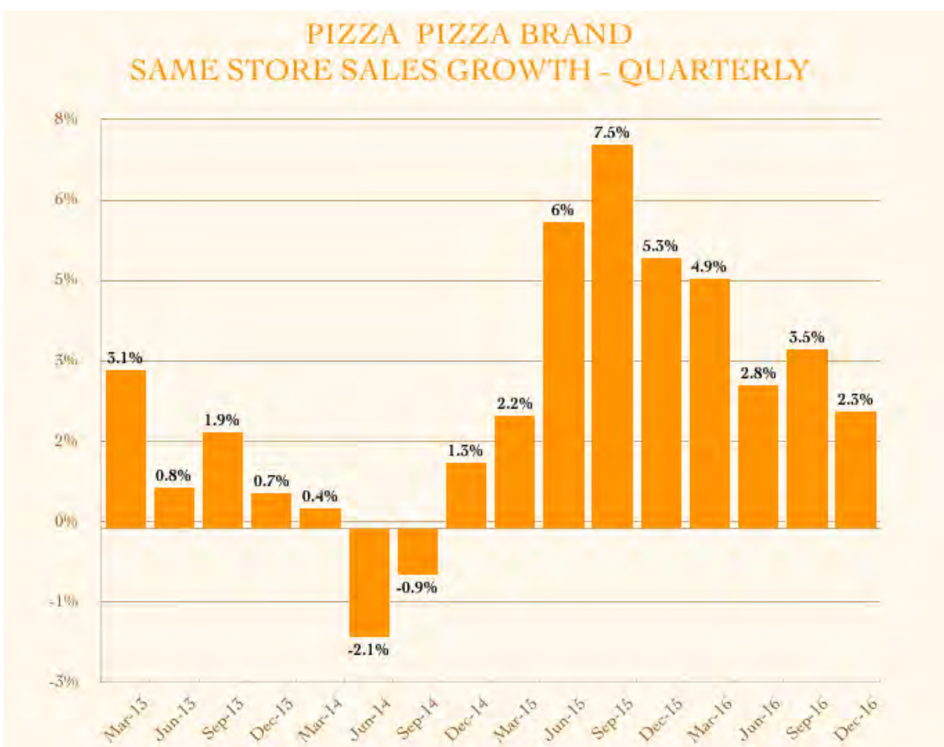
b) Quarterly SSSG chart, in which both brands are combined:



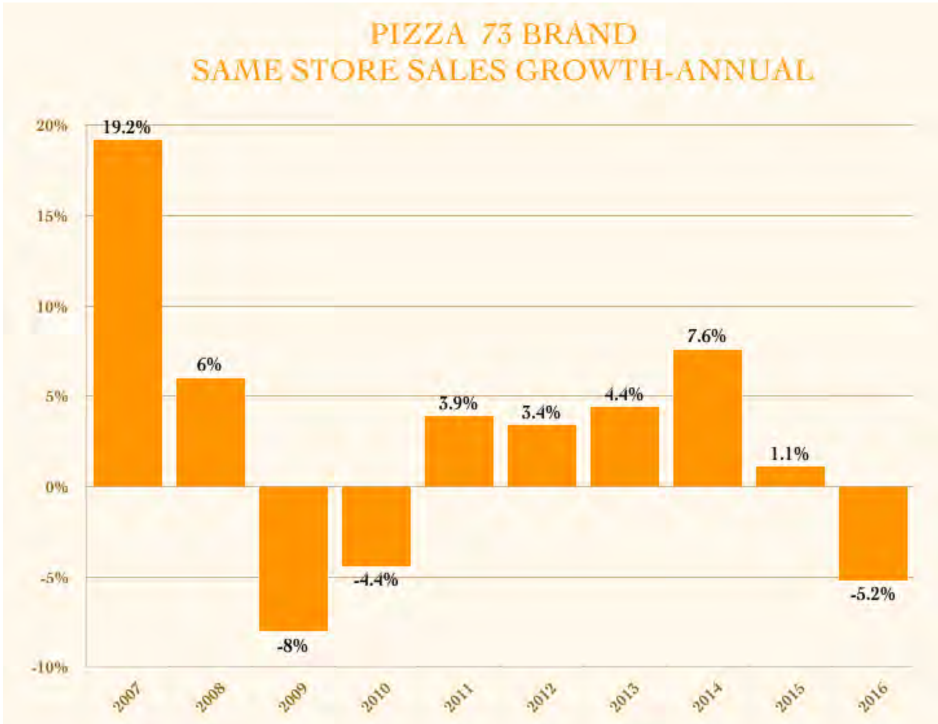
c) Annual SSSG, Pizza Pizza brand only:



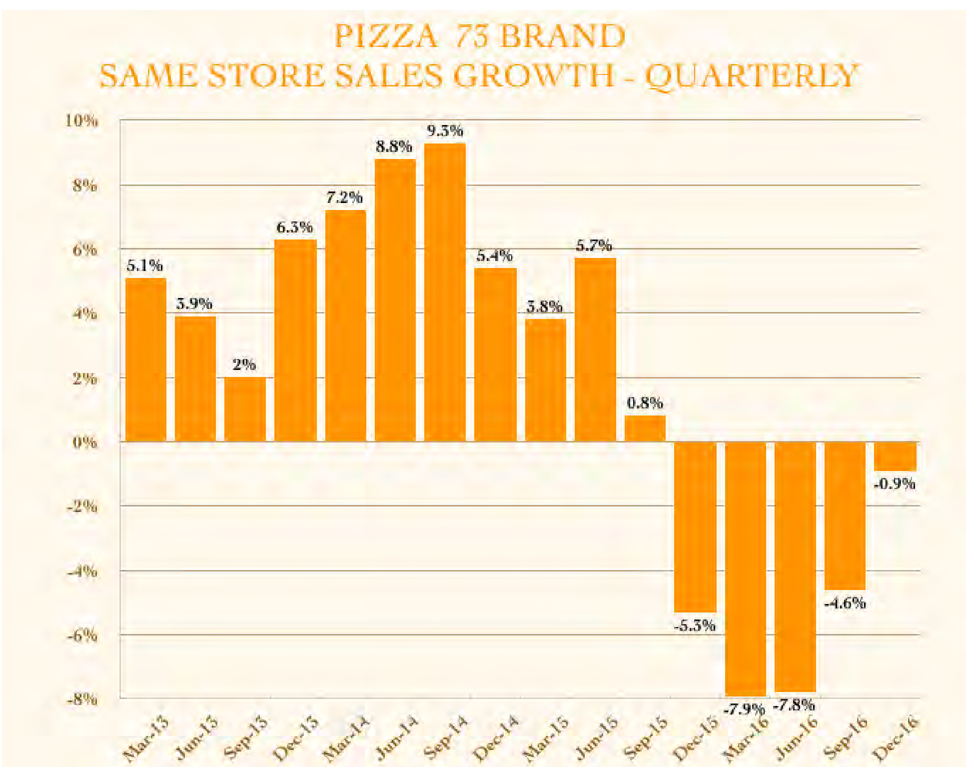
d) Quarterly SSSG, Pizza Pizza brand only:



e) Annual SSSG, Pizza 73 brand only:



f) Quarterly SSSG, Pizza 73 brand only



ROYALTY POOL SALES

The restaurants in the Royalty Pool increased to 736 on January 1, 2016 (the "Adjustment Date") to include 26 new restaurants less 20 closed restaurants. In the prior year, the Royalty Pool included 730 restaurants.

System sales from the 736 restaurants in the Royalty Pool for the Quarter increased 0.9% to $142.7 million from $141.4 million in the prior year comparable quarter when there were 730 restaurants in the Royalty Pool. System sales for the Year increased 2.1% to $544.9 million from $533.8 million in the prior year.

By brand, sales from the 636 Pizza Pizza restaurants in the Royalty Pool increased 1.6% to $119.5 million for the Quarter compared to $117.6 million in the same quarter last year. Sales from the 100 Pizza 73 restaurants decreased 2.5% to $23.2 million for the Quarter compared to $23.8 million in the same quarter last year.

For the Year, sales from the Pizza Pizza restaurants in the Royalty Pool increased 3.6% to $456.9 million compared to $441.2 million in 2015. Sales from the Pizza 73 restaurants decreased 5.0% to $88.0 million compared to $92.6 million in 2015.

Total Royalty Pool System Sales for the Quarter and Year increased over the comparative periods in 2015 as a result of the reported SSSG achieved (see "Same Store Sales Growth ("SSSG")") and the impact of net, new restaurants added to the Royalty Pool on January 1, 2016. The annual System Sales also benefitted from the extra day of sales in February 2016 due to the leap year, which management estimates to be $1.0 million.

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

ROYALTY POOL SALES - INDEPENDENT AUDIT RESULTS

An independent audited statement of Royalty Pool System Sales is reported each year. For 2016, the independent audit statement is as follows:

System Sales reported by Pizza Pizza Royalty Pool Restaurants
From January 1, 2016 to December 31, 2016
(in thousands of dollars)

Total Pizza Pizza retail sales	$	460,769
New locations[2]		(4,145)
Closed locations		275
2016 Pizza Pizza Royalty Pool System Sales	$	456,899

System Sales reported by Pizza 73 Royalty Pool Restaurants
From January 1, 2016 to December 31, 2016

Total Pizza 73 retail sales	$	87,422
New locations[2]		(1,769)
Step-Out Payments		2,038
Closed locations		298
2016 Pizza 73 Royalty Pool System Sales	$	87,989
Total 2016 Royalty Pool System Sales	**$**	**544,888**

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

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

Total Pizza Pizza retail sales for the year ended December 31, 2016 include sales reported by franchisees and sales from PPL-owned locations during the reporting period. Sales from new locations include sales from franchisee or PPL-owned locations that were opened on or after January 1, 2016 and on or prior to December 31, 2016. Sales from closed locations include sales from restaurants that were closed on or after January 1, 2016 and on or prior to December 31, 2016, and for which PPL is required to pay the Make-Whole Payment.

Total Pizza 73 retail sales for the year ended December 31, 2016 include sales reported by the jointly-controlled, franchised, and PPL-owned locations during the reporting period. Sales from new locations include sales from jointly-controlled, franchised or PPL-owned locations that were opened after September 1, 2015 and on or prior to December 31, 2016. Sales from closed locations include sales from restaurants that were closed on or after January 1, 2016 and on or prior to December 31, 2016, and for which PPL is required to pay the Make-Whole Payment. Additionally, for a Pizza 73 restaurant whose restaurant territory was adjusted due to an additional restaurant, the sales used to derive the Step-Out Payments, as defined under the Pizza 73 License and Royalty Agreement, are added back to System Sales.

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

COMPANY OPERATING RESULTS

The Financial Statements incorporate the assets and liabilities of the Company and its subsidiaries as at December 31, 2016 and the operating results of the Company and these subsidiaries for the year ended December 31, 2016. The Company's subsidiaries and its respective holdings are outlined below:

Subsidiary	Holding
Pizza Pizza Royalty Limited Partnership	79.6%
Pizza Pizza GP Inc.	79.6%

Royalty income earned by the Partnership increased 0.6% to $9.3 million for the Quarter and increased 1.5% to $35.3 million for the Year. A 6% royalty was earned on the Royalty Pool of 636 Pizza Pizza restaurants reporting $119.5 million in System Sales for the Quarter and $456.9 million for the Year. A 9% royalty was earned on the Royalty Pool of 100 Pizza 73 restaurants reporting $23.2 million in System Sales for the Quarter and $88.0 million for the Year.

Royalty income for the prior year's comparative Quarter and Year were $9.2 million and $34.8 million, respectively. The 630 Pizza Pizza restaurants in the Royalty Pool reported System Sales of $117.6 million for the Quarter and $441.2 million for the Year, while the 100 Pizza 73 restaurants reported System Sales of $23.8 million and $92.6 million for the Quarter and Year, respectively.

The increase in royalty income earned on the restaurants in the Royalty Pool is largely due to the increase in SSSG (see "Same Store Sales Growth ("SSSG")") plus net, new restaurants added to the Royalty Pool on January 1, 2016, and the extra day of sales in February 2016 due to the leap year.

Administrative expenses were $214,000 for the Quarter and $678,000 for the Year. For the prior year comparable periods, administrative expenses were $227,000 and $624,000, respectively. Administrative expenses are incurred in the Partnership, and consist of directors' fees, audit, legal and public reporting fees as well as directors' & officers' insurance. The increase in expenses for the Year relates to higher Toronto Stock Exchange listing fees, legal costs, and director fees.

The Company's **Operating earnings** increased 0.8% to $9.1 million compared to the prior year comparative quarter of $9.0 million. For the Year, operating earnings increased 1.4% to $34.7 million compared to $34.2 million in 2015. The year-over-year increase is due to the increase in royalty income.

Interest expense for the Quarter and Year 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 is initially set at 0.875%. The effective interest rate on the $47 million bank loan is currently 2.75% compared to 4.12% prior to April 24, 2015.

	3 months ended		Year ended	
(in thousands of dollars)	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Interest expense	209	200	827	1,106
Loan fee amortization	10	10	40	38
Interest expense per financial statements	219	210	867	1,144
Interest paid to draw down swap termination and out-of-market costs	122	120	474	379
Interest paid on borrowings	341	330	1,341	1,523

Non-cash swap termination cost of $1.25 million was recorded in the second quarter of 2015 as a result of terminating two ineffective swap agreements upon the renewal of the credit facility in April 2015. As a result of terminating the swap agreements, the non-cash, out-of-market loss, which was previously expensed in comprehensive earnings, was reclassified to the statement of earnings in order to comply with hedge accounting under IFRS. This transaction did not recur in 2016, thus the Quarter and Year do not have a similar cost being recognized.

Distributions made by the Partnership on the Class B and D Equivalent Shares on a per share basis were $0.2615 for the Quarter compared to $0.2547 in the same Quarter of 2015. For the Year, distributions were $1.0375 per share compared to $1.005 per share in the prior year. The monthly Partnership distribution to both, PPL and to PPRC, was increased in June 2016 to $0.0871 ($1.046 annualized). Prior to the June 2016 increase, it was increased twice in 2015; first in April 2015 to $0.0838 ($1.006 annualized) and again in November 2015 to $0.0855 (1.0256 annualized). The distribution amount paid to PPL decreased when compared to the prior year's comparative periods due to the March 2015 exchange of Class B Partnership Units and related sale by PPL of 2,800,000 equivalent shares.

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 79.6% of the Partnership and PPL owns 20.4%. Monthly, available Partnership funds are distributed based on the percentage ownership. The Company reserves a portion of its monthly distribution for taxes and, on occasion, replenishment of the cash reserve, prior to paying the shareholder dividend. See "Dividends".

Earnings before income taxes measures operations after financing costs. For the Quarter, the Company reported earnings of $8.8 million compared to $8.8 million in the comparable quarter of 2015. Earnings for the Year were $33.8 million, up from $31.8 million in the prior year. The increase in earnings for the Year is attributable to an increase in royalty income and a decrease in interest expense. Additionally, prior year earnings were negatively impacted by the non-cash swap termination costs recognized in April 2015 of $1.25 million. See "Non-cash swap termination cost".

Current income tax expense for the Quarter was $1.6 million and $5.6 million for the Year. For the 2015 comparative quarter and year, the current tax was $1.5 million and $5.1 million, respectively. The tax expense remained relatively consistent in the Quarter as operating results were comparable. The increase in the tax expense over the prior annual period is largely due to the Company's increased ownership percentage of Pizza Pizza Royalty Limited Partnership earnings in the current year, coupled with the fact that the prior year's taxable income was reduced by the non-cash swap termination cost mentioned above. The one time tax recovery associated with the non-cash swap termination costs in 2015 was approximately $265,000.

Of particular note is that the Company's adjusted accounting earnings from operations before income taxes differs significantly from its taxable income due largely to the tax amortization of the Pizza Pizza and Pizza 73 Rights and Marks. The amount of the tax amortization deducted is based on a declining basis and will decrease annually.

The Company's increase in ownership of the Partnership, an increase in royalty income, and a decrease in tax amortization resulted in an effective tax rate of 22.1% for the year (2015 – 21.1%) compared to the Company's applicable statutory tax rate of 26.5% (2015 – 26.5%).

Deferred tax expense for the Quarter and Year**,** a non-cash item, were generally consistent with 2015 comparable periods at $0.4 million and $1.4 million, respectively. Deferred tax expense arises from a temporary timing difference between the accounting and tax basis of the Pizza Pizza and Pizza 73 Rights and Marks.

Earnings for the Quarter were consistent with the comparable quarter last year at $6.8 million. For the Year, earnings were $26.7 million compared to $25.2 million in 2015. The earnings for the Quarter were flat over the prior year comparable quarter, as the increase in royalty income was offset by higher income tax expense. For the Year, the increase in earnings is largely attributed to an increase in royalty income and a decrease in interest expense, offset by an increase in current tax expense. Additionally, the prior year's earnings were negatively impacted by the $1.25 million non-cash swap termination cost. The increase in royalty income was the result of positive same store sales growth, an extra day of royalty revenue, and new restaurants added to the Royalty Pool.

RECONCILIATION OF NON-IFRS MEASURES

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

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

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

The 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

	3 months ended		Year ended	
(in thousands of dollars, except number of shares)	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Earnings for the period before income taxes	**8,823**	**8,761**	**33,788**	**31,795**
Non-cash swap termination costs	-	-	-	1,245
Interest payment related to the 2015 swap termination costs	(122)	(120)	(474)	(379)
Adjusted earnings available for distribution to the Company and Pizza Pizza Limited	**8,701**	**8,641**	**33,314**	**32,661**
Current income tax expense	(1,557)	(1,480)	(5,649)	(5,132)
Adjusted earnings from operations	**7,144**	**7,161**	**27,665**	**27,529**
Less: Distribution on Class B and Class D Exchangeable Shares	(1,654)	(1,577)	(6,585)	(6,764)
Adjusted earnings available for shareholder dividends	**5,490**	**5,584**	**21,080**	**20,765**
Weighted average Shares – diluted	30,921,241	30,742,525	30,921,241	30,742,525

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 0.9% to $0.231 compared to $0.233 in the same quarter last year, and remained flat for the Year. The prior year Adjusted earnings benefited from a non-recurring tax deduction in the second quarter provided by the "Non-cash swap termination cost" mentioned above. The benefit from the tax deduction increased EPS by $0.0086 in the second quarter of 2015. Without the tax deduction, Adjusted EPS in 2016 would have increased 1.0%[3] over 2015. Basic EPS is adjusted as follows:

	3 months ended		Year ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Basic EPS	0.221	0.225	0.864	0.821
Adjustments:				
Non-cash other comprehensive loss in interest expense	-	-	-	0.040
Interest rate swap draw down	(0.004)	(0.004)	(0.014)	(0.012)
Deferred tax expense	0.014	0.012	0.045	0.046
Adjusted EPS	**0.231**	**0.233**	**0.895**	**0.895**

[3] Year ended December 31, 2016 Adjusted EPS $0.895 compared to year ended Decemer 31, 2015 Adjusted EPS $0.895 less $0.0086 tax benefit or $0.8864

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

	3 months ended		Year ended	
(in thousands of dollars, except as noted otherwise)	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Dividends declared to shareholders	5,266	5,106	20,867	19,703
Adjusted earnings available for shareholder dividends	5,490	5,584	21,080	20,765
Payout Ratio	**96%**	**91%**	**99%**	**95%**

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

(in thousands of dollars)	December 31, 2016	December 31, 2015
Total current assets	8,276	8,487
Less: Total current liabilities	3,107	3,571
Working Capital	**5,169**	**4,916**

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). SSSG is not affected by the additional day during the leap year, as SSSG is calculated using sales on a weekly comparative basis. 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- and 52-week sales reporting periods used in calculating same store sales. PPL's fiscal year, 2015, contained 53 weeks, therefore it is necessary to add the 53rd week's sales to 2016 for comparability purposes.

	3 months ended		Year ended	
(in thousands of dollars)	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Total Royalty Pool System Sales	142,685	141,406	544,888	533,834
Adjustments for stores open less than 13 months, Step-Out payments, and the impact of calendar reporting	(1,589)	(2,997)	(5,071)	(4,050)
Sales for the 53rd week of PPL's 2015 year end[4]	11,228	11,228	11,228	11,228
Same Store Sales	152,324	149,637	551,045	541,012
SSSG	**1.8%**	**3.4%**	**1.9%**	**4.5%**

[4] PPL has a floating year-end of the Sunday closest to December 31st, accordingly, every 5-6 years PPL's annual reporting period is a 53 week year.

DIVIDENDS

The Company declared shareholder dividends of $5.3 million, or $0.2139 per Share, for the Quarter compared to $5.1 million, or $0.2074 per Share, for the prior year comparable quarter. This is a 3.1% increase per share on a quarter-over-quarter basis. The payout ratio was 96% for the Quarter and was 91% in the prior year comparable quarter.

For the Year, the Company declared shareholder dividends of $20.9 million, or $0.8476 per Share, compared to $19.7 million, or $0.8155 per Share, for the prior year comparable period. This is a 3.9% increase per share on a year-over-year basis. The payout ratio was 99% for the Year and was 95% in the prior year.

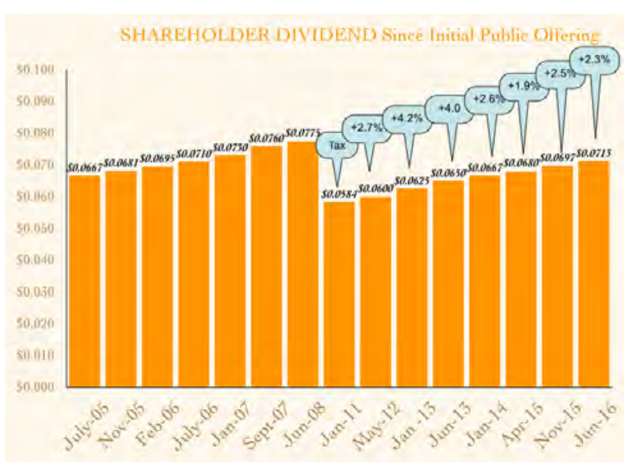
In June 2016, the Company increased the monthly dividend by 2.3% to $0.0713 per Share. On an annualized basis, the dividend was increased by $0.019 to $0.8556. The previous dividend increase was in November 2015, when the Company increased the monthly dividend by 2.5% to $0.0697 per Share.

Dividends declared for 2016 are as follows:

Period	Payment Date	Amount/share
January 1-31, 2016	February 12, 2016	6.97¢
February 1-29, 2016	March 15, 2016	6.97¢
March 1-31, 2016	April 15, 2016	6.97¢
April 1-30, 2016	May 13, 2016	6.97¢
May 1-31, 2016	June 15, 2016	6.97¢
June 1-30, 2016	July 15, 2016	7.13¢
July 1-31, 2016	August 15, 2016	7.13¢
August 1-31, 2016	September 15, 2016	7.13¢
September 1-30, 2016	October 14, 2016	7.13¢
October 1-31, 2016	November 15, 2016	7.13¢
November 1-30, 2016	December 15, 2016	7.13¢
December 1-31, 2016	January 13, 2017	7.13¢
Total		84.76¢

Dividends were funded entirely by cash flow from operations and the working capital reserve. No debt was incurred during the period 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 $5.2 million at December 31, 2016, which is an increase of $253,000 for the Year. The increase in the reserve was the result of higher royalties earned by the Company, offset by an increase in the dividend effective June 2016 and an increase in corporate taxes.

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 facility bears interest at the Bankers' Acceptance rate plus a credit spread between 0.875% to 1.375%, depending on the level of debt-to-earnings before interest, taxes, depreciation and amortization ("EBITDA"), with EBITDA defined as annualized earnings before interest, taxes, depreciation and amortization. In conjunction with the early renewal of the credit facility, the Partnership also blended and extended its two existing swaps into two new swap arrangements. Beginning April 24, 2015, the portion of the interest rate which is fixed with the swaps decreased from 2.87% to 1.875% per annum. The Partnership's effective interest rate, beginning April 24, 2015, is 2.75% comprised of a fixed 1.875% plus the credit spread, currently set at 0.875%. Prior to April 24, 2015, the effective interest rate on the facility was 4.12%, comprised of a fixed 2.87% plus the credit spread of 1.25%.

The credit facility includes affirmative and negative covenants customary for agreements of this nature. In particular, the Partnership has agreed to a financial covenant in which, on a four quarter rolling basis, Distributions may not exceed Distributable Cash Flow for such period *plus* the aggregate amount of Distributable Cash Flow for prior Distribution Periods not distributed, which as at December 31, 2016 was $6.8 million (December 31, 2015 - $5.6 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 1.36:1 (December 31, 2015 – 1.38:1). The Partnership is presently making interest-only payments on the non-revolving credit facility. The debt-to-EBITDA ratio for the last four quarters' rolling average continues to be below 1.5:1 therefore the credit spread is 0.875%. If, in the future, the ratio increases above 1.5:1, the credit spread will change as follows:

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

OUTLOOK

Pizza Pizza Limited will be celebrating its 50th anniversary in 2017. Marketing campaigns will feature an historical review of how Pizza Pizza became the #1 pizzeria by showcasing our progress over the years. Pizza Pizza customers will be engaged through creative contests and compelling value offerings featuring our extensive menu. To kick off the festivities, in January 2017, Pizza Pizza began a major restaurant renovation program, including updating the lobby and signage, which will further modernize the customer experience and set the course for future growth.

Management believes this 50th year milestone event will present excellent opportunities to leverage its brand dominance, especially when combined with PPL's competitive advantages of convenience, technological innovation, high-quality menu offerings and geographic diversification.

In the fourth quarter, PPL reported SSSG of 1.8% and 1.9% for the Year. By brand, Pizza 73, operating largely in a weakened Alberta economy, reported a 0.9% decline in same store sales for the Quarter as the lower price of crude oil has resulted in increased unemployment and a decline in that province's consumer spending. The Pizza Pizza brand reported 2.3% SSSG for the Quarter as the average customer check in the Ontario and Quebec markets increased over the same period last year, while traffic decreased slightly. Geographic diversification has proven to be key in maintaining consistent and stable sales.

The positive SSSG over the past five years has allowed the Company to increase dividends seven times while also building a working capital reserve of $5.2 million. The reserve is available to stabilize dividends in the event of short- to medium-term variability in System Sales and to fund any unusual expenditures. Having established the working capital reserve, the Company now targets an annual payout ratio at or near 100%. The Company does not have capital expenditure requirements or employees.

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

SUBSEQUENT EVENTS

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

Shares outstanding & issuable on January 1, 2017		
Shares outstanding		24,618,392
Class B equivalent Shares held by PPL at December 31, 2016	4,559,542	
PPL additional Class B equivalent Shares - True-up Holdback as at December 31, 2016	5,422	
Additional PPL Class B equivalent Shares as of January 1, 2017	277,519	4,842,483
Class D equivalent Shares held by PPL at December 31, 2016	1,743,307	
PPL additional Class D equivalent Shares - True-up Holdback as at December 31, 2016	9,313	
Additional PPL Class D equivalent Shares as of January 1, 2017	-	1,752,620
Number of fully diluted shares		31,213,495
PPL's proportion of all shares outstanding and available for exchange		21.1%

a. Pizza Pizza Royalty Corp. Outstanding Shares

In exchange for adding the forecasted Pizza Pizza system sales to the Royalty Pool, PPL has received 277,519 additional equivalent Shares (through the change to the Class B Exchange Multiplier). These represent 80% of the forecasted equivalent Shares entitlement to be received (346,899 equivalent Shares represent 100%), with the final equivalent Shares entitlement to be determined when the new restaurants' 2017 actual sales performance is known with certainty in early 2018.

PPL's Class D equivalent Share entitlement is unchanged for 2017. In any year that the forecasted system sales (less closed restaurants sales and other adjustments) is negative, as was the case with the Class D equivalent Share entitlement calculation for 2017, no increase or decrease in the Exchange Multiplier is made. PPL will only have a Class D equivalent Share entitlement for 2017 if the actual sales performance of the four new Pizza 73 restaurants, less the sales of adjustment restaurants, significantly exceeds forecasted system sales and yields net, positive sales when the actual sales performance is known with certainty in early 2018.

After giving effect to PPL's entitlement to additional equivalent Shares at January 1, 2017, PPL owns equivalent Shares representing 21.1% of the Company's fully diluted shares.

b. 2017 Royalty Pool Adjustment – Class B Exchange Multiplier

On January 1, 2017, 15 net Pizza Pizza restaurants were added to the Royalty Pool as a result of 23 new restaurants opening and eight closing from January 1, 2016 to December 31, 2016. The additional system sales from the 23 new restaurants are estimated at $7.7 million annually less sales of $0.9 million from eight permanently closed Pizza Pizza restaurants resulting in net estimated Pizza Pizza sales of $6.8 million added to the Royalty Pool. The total number of Pizza Pizza restaurants in the Royalty Pool has increased to 651. The yield of the shares was determined to be 5.16% calculated using $16.43 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, 2017. 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 0.110643; the new Class B Multiplier is 1.930631. 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, 2017, once the actual performance of the new restaurants is determined in early 2018.

c. 2017 Royalty Pool Adjustment – Class D Exchange Multiplier

On January 1, 2017, the Pizza 73 Royalty Pool remained unchanged as a result of four new restaurants opening between September 2, 2015 and September 1, 2016 and four restaurants closing between January 1, 2016 and December 31, 2016. The forecasted additional system sales from the four new restaurants are estimated at $1.2 million annually less $0.2 million in system sales attributable to the four closed Pizza 73 restaurants resulting in net estimated Pizza 73 sales of $1.0 million added to the Royalty Pool. The net estimated sales were further reduced by $2.1 million in system sales attributable to certain restaurants previously added to the Royalty Pool whose territory adjusted a previously existing restaurant, resulting in a negative Pizza 73 Estimated Determined Amount. 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 D Exchange Multiplier remained unchanged at 17.52620. Once the actual performance of the new restaurants is determined in early 2018, the Class D Exchange Multiplier may be adjusted to be effective January 1, 2017. The total number of Pizza 73 restaurants in the Royalty Pool remains at 100 for 2017.

d. 2016 Royalty Pool Adjustment

In early January 2017, adjustments to royalty payments and PPL's Class B Exchange Multiplier were made based on the actual performance of the 24 new restaurants added to the Royalty Pool on January 1, 2016. As a result of the adjustments, the new Class B Exchange Multiplier is 1.819988 and Class B Units can be exchanged for 4,564,964 shares, which is an increase of 5,422 shares, effective January 1, 2016.

In early January 2017, adjustments to royalty payments and PPL's Class D Exchange Multiplier were made based on the actual performance of the two Pizza 73 restaurants added to the Royalty Pool on January 1, 2016. As a result of the adjustments, the new Class D Exchange Multiplier is 17.52620 and Class D Units can be exchanged for 1,752,620 shares, which is an increase of 9,313 shares, effective January 1, 2016.

CONTROLS AND PROCEDURES

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

Management carried out an evaluation of the effectiveness of design and operation of the Company's disclosure controls and procedures and internal controls over financial reporting as of December 31, 2016. It was determined that the Company's disclosure controls and procedures and internal controls over financial reporting were effective.

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

TRANSACTIONS WITH RELATED PARTIES

The Company, through its ownership in the Partnership, has entered into related party transactions with PPL. PPL is considered a related party by virtue of holding Class B and Class D Exchangeable Shares that are exchangeable into common shares of PPRC. Transactions with PPL include: the annual vend-in of restaurants into the Royalty Pool, monthly distributions from the Partnership to its partners, and expenses paid by PPL on behalf of the Partnership. These transactions have been entered into in the normal course of business and are measured at the exchange amount. The transactions with PPL are all pursuant to the terms of the Pizza Pizza Royalty Limited Partnership's Partnership Agreement. See note 10 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, 2016 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 2016 audited consolidated financial statements are consistent with those used in the Company's 2015 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 9, Financial Instruments ("IFRS 9")
IFRS 9, 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. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018. The new revenue standards may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. While the Company is still in the process of assessing the anticipated impact of the amended standard on its consolidated financial statements, it generally anticipates that the accounting for ongoing royalty revenues will not materially change. The Company has formed a project team to evaluate and implement the standard and currently anticipates adopting this standard in its first quarter of 2018 without restatement of prior periods presented.

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 not yet begun the process of evaluating the impact of this standard on its consolidated financial statements.

RISKS & UNCERTAINTIES OF THE COMPANY

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

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

Pizza Pizza Royalty Corp. Board of Directors

ELIZABETH WRIGHT
Chair of Board

KATHRYN WELSH
Chair of Audit Committee

RICHARD MCCOY
Member of Audit Committee

JAY SWARTZ
Member of Audit Committee

EDWARD NASH

MICHELLE SAVOY

Pizza Pizza Limited Senior Management Team

PAUL GODDARD
President and Chief Executive Officer

CURT FELTNER
Chief Financial Officer and Senior Vice President, Finance

PAT FINELLI
Chief Marketing Officer and Senior Vice President, Marketing

PAUL METHOT
Senior Vice President, Operations

SEBASTIAN FUSCHINI
Senior Vice President, Franchising

PHILIP GOUDREAU
Senior Vice President, Operations and Development (Western Canada)

Corporate Headquarters

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

Stock Listing

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

Annual Meeting

The annual meeting of shareholders will be held May 31, 2017, 10:00 am (ET) at: TMX Broadcast Centre – The Exchange Tower – 130 King St. W, Toronto ON, M5X 1E3

Independent Chartered Professional Accountants

Ernst & Young LLP

Transfer Agent

CIBC Mellon Trust Company
Canadian Stock Transfer Co. Inc.

Investor Relations

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