Pizza Pizza Limited
Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") of the financial position and results of operations of Pizza Pizza Limited ("PPL") covers the 13-weeks (the "Quarter") ended April 1, 2018. The MD&A should be read in conjunction with PPL's April 1, 2018 unaudited interim condensed consolidated financial statements and notes thereto (the "Financial Statements"). PPL prepares its unaudited interim condensed consolidated financial statements in accordance with IAS 34 – Interim Financial Reporting ("IAS 34"). The MD&A has been prepared as of May 9, 2018.

OVERVIEW

PPL, a privately-owned Canadian corporation, operates two brands, Pizza Pizza and Pizza 73. PPL acquired 100% of the shares of Pizza 73, Inc. ("Pizza 73") on July 24, 2007. Immediately following the acquisition, PPL and Pizza 73 amalgamated, continuing to operate as Pizza Pizza Limited.

PPL pay a royalty to Pizza Pizza Royalty Limited Partnership (the "Partnership") for the use of the Pizza Pizza Rights and Marks and the Pizza 73 Rights and Marks. (See "Pizza Pizza Limited and Pizza Pizza Royalty Corp.")

About the Pizza Pizza Brand

Pizza Pizza restaurants operates primarily in the province of Ontario, where it dominates the pizza quick service restaurant ("QSR") segment and is a franchise-oriented restaurant business. Of the 655 Pizza Pizza restaurants at April 1, 2018, 650 are franchised or licensed and five are owned and operated as corporate restaurants. Of the 655 restaurants, 231 are non-traditional locations which have limited operating hours and a limited menu.

PPL provides a high level of service and operational support to its partners, 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.

PPL's modern restaurant system is structured to allow continuous renewal through its centrally managed renovation and re-imaging program which is funded by its franchisees. In early 2017, PPL began a major re-imaging of the restaurants' lobby and exterior signage. The expectation is that this project will continue for several years.

About the Pizza 73 Brand

There are 112 Pizza 73 locations operating in the QSR segment, principally in the province of Alberta. Of the 86 traditional restaurants at April 1, 2018, six are franchised and 80 are jointly-owned by PPL and an independent owner/operator. There are 26 non-traditional locations which have limited operating hours and a limited menu. Pizza 73 has seven traditional locations outside of Alberta; four in Saskatchewan, two in British Columbia and one in Yukon. Sales through its centralized call centre and on-line ordering, together, account for approximately 90% of Pizza 73's system sales. The Pizza 73 business also includes two central food distribution centres.

Background

PPL has three distinct revenue sources: food and beverage sales, receipt of royalty payments, and profits from the 50% ownership in the Pizza 73 restaurants. PPL also receives contributions from restaurant operators for marketing, order processing and commissary food services. These are driven by changes in retail system sales at franchised, jointly controlled and company restaurants. Changes in retail system sales are driven by economic conditions, marketing initiatives and the number of stores. PPL monitors these metrics closely, as they directly impact its revenues and profits, and PPL strives to consistently increase the related amounts.

PPL devotes significant attention to its innovative marketing programs which are funded by the restaurant operators' contribution to a marketing fund that is administered by PPL. In accordance with their franchise or operating agreements, each traditional Pizza Pizza restaurant contributes approximately 6% of system sales (in addition to the base royalty and other franchise fees) and each traditional Pizza 73 restaurant contributes approximately 8% of system sales.

SELECTED FINANCIAL DATA

The selected financial data set forth below should be read in conjunction with the April 1, 2018 Financial Statements and related notes thereto. PPL has a floating year-end of the Sunday closest to December 31, accordingly, quarters consist of four 13-week periods with an additional week added to the last quarter every five to six years.

Consolidated Financial Data and Adjusted EBITDA[1] Calculation

	For the 13-week period ended April 1, 2018	For the 13-week period ended April 2, 2017
(all dollars in thousands, except number of restaurants and as noted otherwise)		
System Sales[2],[3]	$ 137,217	$ 136,354
Same Store Sales Growth (SSSG) [4]	-0.2%	-0.7%
Number of Restaurants:		
Traditional	510	504
Non-traditional	257	252
New restaurants opened	7	6
Restaurants closed	-	2
Revenues [5]	75,170	53,796
Cost of food sales and general & administrative expenses	(46,592)	(46,831)
Store service expenditures [5]	(21,241)	-
Equity income from the Partnership	1,759	1,664
Royalty payments	(8,785)	(8,672)
Operating income	1,577	1,356
Income tax recovery (expense)	(315)	(212)
Income for the period attributable to the shareholders	2,071	2,026
Add (deduct):		
Equity income from Partnership	(1,759)	(1,664)
Royalty payments	8,785	8,672
Amortization of deferred gain	(582)	(582)
Amortization	1,128	797
Interest (income) / expense, net	(171)	(171)
Store service contributions [5]	(22,909)	-
Store service expenditures [5]	21,241	-
Gain on sale of Company-owned restaurants	-	(57)
Provision for (recovery of) income taxes:		
Current	-	(33)
Deferred	315	245
Adjusted EBITDA [1] [5]	**$ 8,119**	**$ 9,233**

Notes:

(1) ''EBITDA'' is not a recognized measure under IFRS. References to EBITDA are to earnings determined in accordance with IFRS applicable to the financial statements before amounts for interest, taxes and depreciation and amortization. In addition, PPL has adjusted EBITDA for unusual charges in an attempt to demonstrate PPL operations as if a recombination of PPL and Pizza Pizza Royalty Corp. ("PPRC") occurred. Adjusted EBITDA excludes gains and losses on sales of assets and other items resulting from its relationship with the Partnership. PPL believes that, in addition to net earnings, adjusted EBITDA is a useful supplemental measure in evaluating its performance as it provides investors with an indication of cash available for debt service, working capital needs and capital expenditures. Investors are cautioned, however, that adjusted EBITDA should not be construed as an alternative to the statement of cash flows as a measure of liquidity and cash flows. The method of calculating adjusted EBITDA for the purposes of this MD&A may differ from that used by other issuers and, accordingly, adjusted EBITDA in this MD&A may not be comparable to adjusted EBITDA used by other issuers.

(2) PPL has a floating year-end of the Sunday closest to December 31, accordingly, interim periods consist of four 13-week periods with an additional week added to the last interim period every 5 to 6 years.

(3) System Sales 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 PPL.

(4) Same store sales growth ("SSSG") is not a recognized measure under IFRS. References to SSSG are to the changes in period gross revenue of Pizza Pizza and Pizza 73 restaurants as compared to sales in the previous period, where the restaurant has been open at least 13 months. Additionally, for a Pizza 73 restaurant whose restaurant territory was adjusted due to an additional restaurant, the sales used to derive the Step-Out Payment may be added to sales to arrive at SSSG. SSSG does not have any standardized meaning under IFRS. Therefore, these figures may not be comparable to similar figures presented by other companies. (See "Same Store Sales Growth").

(5) As part of the transition to IFRS 15 in the current year, the Company was required to record store service contributions and expenditures for advertising, order processing and commissary services provided by PPL (see "Changes in Accounting Policies") in the statement of consolidated income. In order to provide users with comparable and more useful information, the company has normalized its "Adjusted EBITDA" calculation for these changes in the current quarter.

RESULTS OF OPERATIONS

The following should be read in conjunction with the Selected Financial Data provided herein and in conjunction with the Financial Statements. See "Critical Accounting Policies and Estimates".

System Sales

(in thousands of dollars)	For the 13-week period ended April 1, 2018	For the 13-week period ended April 2, 2017
Pizza Pizza	114,790	114,304
Pizza 73	22,427	22,050
Total	137,217	136,354

By brand, sales at Pizza Pizza increased 0.4% for the Quarter compared to the same quarter last year, while sales at Pizza 73 increased 1.7% when compared to the same quarter last year. System sales were affected by net new restaurant openings, offset slightly by the decrease in same store sales reported during the quarter. See "Same Store Sales Growth" and "New Restaurant Development".

Same Store Sales Growth ("SSSG")

SSSG decreased by 0.2% for the Quarter, compared to a decrease of 0.7% for the same quarter of 2017.

SSSG	**First Quarter (%)**	
	2018	**2017**
Pizza Pizza	0.1	-0.7
Pizza 73	-1.9	-0.7
Combined	-0.2	-0.7

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

SSSG is a key indicator used by PPL 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, a Step-Out Payment may be added to sales to arrive at SSSG. It is a key performance indicator for PPL as this measure excludes sales fluctuations due to store closings, permanent relocations and chain expansion.

(in thousands of dollars)	**For the 13-week period ended April 1, 2018**	**For the 13-week period ended April 2, 2017**
Total System Sales	**137,217**	**136,354**
Adjustments for stores opened less than 13 months, and Step-Out payments	(1,983)	(799)
Same Store Sales	135,234	135,555
SSSG	**-0.2%**	**-0.7%**

New Restaurant Development

For the 13-week period ended April 1, 2018

	Pizza Pizza			Pizza 73			PPL
(Number of Restaurants)[1]	Traditional	Non-traditional	Total	Traditional	Non-traditional	Total	Grand Total
As at January 1, 2018	421	231	652	84	24	108	760
Openings	3	-	3	2	2	4	7
Closings	-	-	-	-	-	-	-
As at April 1, 2018	424	231	655	86	26	112	767

For the 13-week period ended April 2, 2017

	Pizza Pizza			Pizza 73			PPL
(Number of Restaurants)[1]	Traditional	Non-traditional	Total	Traditional	Non-traditional	Total	Grand Total
As at January 1, 2017	423	228	651	76	25	101	752
Openings	3	1	4	2	-	2	6
Closings	-	(2)	(2)	-	-	-	(2)
As at April 2, 2017	426	227	653	78	25	103	756

For the Quarter, PPL continued its national expansion of traditional Pizza Pizza restaurants across Canada, by opening three traditional restaurants; one in Nova Scotia and two in Quebec. PPL opened two traditional and two non-traditional Pizza 73 restaurants in Alberta.

[1] 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.

Of the 424 traditional Pizza Pizza restaurants, 5 are operated as company stores (2017 – 10). Of the 86 Pizza 73 traditional restaurants, 80 are operated as independent businesses, equally owned by PPL and an owner/operator and six are operated as a franchised restaurant (2017 – 77 jointly-controlled and 1 company owned).

Segmented Reporting
As previously discussed, PPL operates two brands. While each brand operates in a similar market segment, the pizza QSR segment, they are in different geographic markets of Canada. Pizza Pizza operates mainly in the Ontario and Quebec ("Eastern Canada") pizza QSR segment, whereas Pizza 73 operates mainly in the Alberta ("Western Canada") pizza QSR segment.

The following discussion offers further details regarding PPL's segmented results prior to eliminations which represent adjustments required to reconcile PPL's segmented reporting to the Financial Statements.

Revenues

Food Sales

(in thousands of dollars)	For the 13-week period ended April 1, 2018	For the 13-week period ended April 2, 2017	% change
Pizza Pizza	44,445	46,005	-3.4%
Pizza 73	10,209	10,160	0.5%
Eliminations[2]	(10,209)	(10,160)	
Total	44,445	46,005	-3.4%

Food sales are driven by the change in the number of restaurants and the SSSG for the period. Food sales to restaurants in Eastern Canada decreased as customer traffic at the restaurant level decreased. In Western Canada, food sales increased slightly as a result of new store openings over the last twelve months, offset by a decline in restaurant customer traffic. See "Same Store Sales Growth" and "New Restaurant Development".

Royalties, franchise fees and other revenue

(in thousands of dollars)	For the 13-week period ended April 1, 2018	For the 13-week period ended April 2, 2017	% change
Pizza Pizza	6,990	6,963	0.4%
Pizza 73	826	828	-0.2%
Total	7,816	7,791	0.3%

Royalties, franchise fees, and other revenue increased during the Quarter. The increase in Eastern Canada is attributable to a slight increase in construction fees earned during the Quarter, while Western Canada's revenue remained relatively flat when compared to the same period of 2017.

As part of the transition to IFRS 15, PPL did not restate comparatives in relation to franchise fees under the modified retrospective approach (See "Changes in Accounting Policies")

[2] The "Eliminations" row represents adjustments to the Pizza 73 joint ventures as required under IFRS 11.

Store service contributions and expenditures

Contributions and expenditures for advertising, order processing and commissary services

(in thousands of dollars)	**For the 13-week period ended April 1, 2018**
Contributions	22,909
Expenditures	(21,241)
Net recovery	1,668

As part of the transition to IFRS 15, the Company was required to record store service contributions and expenditures in relation to its central advertising, order processing and commissary services that are provided by PPL in the consolidate statement of income (see "Changes in Accounting Policies"). During the quarter, the company collected $22.9 million from franchisees and incurred $21.2 million of expenditures for providing the services, resulting in a net recovery of $1.7 million. In the long term PPL expects expenditures to match contributions, however due to timing of advertising campaigns and other significant expenditures, the Company anticipates fluctuations in the net recovery/deficit balance from quarter to quarter.

Cost of Food Sales

(in thousands of dollars)	**For the 13-week period ended April 1, 2018**	**For the 13-week period ended April 2, 2017**	**% change**
Pizza Pizza	35,966	37,366	-3.7%
Pizza 73	4,013	4,105	-2.2%
Eliminations[3]	(4,013)	(4,105)	
Total	35,966	37,366	-3.7%

PPL leverages its buying power and manage food costs through its centralized purchasing system. Cost of food sales is dependent on the movement in food sales for the Quarter. Cost of food sales in Eastern and Western Canada remained consistent as a percentage of food sales, and moved with food sales.

General and Administrative ("G&A") Expenses

(in thousands of dollars)	**For the 13-week period ended April 1, 2018**	**For the 13-week period ended April 2, 2017**	**% change**
Pizza Pizza	10,133	8,887	14.0%
Pizza 73	5,205	5,076	2.5%
Eliminations[3]	(4,712)	(4,498)	4.8%
Total	10,626	9,465	12.3%

G&A expenses include corporate expenses and company store expenses incurred on the company owned and managed stores. The increase in G&A expenses in Eastern Canada is mainly attributed an increase in depreciation expense due to an increase in capital expenditures for fixed and intangible assets, an increase in provisions made for onerous leases, and an increase in company owned and managed store expenses when compared to the same quarter in 2017. G&A expenses for the Quarter in Western Canada increased due to higher wages at the restaurant level as the total number of stores increased.

[3] The "Eliminations" row represents adjustments to the Pizza 73 joint ventures as required under IFRS 11.

Royalty Payments

(in thousands of dollars)	For the 13-week period ended April 1, 2018	For the 13-week period ended April 2, 2017	% change
Pizza Pizza	6,793	6,750	0.6%
Pizza 73	1,992	1,922	3.6%
Total	8,785	8,672	1.3%

As per the License & Royalty Agreements, PPL pays the Partnership a monthly royalty based on the system sales of the Pizza Pizza and Pizza 73 restaurants in the Royalty Pool. The restaurants in the Royalty Pool increased to 758 on January 1, 2018 to include 25 new restaurants less 18 closed restaurants. In the prior year, the Royalty Pool included 751 restaurants. By Brand a net, one Pizza Pizza and six Pizza 73 restaurants were added to the Royalty Pool. See "Pizza Pizza Limited and Pizza Pizza Royalty Corp.", "Royalty Pool Adjustments", and "Restaurants Added to the Royalty Pool".

For the Quarter, an increase in royalty payments for Eastern Canada resulted from net, one new restaurant added to the Royalty Pool on January 1, 2018, coupled with positive 0.1% SSSG. For Western Canada, an increase in royalty payments is due to net, six new restaurants added to the Royalty Pool on January 1, 2018, slightly offset by the negative SSSG of 1.9% (see "Same Store Sales Growth").

Equity income from Pizza Pizza Royalty Limited Partnership

PPL accounts for its investment in the Partnership using the equity method of accounting. As at April 1, 2018, PPL owned an effective 22.3% interest in the Partnership, compared to 21.1% in the same quarter of 2017. PPL's 22.3% interest in the earnings of the Partnership is through its ownership of Class B and Class D Units. (See "Pizza Pizza Limited and Pizza Pizza Royalty Corp.").

For the Quarter, as a result of an increase in effective interest in the Partnership, equity income increased to $1.8 million compared to $1.7 million in the comparative quarter of 2017.

Equity income from Jointly-controlled companies
PPL accounts for its 50% share interest in the 80 jointly-controlled companies (April 2, 2017 – 77) as an investment in a joint venture and applies the equity method of accounting.

For the Quarter, equity income earned was consistent at $1.3 million when compared to the prior year's comparative quarter. An increase in the number of joint ventures for the Quarter and resulting equity income, was offset with lower net income resulting from a negative SSSG of 1.9%.

Interest and Other Income
Interest and other income includes interest income derived from notes receivable with franchisees and investments in cash equivalents.

Interest and other income earned by PPL remained relatively consistent at $264,000 for the Quarter compared to $308,000 for the comparable quarter of 2017.

Current income tax expense (recovery)
Current income tax for the Quarter was nil compared to a recovery of $33,000 for the comparative quarter of 2017. When compared to the same quarter in 2017, PPL fully utilized all non-capital tax losses in 2017, therefore any tax losses in the current quarter have been carried forward to future years.

Deferred tax expense

Deferred tax expense for the Quarter was relatively consistent at $315,000 compared to $245,000 for the comparable quarter in 2017.

Net Income

PPL reported earnings for the Quarter of $2.1 million compared to earnings of $2.0 million in the 2017 comparable quarter. The increase in earnings is mainly attributed to the transition to IFRS 15 (see "Changes in Accounting Policies"), which resulted in PPL recognizing store service contributions and expenditures in the consolidated statement of income, which was largely offset by the increase in G&A expenses, when compared to the comparable quarter of 2017.

Shareholders' Deficiency

The $102.7 million shareholders' deficiency shown in the Financial Statements is largely a result of PPL having paid $107.5 million in capital dividends to shareholders in 2005, $16.8 million in capital dividends in 2007, $7.2 million in capital dividends in 2012, and $39.0 million in capital dividends in 2016. The source of dividends to shareholders was the proceeds received from the Partnership in payment for the PPL Rights & Marks in 2005, funds from operations since 2005, and proceeds from the sale of Class B Partnership Units in 2016. The balance of the deferred gain from the 2005 sale of the PPL Rights & Marks is $200.1 million as at April 1, 2018 and is being amortized into earnings over a term of 99 years. Furthermore, during the current quarter the company was required to increase the beginning shareholder deficiency balance by $2.0 million as part of the transition to IFRS 15 (see "Changes in Accounting Policies).

SUMMARY OF QUARTERLY RESULTS

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 and the December 31 quarter system sales have been the strongest.

	13 weeks ended April 1, 2018	13 weeks ended December 31, 2017	13 weeks ended October 1, 2017	13 weeks ended July 2, 2017	13 weeks ended April 2, 2017	13 weeks ended January 1, 2017	13 weeks ended October 2, 2016	13 weeks ended July 3, 2016
	(in thousands of dollars)							
Revenues	$ 75,170	$ 56,327	$ 54,394	$ 54,314	$ 53,796	$ 57,278	$ 54,270	$ 54,041
Net income (loss)	$ 2,071	$ (9,657)	$ 873	$ 563	$ 2,026	$ (2,009)	$ 2,102	$ 1,673
Adjusted EBITDA	$ 8,119	$ (7,218)	$ 8,076	$ 7,478	$ 9,233	$ 809	$ 9,423	$ 8,239

LIQUIDITY & CAPITAL RESOURCES

The following table provides an overview of the cash flows for the periods:

Cash provided by (cash used):	For the 13-weeks period ended April 1, 2018	For the 13-weeks period ended April 2, 2017
Operating activities	$ (3,336)	$ (4,160)
Investing activities	6,355	2,534
Financing activities	(1,508)	249
Increase / (decrease) in cash	$ 1,511	$ (1,377)

As of April 1, 2018, PPL had negative working capital of $4.9 million and its cash, cash equivalents and short-term investment were $17.3 million. PPL collects most of its receivables within seven days from the date of the related sale and pays related payables within 30 days; PPL generally experiences over 100 turns of inventory per year. These factors, coupled with significant and ongoing cash flows from operations, which are used primarily to pay the Partnership the royalty on the Royalty Pool system sales, may reduce its working capital amounts. PPL's primary sources of liquidity are cash flows from operations and distributions received on PPL's interest in the Partnership. PPL has historically funded capital expenditures and debt repayments from cash flows from operations and proceeds from the disposal of company-owned restaurants.

Cash used in operating activities for the Quarter was $3.3 million compared with $4.2 million used in 2017. The $824,000 decrease of cash used in operating activities is largely attributable to an increase in unearned vendor allowances which is largely offset by working capital changes.

Cash provided by investing activities for the Quarter was $6.4 million compared to $2.5 million in 2017. The increase is due to a withdrawal of short-term investments of $3 million in the Quarter.

Cash used in financing activities for the Quarter was $1.5 million compared to cash provided of $249,000 in 2017. The increase in cash used by financing activities is mainly due to repayment of advances from related parties in the current Quarter.

Certain bank covenants must be maintained by PPL and are related to the Partnership's credit facility, all of which were met as of April 1, 2018.

Based upon its current level of operations and anticipated growth, PPL believes that the cash generated from its operations will be adequate to pay the Partnership a 6% royalty on the Pizza Pizza Royalty Pool System Sales and a 9% royalty on the Pizza 73 Royalty Pool System Sales, plus meet its anticipated capital expenditure and debt service requirements as well as its working capital needs. PPL's ability to continue to fund these items could be adversely affected by the occurrence of any of the events described in the Risks and Uncertainties section that follows herein and the matters described in PPRC's Annual Information Form under the heading "Risk Factors". PPL's future operating performance and its ability to pay the Partnership a 6% royalty on the Pizza Pizza Royalty Pool System Sales, a 9% royalty on the Pizza 73 Royalty Pool System Sales and meet its anticipated debt service requirements will be subject to future economic conditions and to financial, business and other factors, many of which may be beyond its control. However, to offset the factors that are beyond its control, PPL has the ability to convert its current Class B and Class D Units into shares of PPRC and sell them to the public to generate cash proceeds.

OFF-BALANCE SHEET ARRANGEMENTS

PPL is a sublessor under the head lease for all restaurant locations, other than locations operated by certain licensees. Should franchisees fail to meet their obligations under the terms of their sublease, PPL would become liable for the obligations under the related head leases. The gross lease obligations are summarized in the following table:

	Payments due by Period					
	2018	**2019**	**2020**	**2021**	**2022**	**Thereafter**
			(in thousands of dollars)			
Minimum lease obligation	$ 45,288	$ 35,104	$ 26,453	$ 20,743	$ 14,325	$ 27,413
Less: Sublease to franchisees	$ 32,845	$ 29,826	$ 24,197	$ 19,064	$ 13,344	$ 5,247
Net lease obligation	$ 12,443	$ 5,843	$ 2,256	$ 1,679	$ 981	$ 22,166

PPL has provided certain guarantees as disclosed in note 7 of the Financial Statements with respect to certain franchisee loans. PPL believes that guarantees of franchisee loans are a low risk since PPL has, historically, been able to replace a defaulting franchisee with a new franchisee who has assumed the obligations of the defaulting franchisee.

PIZZA PIZZA LIMITED AND PIZZA PIZZA ROYALTY CORP.

Pizza Pizza Royalty Corp., ("PPRC" or the "Company"), has licensed the Pizza Pizza Rights and Marks to PPL, for which PPL pays a 6% royalty on the system sales of those Pizza Pizza restaurants included in the specific listing of restaurants referred to as the "Royalty Pool" (as described under "Royalty Pool Adjustments"). There are 652 Pizza Pizza restaurants in the Royalty Pool for 2018.

In July 2007, the Partnership acquired the Pizza 73 trademarks and other intellectual property associated with Pizza 73 (together, "Pizza 73 Rights"). The Partnership licensed the Pizza 73 Rights to PPL for a 9% royalty on system sales of the Pizza 73 restaurants included in the Royalty Pool (as described under "Royalty Pool Adjustments"). For 2018, there are 106 Pizza 73 restaurants in the Royalty Pool.

As of April 1, 2018, PPL indirectly held an effective 22.3% interest in the Partnership (January 1, 2017 – 21.1%) by holding all Class B and Class D Units of the Partnership. PPL has the right to exchange one Class B or Class D Unit indirectly for that number of common shares of PPRC ("Shares") equal to the Class B Exchange Multiplier or Class D Exchange Multiplier, respectively, applicable at the date of such exchange, as described under "Royalty Pool Adjustments". The Class B and Class D Units are entitled to receive monthly distributions established by PPRC's board of directors. A monthly distribution is paid to both PPL and PPRC on a pro rata ownership basis, with PPRC's ownership held through its Class A and Class C limited partnership Units of the Partnership.

ROYALTY POOL ADJUSTMENTS

Annually, on January 1 (the "Adjustment Date"), an adjustment is made to the Royalty Pool to include the forecasted System Sales from new Pizza Pizza restaurants opened on or before December 31 of the prior year, less System Sales from any Pizza Pizza restaurants that have been permanently closed during the year. Once adjusted, the Royalty Pool remains fixed for the year, consequently, the number of stores in the Royalty Pool may vary from the number of stores actually open at any given time during the year. As the Royalty Pool does not reflect current year changes until the next Adjustment Date. The change in the amount of the Royalty due to the Partnership as a result of changes in the System Sales of the Royalty Pool will affect PPL's retained interest through an adjustment to the rate at which the Class B units of the Partnership may ultimately be exchanged for Shares. On the Adjustment Date, the adjustment to the Class B Exchange Multiplier (as defined in the Pizza Pizza License and Royalty Agreement) involves first calculating the "Determined Amount", which is defined as 92.5% of the royalty revenue added to the Royalty Pool, divided by the prevailing yield of the Shares. Beginning January 1, 2012, the Determined Amounts are multiplied by a number equal to (1-Tax%) where "Tax%" is an estimate of the Company's effective tax rate for the year (determined using the total income taxes paid by the Company during the fiscal year divided by the total cash received by the Company during that fiscal year) (i.e., for the Adjustment Date of January 1, 2018, it will be the effective Company tax rate for the year ended December 31, 2017). This estimate of the effective tax rate will be subject to an adjustment when the actual effective entity level tax rate of the Company for the year is known. The Determined Amount is multiplied by 80%, then divided by the current market price of the Shares, and then further divided by the number of Class B units outstanding. This fraction is added to the Class B Exchange Multiplier from the preceding year, which was "one" on the closing of the Fund's initial public offering. On the following Adjustment Date, a second adjustment to the Class B Exchange Multiplier will be made in the same manner once the System Sales for new restaurants are known with certainty. The adjustment for new restaurants rolled into the Royalty Pool is designed to be accretive for current shareholders.

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

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

RESTAURANTS ADDED TO THE ROYALTY POOL

2017 Royalty Pool Adjustment

In early January 2018, adjustments to royalty payments and PPL's Class B Exchange Multiplier were made based on the actual performance of the 23 new restaurants added to the Royalty Pool on January 1, 2017. As a result of the adjustments, the new Class B Exchange Multiplier is 2.000691 and Class B Units can be exchanged for 5,018,210 shares, which is an increase of 175,727 shares, effective January 1, 2017.

In early January 2018, adjustments to royalty payments and PPL's Class D Exchange Multiplier were made based on the actual performance of the four Pizza 73 restaurants added to the Royalty Pool on January 1, 2017. As a result of the adjustments, the new Class D Exchange Multiplier remains unchanged at 17.52620 and Class D Units can be exchanged for 1,752,620 shares effective January 1, 2017.

2018 Royalty Pool Adjustment – Class B Exchange Multiplier

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

2018 Royalty Pool Adjustment – Class D Exchange Multiplier

On January 1, 2018, six, net Pizza 73 restaurants were added to the Royalty Pool as a result of eight new restaurants opening between September 2, 2016 and September 1, 2017 and two restaurants closing between January 1, 2017 and December 31, 2017. The forecasted additional system sales from the eight new restaurants are estimated at $4.8 million annually, less $0.3 million in system sales attributable to the two closed Pizza 73 restaurants, resulting in net estimated Pizza 73 sales of $4.6 million added to the Royalty Pool. The total number of Pizza 73 restaurants in the Royalty Pool has increased to 106. The yield of the shares was determined to be 5.39% calculated using $15.88 as a weighted average share price. Weighted average share price is calculated based on the market price of the shares traded on the Toronto Stock Exchange during the period of twenty consecutive days ending on the fifth trading day before January 1, 2018. As a result of the contribution of the additional net sales to the Royalty Pool, the Class D Exchange Multiplier increased fractionally by 80% of the total adjustment or 2.76781; the new Class D Multiplier is 20.29401 and the Class D Units can be exchanged for 2,029,401 shares effective January 1, 2018. This adjustment will also increase the entitlement of the holders of the Class D units to distributions of cash and allocations of income from the Partnership. The second adjustment to the Class D Exchange Multiplier will be adjusted to be effective January 1, 2018, once the actual performance of the new restaurants is determined in early 2019.

Pizza Pizza Royalty Corp. Outstanding Shares

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

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

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

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

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

OUTLOOK

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

In 2018, the total number of restaurants are projected to increase 2% with growth to come from a continuation of the national expansion strategy which will further the company's geographic diversification.

SSSG is driven by the change in the average customer check and in customer traffic, both of which are affected by changes in pricing and sales mix. At both our brands, as many provinces increase minimum wage, the 2018 marketing strategies will be structured to optimize restaurant profitability while also driving customer traffic to our restaurants and encouraging customers to place orders using our wide array of digital ordering platforms.

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

TRANSACTIONS WITH RELATED PARTIES

PPL has entered into related party transactions with companies under common control. These transactions are entered into in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Significant related party transactions include rent expense, distributions on Class B and Class D Partnership Units, management fees and food purchases as disclosed in note 13 of the Financial Statements of PPL. PPL does not have any outstanding commitments related to transactions with related parties, other than those disclosed in note 7 of the Financial Statements of PPL.

Distributions payable and advances to or from related parties and receipt of or repayments of advances from related parties are summarized in note 13 of the Financial Statements of PPL. Advances from related party are due to the parent company. Advances from related party and receivables from jointly-controlled companies are non-interest bearing, have no specified terms of repayment and are unsecured. The related party has waived the right to demand repayment prior to April 2, 2019; accordingly, the advances from related party have been classified as long-term.

CRITICAL ACCOUNTING POLICIES

The preparation of the Financial Statements of Pizza Pizza requires management to make judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities, such as revenue recognition, long-lived and intangible assets and income taxes. PPL believes that its most critical accounting policies are:

Consolidation - Determining which entities are to be consolidated by PPL requires judgment on the definition of control. The definition of control under IFRS 10, Consolidated Financial Statements ("IFRS 10"), states that an investor controls an investee when it has power over the investee, 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. Based on an assessment of the activities of the Partnership and the franchisees, it was concluded that PPL does not control these entities, and therefore shall not consolidate their operations. The Partnership is consolidated by Pizza Pizza Royalty Corp ("PPRC"), formerly Pizza Pizza Royalty Income Fund (the "Fund").

Investment in associate - An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

PPL owns Class B and Class D Partnership Units that are exchangeable for Pizza Pizza Royalty Corp. ("PPRC") Common Shares based on the exchange multiplier applicable at the exchange date and represent an effective 22.3% interest in the Pizza Pizza Royalty Limited Partnership ("Partnership") as at April 1, 2018. PPL has the ability to exercise significant influence through both its shareholding and its nominated director's active participation on the Partnership Board of Directors and therefore applies equity accounting on its investment in the Partnership.

PPL accounts for its 22.3% (April 2, 2017 – 21.1%) share interest in the Partnership as an investment in an associate and applies equity accounting whereby PPL's investment is increased by its 22.3% share of the

Partnership's profit for the period and reduced for distributions received during the Partnership's fiscal period. The Partnership's financial and fiscal periods differ from PPL's, as the Partnership operates on a calendar year end.

Investments in joint ventures - A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

PPL accounts for its 50% (April 2, 2017 – 50%) share interest in the 80 jointly-controlled companies as an investment in a joint ventures and applies equity accounting whereby PPL's investment is increased by its 50% share of profit for the period of the joint ventures and reduced for distributions received during the joint ventures fiscal period. The jointly-controlled companies' financial and fiscal periods differ from PPL's, as the joint ventures have a floating year-end of the Saturday immediately preceding July 31.

Identification of CGUs - For the purposes of identifying CGUs, assets are grouped at the lowest levels for which there are separately identifiable cash flows. PPL concludes there are interdependencies of cash flows between Pizza 73 restaurants and PPL and therefore, the investment in jointly-controlled Pizza 73 restaurants is considered a single CGU. PPL's assets pertaining to Pizza Pizza operations are classified as a separate CGU.

Sale of rights and marks and annual vend-ins - PPL has applied judgment in assessing the application of the revenue recognition accounting policy for the initial sale of Rights and Marks, and the annual vend-ins of restaurants in the Royalty Pool. In making their assessment, management considered the substance of these transactions and whether the risks and rewards of ownership have been transferred. Based on this assessment, management has determined that revenue relating to the sale will be deferred and amortized as earned and that the subsequent vend-ins will have no impact on PPL. Cash in lieu of vend-ins is considered as proceeds of disposition of the contractual right to an increase in the Exchange Multiplier and is taken to income when due.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Financial Statements of Pizza Pizza requires management to make judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. On an ongoing basis, management evaluates its estimates, including those related to basis of consolidation, revenue recognition, long-lived and intangible assets and income taxes. PPL bases its estimates on historical experience and on various other assumptions that PPL believes are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates. Changes in its estimates could materially impact PPL's results of operations and financial condition for any particular period. PPL believes that its most critical accounting estimates are:

Impairment of investment in Pizza Pizza Royalty Limited Partnership
PPL, at each period-end, identifies impairment indicators and assesses whether there is any objective evidence that its interest in the Partnership is impaired. If impaired, the carrying value of PPL's share of the underlying assets of the Partnership is written down to its estimated recoverable amount, being the higher of fair value less cost to sell and value in use, and the write-down is charged to the consolidated statements of income.

The value-in-use calculation requires the Company to estimate the future cash flows expected to arise from the Partnership and a suitable discount rate in order to calculate present value. In measuring future cash flows, PPL makes assumptions about future sales and terminal growth rates which are based on historical experience and expected future performance. Determining the applicable discount rate also involves estimating appropriate adjustments to market risk and PPL specific risk factors. The two most sensitive assumptions are pre-tax discount rates and terminal growth rates.

Impairment of investment in jointly-controlled companies
PPL, at each period-end, identifies impairment indicators and assesses whether there is any objective evidence that its interest in the joint ventures is impaired. If impaired, the carrying value of PPL's share of the underlying assets of the joint ventures is written down to its estimated recoverable amount, being the higher of fair value less cost to sell and value in use, and charged to the consolidated statements of income.

The value-in-use calculation requires the Company to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. In measuring future cash flows, PPL makes assumptions about future sales, tax rates, and terminal growth rates that were based on historical experience and expected future performance. Determining the applicable discount rate also involves estimating appropriate adjustments to market risk and PPL specific risk factors. The two most sensitive assumptions used are pre-tax discount rates and terminal growth rates.

CHANGES IN ACCOUNTING POLICIES

On January 1, 2018, PPL adopted, for the first time, IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments,* which require the restatement of opening retained earnings. As required by IAS 34, the nature and effect of these changes are disclosed below.

IFRS 15 *Revenue from Contracts with Customers*

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

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

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

Impact on the statement of financial position as at December 31, 2017:

	Balance at December 31, 2017	**Adjustments due to IFRS 15**		**Balance at January 1, 2018**
Assets				
Recoverable franchisee expenses	727	(727)	(i)	-
Income tax recoverable	1,473	192		1,665
Deferred tax asset	49,191	530		49,721
Liabilities				
Deferred franchise fee	-	2,001	(ii)	2,001
Shareholders' deficiency				
Deficit	(102,658)	(2,006)		(104,664)

Impact on the statement of financial position as at April 1, 2018:

	Balances without the adoption of IFRS 15	**Adjustments due to IFRS 15**		**As reported in accordance with IFRS 15**
Assets				
Income tax recoverable	1,473	192		1,665
Deferred tax asset	48,876	530		49,406
Liabilities				
Deferred franchise fee	-	1,860	(ii)	1,860
Franchisee expenses payable	1,668	(1,668)	(i)	-
Shareholders' deficiency				
Deficit	(103,123)	530		(102,593)

Impact on the consolidated statement of income/loss for the 13-week period ended April 1, 2018:

	Balances without the adoption of IFRS 15	**Adjustments due to IFRS 15**		**As reported in accordance with IFRS 15**
Revenues				
Royalties, franchise fees and other revenue	7,675	141	(ii)	7,816
Store service contributions	-	22,909	(i)	22,909
Expenses				
Store service expenditures	-	(21,241)	(i)	(21,241)
Income for the period attributable to the shareholders	**262**	**1,809**		**2,071**

i. PPL provides advertising and order processing services to Pizza Pizza restaurants. Commissary food services are provided to Pizza 73 restaurants in addition to advertising and order processing services. Expenses related to the provision of these services are administered and paid for by PPL. PPL recovers advertising expenses based on a percentage of individual restaurant retail sales, order processing service expenses based on the number of orders directed to the restaurant, and commissary services at an agreed upon mark up on cost. Prior to the adoption of IFRS 15, recoveries from franchisees were recorded as a reduction of the related expenses. To the extent that expenses recovered exceeded or were less than expenses paid by PPL, the difference was recorded as a payable or a receivable, net of any provision for impairment.

   Under the new standard, advertising, order processing, and commissary services give rise to variable consideration and are considered separate performance obligations per the contractual agreements. The Company will continue to determine the transaction price based on a percentage of individual restaurant sales for advertising services and number of orders directed to restaurants for order processing services. For commissary food services, the Company will determine the transaction price based on the right to invoice practical expedient. However, in the event expenses recovered exceeded or were less than expenses paid by PPL, the Company will no longer record a net payable or a receivable in the statement of financial position. With the adoption of the new standard the Company has recognized all advertising, order processing and commissary food service revenues and related expenses in the consolidated statement of income on a gross basis. As a result, the statement of financial position as at January 1, 2018 was restated resulting in de-recognition of the receivable that was recorded as recoverable franchisee expenses of $727 and a corresponding increase to the deficit as at January 1, 2018.

ii. The Company collects initial and renewal fees upfront from franchisees related to the grant of operating licenses and associated training costs. Prior to the adoption of IFRS 15, the Company would recognize said fees at a point in time, which was upon the initial grant or renewal of the license. In accordance with the new standard, a portion of the initial franchise fee related to the license and the full amount of the renewal fee will be amortized over the initial and renewal term of the franchise agreement, respectively, both of which is five years. Upon adoption of IFRS 15, the Company recognized an amount of $2,001 of deferred revenue in the statement of financial position related to the portion of initial and renewal fees that were previously recognized at a point in time and a corresponding increase to the deficit as at January 1, 2018.

Below are changes to accounting policies that did not have a material impact upon transition:

i. Food Sales - Revenue is recognized at the point in time when control of the product is transferred to the franchised and jointly controlled restaurants, which is on delivery of the product and acceptance by the customer. The transaction price is documented on the sales invoice and agreed to by the customer. All franchisees and joint ventures are required to purchase from Pizza Pizza, at an agreed markup on cost, all of the raw materials and supplies used and sold in their Pizza Pizza restaurants. Payment is generally due in seven days, as such a receivable is recognized as the consideration is unconditional and only the passage of time is required before payment is collected.

ii. Company owned and managed restaurant retail sales - Revenue is recognized at a point in time when the services are rendered and the product is sold to the end consumer. Payment is collected at time of sale and the consideration received is unconditional.

iii. Franchise royalties - The new revenue standards include an exception relating to variable consideration for the recognition of sales or usage based royalties from licenses of intellectual property. Revenue from a sales or usage based royalty is not recognized until the later of when (1) the customer's subsequent sales or usage occurs or (2) the performance obligation to which some or all of the sales or usage based royalty has been allocated is satisfied or partially satisfied. As such there has been no significant impact of adopting the new standard and no retrospective adjustments have been applied.

iv. Administration and accounting fees - Revenue is based on a percentage of retail sales as provided for in the individual contractual agreements for both franchisee and joint venture partners. Under IFRS 15 revenue is recognized overtime using the right to invoice practical expedient. Payment is generally due in seven days, as such a receivable is recognized as the consideration is unconditional and only the passage of time is required before payment is collected.

v. Construction fees - Revenue is generated by PPL acting as general contractor overseeing completion of construction work at the individual store location. Revenue is recognized at a point in time upon completion of construction at the individual store location. Payment is due immediately upon completion of construction and the consideration received is unconditional.

IFRS 9 *Financial Instruments*

IFRS 9 - Financial Instruments ("IFRS 9") replaces IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39") for annual periods beginning on or after January 1, 2018. IFRS 9 includes classification and measurement of financial assets and financial liabilities, a forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The Company has applied IFRS 9 retrospectively, with the initial application date of January 1, 2018. As permitted by the transitional provisions of IFRS 9, the Company elected not to restate comparative figures or note disclosures. Any adjustments to the carrying amounts of financial assets and liabilities at the transition date are to be recognized in the opening retained earnings of the current period, however, the Company assessed that no adjustments to the carrying amounts of financial assets and liabilities were required upon adoption of IFRS 9.

Classification and measurement

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

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

The accounting for the Company's financial liabilities remains largely the same as it was under IAS 39. Similar to the requirements of IAS 39, the Company continues to measure its borrowings, trade and other payables, renovation fund liabilities, and advances from related party at amortized cost.

Impairment

The adoption of IFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach.

IFRS 9 requires the Company to record an allowance for ECLs for all debt financial instruments held at amortized cost or fair value through other comprehensive income.

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

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

For all other financial assets of the Company that are held at amortized cost, the Company has applied the general approach and has calculated the expected credit losses at initial recognition by considering the outcomes and probabilities of potential defaults over the next 12 months. The Company will continue to apply this method until a significant increase in credit risk has occurred, at which point an allowance is measured based on lifetime ECLs. Cash equivalents and short term investments are high grade investments that are held with reputable highly rated financial institutions. As such these assets are considered to be low credit risk investments. It is the Company's policy to measure such instruments on a 12-month ECL basis. In all cases, the Company will consider that there has been an increase in credit risk when contractual payments are more than 30 days past due. The Company considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.

The adoption of the new impairment requirements resulted in no transitional adjustment to the allowances of the Company's debt financial assets. As such there were no retrospective adjustments made upon transition.

RECENT ACCOUNTING PRONOUNCEMENTS

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

IFRS 16, Leases ("IFRS 16")
In January 2016, the IASB has issued IFRS 16, Leases, its new leases standard that requires lessees to recognize assets and liabilities for most leases on their balance sheets. Lessees applying IFRS 16 will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The new standard will be effective from January 1, 2019 with limited early application permitted. PPL has formed a project team and has begun the process of evaluating the impact of this standard on its consolidated financial statements.

RISKS & UNCERTAINTIES

The performance of PPL is primarily dependent upon its ability to maintain and increase system sales at the Pizza Pizza and Pizza 73 restaurants, add new profitable restaurants to the network and attract qualified restaurant operators. Sales are subject to a number of factors that affect the restaurant industry generally and the quick service segment of this industry, in particular, which is highly competitive with respect to price, service, location and food quality. In addition, factors such as the availability of experienced management and hourly employees may also adversely affect the system sales. Competitors include national and regional chains, as well as independently-owned restaurants and retailers of frozen pizza. If PPL and the Pizza Pizza and Pizza 73 restaurants are unable to successfully compete in the quick service sector, system sales may be adversely affected. 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, inflation, publicity from any food-borne illnesses and increased food, labour and benefits costs may adversely affect the restaurant industry in general and therefore, potentially, 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 revenue and operating income, which could adversely affect system sales and the ability of PPL to pay the royalty to the Partnership.

For a more detailed list of risks and uncertainties please refer to the PPRC's Annual Information Form which is available on the investor relations section of the website www.pizzapizza.ca or on the SEDAR website for Canadian regulatory filings at www.sedar.com.

FORWARD-LOOKING STATEMENTS

Certain statements in this report, including those concerning PPL's plans and strategies described under "Outlook", 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. 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 considered in conjunction with the other risks and uncertainties described in PPRC's Annual Information Form. PPL assumes no obligation to update these forward looking statements, except as required by applicable securities laws.

ADDITIONAL INFORMATION

Other information about PPL and PPRC, including the Annual Information Form, can be accessed on the investor relations section of the website www.pizzapizza.ca or on the SEDAR website for Canadian regulatory filings at www.sedar.com.