PIZZA PIZZA ROYALTY CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS

SELECTED FINANCIAL HIGHLIGHTS

The following tables set out selected financial information and other data of Pizza Pizza Royalty Corp. ("PPRC" or the "Company") and should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company ("Financial Statements"). Readers should note that the 2017 results are not directly comparable to the 2016 results because of an extra day of royalty revenue in 2016 due to the leap year, in addition to the fact that there are 751 restaurants in the 2017 Royalty Pool compared to 736 restaurants in the 2016 Royalty Pool.

(in thousands of dollars, except number of restaurants, days in the year, per share amounts, and noted otherwise)	3 months ended September 30, 2017	3 months ended September 30, 2016	9 months ended September 30, 2017	9 months ended September 30, 2016
Restaurants in Royalty Pool[1]	751	736	751	736
Same store sales growth[2]	-0.5%	2.2%	0.1%	1.9%
Days in the period	92	92	273	274
System Sales reported by Pizza Pizza restaurants in the Royalty Pool[6]	$ 118,523	$ 115,424	$ 345,033	$ 337,403
System Sales reported by Pizza 73 restaurants in the Royalty Pool[6]	20,500	21,435	62,415	64,800
Total System Sales	$ 139,023	$ 136,859	$ 407,448	$ 402,203
Royalty – 6% on Pizza Pizza System Sales	$ 7,111	$ 6,926	$ 20,702	$ 20,244
Royalty – 9% on Pizza 73 System Sales	1,845	1,929	5,617	5,832
Royalty income	$ 8,956	$ 8,855	$ 26,319	$ 26,076
Interest paid on borrowings[3]	(343)	(337)	(984)	(1,003)
Administrative expenses	(142)	(139)	(457)	(464)
Adjusted earnings available for distribution to the Company and Pizza Pizza Limited[5]	$ 8,471	$ 8,379	$ 24,878	$ 24,609
Distribution on Class B and Class D Exchangeable Shares[4]	(1,743)	(1,654)	(5,220)	(4,931)
Current income tax expense	(1,499)	(1,308)	(4,240)	(4,092)
Adjusted earnings available for shareholder dividends[5]	$ 5,229	$ 5,417	$ 15,418	$ 15,586
Add back:				
Distribution on Class B and Class D Exchangeable Shares[4]	1,743	1,654	5,220	4,931
Adjusted earnings from operations[5]	6,972	7,071	$ 20,638	$ 20,517
Adjusted earnings per share[5]	$ 0.223	$ 0.229	$ 0.661	$ 0.664
Basic earnings per share	$ 0.216	$ 0.221	$ 0.644	$ 0.644
Dividends declared by the Company	$ 5,266	$ 5,266	$ 15,798	$ 15,601
Dividend per share	$ 0.2139	$ 0.2139	$ 0.6417	$ 0.6337
Payout ratio[5]	101%	97%	102%	100%

	September 30, 2017	December 31, 2016
Working capital[5]	$ 4,795	$ 5,169
Total assets	$ 348,923	$ 344,646
Total liabilities	$ 69,190	$ 69,250

	Q3 2017	Q2 2017	Q1 2017	Q4 2016
(in thousands of dollars, except number of restaurants, days in the quarter, per share amounts and as noted otherwise)				
Restaurants in Royalty Pool[(1)]	751	751	751	736
Same store sales growth[(2)]	-0.5%	1.6%	-0.7%	1.8%
Days in the quarter	92	91	90	92
System Sales reported by Pizza Pizza restaurants in Royalty Pool[(6)]	$ 118,523	$ 114,002	$ 112,508	$ 119,496
System Sales reported by Pizza 73 restaurants in Royalty Pool[(6)]	20,500	20,560	21,355	23,189
Total System Sales	$ 139,023	$ 134,562	$ 133,863	$ 142,685
Royalty – 6% on Pizza Pizza System Sales	$ 7,111	$ 6,840	$ 6,751	$ 7,169
Royalty – 9% on Pizza 73 System Sales	1,845	1,851	1,922	2,087
Royalty income	$ 8,956	$ 8,691	$ 8,673	$ 9,256
Interest paid on borrowings[(3)]	(343)	(330)	(314)	(341)
Administrative expenses	(142)	(176)	(135)	(214)
Adjusted earnings available for distribution to the Company and to Pizza Pizza Limited[(5)]	$ 8,471	$ 8,185	$ 8,224	$ 8,701
Distribution on Class B and Class D Exchangeable Shares[(4)]	(1,743)	(1,743)	(1,735)	(1,654)
Current income tax expense	(1,499)	(1,367)	(1,375)	(1,557)
Adjusted earnings available for shareholder dividends[(5)]	$ 5,229	$ 5,075	$ 5,114	$ 5,490
Add back:				
Distribution on Class B and Class D Exchangeable Shares[(4)]	1,743	1,743	1,735	1,654
Adjusted earnings from operations[(5)]	$ 6,972	$ 6,818	$ 6,849	$ 7,144
Adjusted earnings per share[(5)]	$ 0.223	$ 0.218	$ 0.219	$ 0.231
Basic earnings per share	$ 0.216	$ 0.212	$ 0.217	$ 0.221
Dividends declared by the Company	$ 5,266	$ 5,266	$ 5,266	$ 5,266
Dividend per share	$ 0.2139	$ 0.2139	$ 0.2139	$ 0.2139
Payout ratio[(5)]	101%	104%	103%	96%

	Q3 2016	Q2 2016	Q1 2016	Q4 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)]	736	736	736	730
Same store sales growth[(2)]	2.2%	0.9%	2.5%	3.4%
Days in the quarter	92	91	91	92
System Sales reported by Pizza Pizza restaurants in Royalty Pool[(6)]	$ 115,424	$ 110,769	$ 111,210	$ 117,614
System Sales reported by Pizza 73 restaurants in Royalty Pool[(6)]	21,435	21,484	21,881	23,792
Total System Sales	$ 136,859	$ 132,253	$ 133,091	$ 141,406
Royalty – 6% on Pizza Pizza System Sales	$ 6,926	$ 6,646	$ 6,673	$ 7,056
Royalty – 9% on Pizza 73 System Sales	1,929	1,934	1,969	2,142
Royalty income	$ 8,855	$ 8,580	$ 8,642	$ 9,198
Interest paid on borrowings[(3)]	(337)	(331)	(332)	(330)
Administrative expenses	(139)	(162)	(163)	(227)
Adjusted earnings available for distribution to the Company and to Pizza Pizza Limited[(5)]	$ 8,379	$ 8,087	$ 8,147	$ 8,641
Distribution on Class B and Class D Exchangeable Shares[(4)]	(1,654)	(1,633)	(1,644)	(1,577)
Current income tax expense	(1,308)	(1,409)	(1,375)	(1,480)
Adjusted earnings available for shareholder dividends[(5)]	$ 5,417	$ 5,045	$ 5,128	$ 5,584
Add back:				
Distribution on Class B and Class D Exchangeable Shares[(4)]	1,654	1,633	1,644	1,577
Adjusted earnings from operations[(5)]	$ 7,071	$ 6,678	$ 6,772	$ 7,161
Adjusted earnings per share[(5)]	$ 0.229	$ 0.216	$ 0.219	$ 0.233
Basic earnings per share	$ 0.221	$ 0.208	$ 0.214	$ 0.225
Dividends declared by the Company	$ 5,266	$ 5,186	$ 5,148	$ 5,106
Dividend per share	$ 0.2139	$ 0.2107	$ 0.2091	$ 0.2074
Payout ratio[(5)]	97%	103%	100%	91%

(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 2017 fiscal period, the Royalty Pool includes 651 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 and off-market swap payments. See "Interest Expense".

(4) Represents the distribution to PPL from the Partnership on Class B and Class D Units of the Partnership. The Class B and D Units are exchangeable into common shares of the Company ("Shares") based on the value of the Class B Exchange Multiplier and the Class D Exchange Multiplier at the time of exchange as defined in the License and Royalty Agreements, respectively, and represent 21.1% of the fully diluted Shares at September 30, 2017 (December 31, 2016 – 20.4%). During the quarter ended March 31, 2017, as a result of the final calculation of the equivalent Class B and Class D Share entitlements related to the January 1, 2016 Adjustment to the Royalty Pool, PPL was paid a distribution on additional equivalent Shares as if such Shares were outstanding as of January 1, 2016. Included in the three months ended March 31, 2017, is the payment of $8 in distributions to PPL pursuant to the true-up calculation (March 31, 2016 - PPL was paid $22).

(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 nine months (the "Period") ended September 30, 2017. 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 November 6, 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 2017, the Royalty Pool consists of 651 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 648 Pizza Pizza restaurants at September 30, 2017, 639 are franchised or licensed and nine are owned and operated as corporate restaurants. Of the 648 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 106 Pizza 73 locations operating in the QSR segment, principally in the province of Alberta. The majority of the traditional Pizza 73 restaurants are not franchised, but instead are owned and operated as independent businesses. Of the 83 traditional restaurants, 78 are operated by corporations jointly-owned by PPL and an independent owner/operator and five are franchised or licensed. There are 23 non-traditional locations which are sublicensed and have limited operating hours and a limited menu. Pizza 73 currently has seven traditional locations outside of Alberta; four in Saskatchewan, two in British Columbia and one in the Yukon. Sales through its centralized call centre and on-line ordering 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, 2017, PPL indirectly held an effective 21.1% interest in the Company (December 31, 2016 – 20.4%) by holding all Class B and Class D Units of the Partnership. PPL has the right to exchange one Class B or Class D Unit indirectly for that number of Shares equal to the Class B Exchange Multiplier or Class D Exchange Multiplier, respectively, applicable at the date of such exchange, as described under "Royalty Pool Adjustments". The Class B and Class D Units are entitled to receive monthly distributions established by PPRC's board of directors. A monthly distribution is paid to both PPL and PPRC on a pro rata ownership basis, with PPRC's ownership held through its Class A and Class C limited partnership units of the Partnership.

SAME STORE SALES GROWTH ("SSSG")

SSSG, the key driver of yield growth for shareholders of the Company, decreased by 0.5% (2016 – increased 2.2%) for the Quarter and increased by 0.1% (2016 – increased 1.9%) for the Period when compared to the same period in 2016. See "Reconciliation of Non-IFRS Measures".

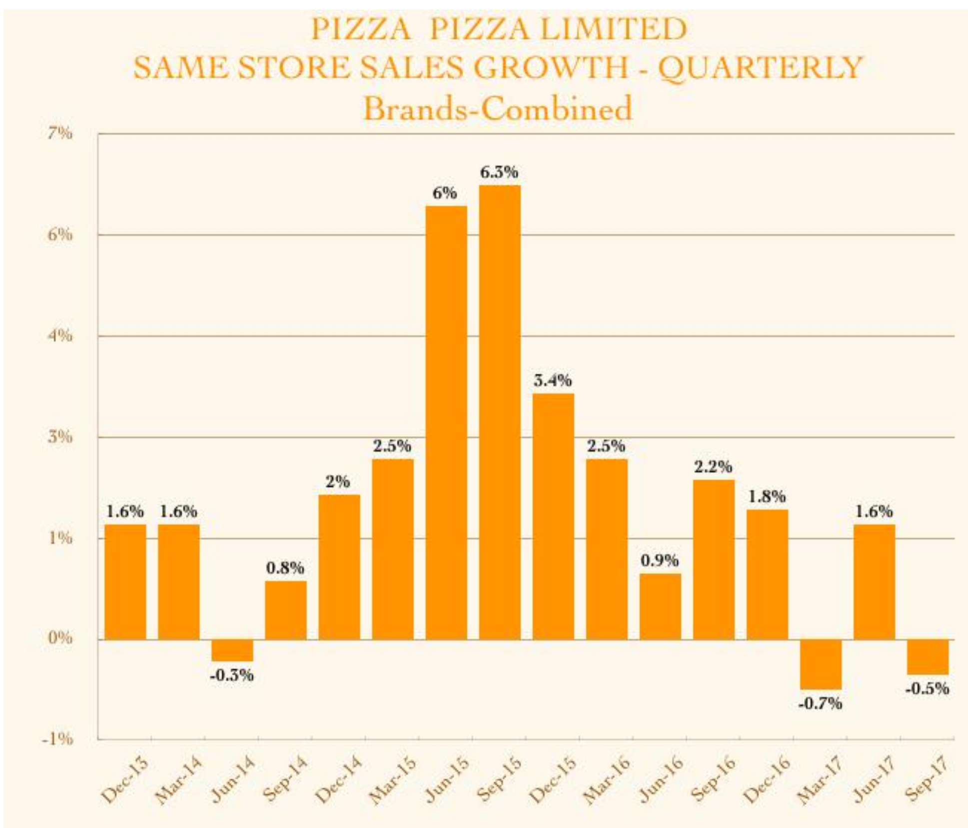
SSSG	Third Quarter (%)		Year-to-Date (%)	
	2017	**2016**	**2017**	**2016**
Pizza Pizza	(0.2)	3.5	0.5	3.7
Pizza 73	(2.2)	(4.6)	(1.7)	(6.8)
Combined	(0.5)	2.2	0.1	1.9

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.

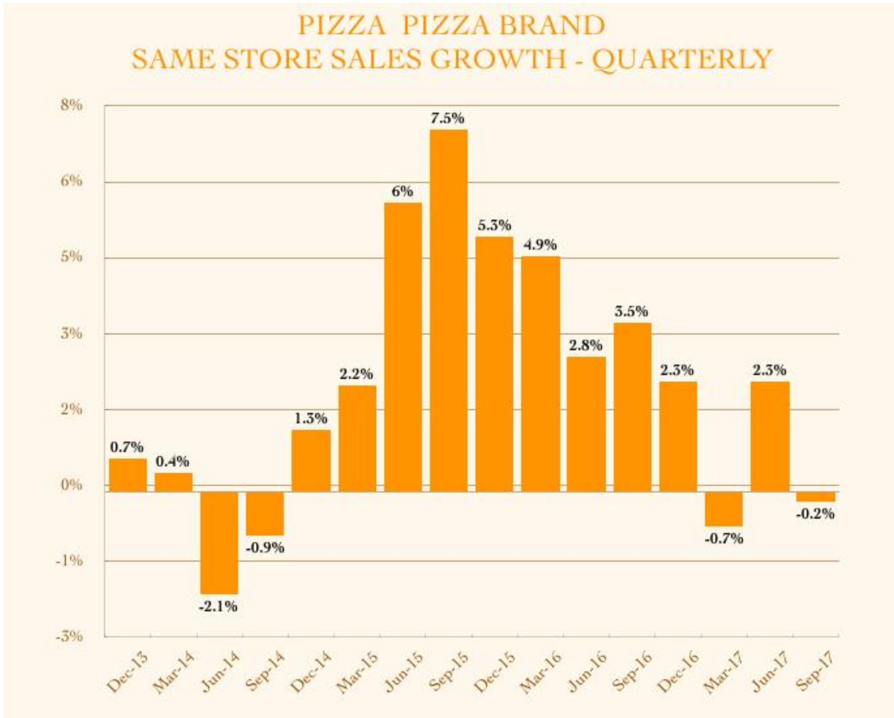
During the Quarter and for the Period, PPL continued to execute on its strategy of growing customer traffic through compelling promotional offerings at both brands. The promotions, which were designed to drive traffic at attractive price points, successfully grew both delivery and walk-in traffic when compared to the same periods last year, however the average customer check decreased slightly. Management believes this near-term strategy will stabilize and grow same store sales, especially at the Pizza 73 brand which operates largely in the weakened Alberta economy.

The following charts show historical SSSG performance:

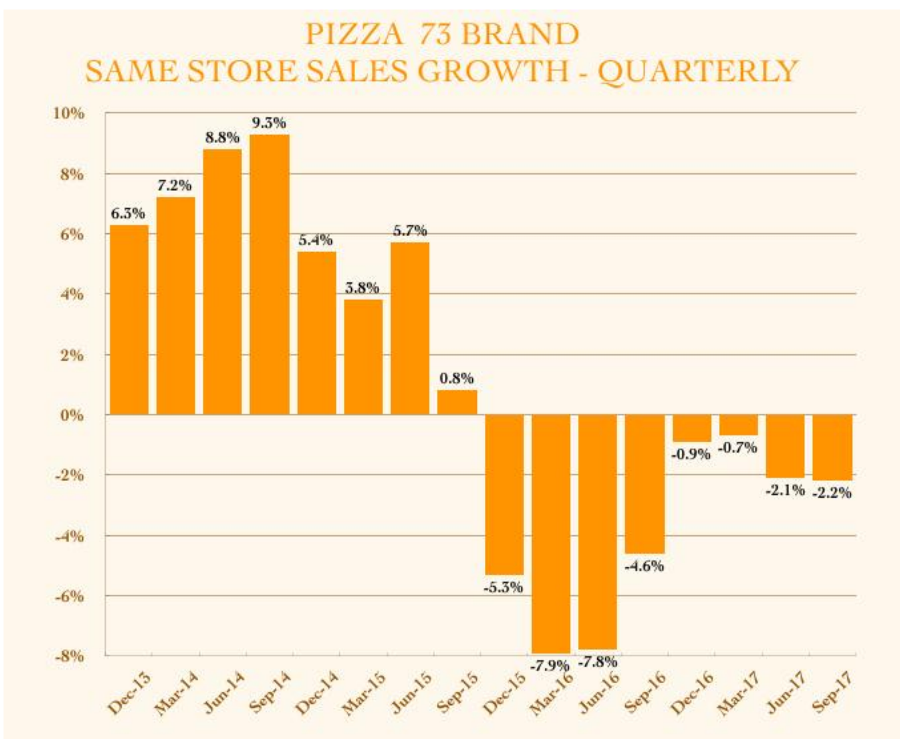
a) Quarterly SSSG, in which both brands are combined:



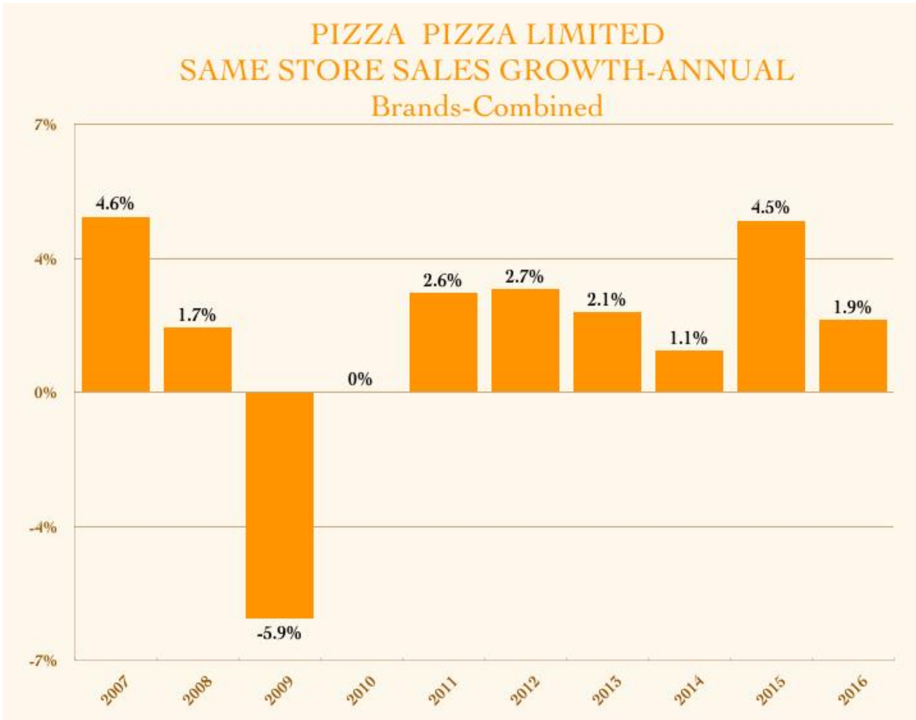
b) Quarterly SSSG, Pizza Pizza brand only:



c) Quarterly SSSG, Pizza 73 brand only



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



ROYALTY POOL SALES

The restaurants in the Royalty Pool increased to 751 on January 1, 2017 (the "Adjustment Date") to include 27 new restaurants less 12 closed restaurants. In the prior year, the Royalty Pool included 736 restaurants.

System sales from the 751 restaurants in the Royalty Pool for the Quarter increased 1.6% to $139.0 million from $136.9 million in the same quarter last year when there were 736 restaurants in the Royalty Pool. System sales for the Period increased 1.3% to $407.4 million from $402.2 million in the prior year's comparative period. System Sales in the prior year nine month period included an extra day of sales in February 2016 due to the leap year, which management estimated to be $1.0 million.

By brand, sales from the 651 Pizza Pizza restaurants in the Royalty Pool increased 2.7% to $118.5 million for the Quarter compared to $115.4 million in the same quarter last year. Sales from the 100 Pizza 73 restaurants decreased 4.4% to $20.5 million for the Quarter compared to $21.4 million in the same quarter last year.

For the Period, sales from the Pizza Pizza restaurants in the Royalty Pool increased 2.3% to $345.0 million compared to $337.4 million in the same period last year. Sales from the Pizza 73 restaurants decreased 3.7% to $62.4 million compared to $64.8 million in the same period last year.

Total Royalty Pool System Sales for the Quarter and Period increased over the comparative period as a result of the impact of net, new restaurants added to the Royalty Pool on January 1, 2017, and by the impact of the reported same store sales growth (see "Same Store Sales Growth ("SSSG")"). Additionally, the extra day of sales in the prior year should be considered when comparing 2017 to 2016. SSSG is unaffected by the extra day of sales.

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.

COMPANY OPERATING RESULTS

The Financial Statements incorporate the assets and liabilities of the Company and its subsidiaries as at September 30, 2017 and the operating results of the Company and these subsidiaries for the Quarter and Period ended September 30, 2017. The Company's subsidiaries and its respective holdings are outlined below:

Subsidiary	Holding
Pizza Pizza Royalty Limited Partnership	78.9%
Pizza Pizza GP Inc.	78.9%

Royalty income earned by the Partnership increased 1.1% to $9.0 million for the Quarter and increased 0.9% to $26.3 million for the Period. A 6% royalty was earned on the Royalty Pool of 651 Pizza Pizza restaurants reporting $118.5 million in System Sales for the Quarter and $345.0 million for the Period. A 9% royalty was earned on the Royalty Pool of 100 Pizza 73 restaurants reporting $20.5 million in System Sales for the Quarter and $62.4 million for the Period.

Royalty income for the prior year's comparative Quarter and Period was $8.9 million and $26.1 million, respectively. The 636 Pizza Pizza restaurants in the Royalty Pool reported System Sales of $115.4 million for the Quarter and $337.4 million for the Period, while the 100 Pizza 73 restaurants reported System Sales of $21.4 million and $64.8 million for the Quarter and Period, respectively

The overall increase in royalty income earned on the restaurants in the Royalty Pool is largely due to the impact of net, new restaurants added to the Royalty Pool on January 1, 2017, and by the impact of the reported same store sales growth (see "Same Store Sales Growth"). Additionally, the extra day of sales in the prior year should be considered when comparing 2017 to 2016.

Administrative expenses for the Quarter were $142,000 and $457,000 for the Period. For the prior year comparable periods, administrative expenses were $139,000 and $464,000, 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 Company's **Operating earnings** increased 1.1% to $8.8 million compared to $8.7 million for the same quarter in 2016. For the Period, operating earnings increased 1.0% to $25.9 million compared to $25.6 million in the prior year comparable period. The period over period increase is due to the increase in royalty income and net restaurant additions to the Royalty Pool. Additionally, the extra day of sales in the prior year should be considered when comparing 2017 to 2016.

Interest expense for the Quarter 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%.

	3 months ended		9 months ended	
(in thousands of dollars)	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Interest expense	250	206	662	618
Loan fee amortization	2	10	6	30
Interest expense per financial statements	252	216	668	648
Interest paid to draw down swap termination and out-of-market costs	91	121	316	355
Interest paid on borrowings	343	337	984	1,003

Distributions made by the Partnership on the Class B and D Equivalent Shares on a per share basis were $0.2613 for the Quarter and was unchanged from the same quarter in 2016. For the Period, distributions were $0.7839 per share compared to $0.7760 per share in the prior year comparable period. The monthly Partnership distribution to both PPL and PPRC was increased in June 2016 to $0.0871 ($1.046 annualized). The increase in the distribution effective June 2016, together with the increase in the number of Class B and Class D Equivalent Shares relating to the January 1, 2017 vend-in, increased the overall distribution paid.

Distributions to the Company by the Partnership on its Class A and Class C LP units are calculated on a pro rata ownership basis; the Company owns 78.9% of the Partnership and PPL owns 21.1%. Monthly, available Partnership funds are distributed based on the percentage ownership. The Company reserves a portion of its monthly distribution for taxes and, on occasion, replenishment of the cash reserve, prior to paying the shareholder dividend. See "Dividends".

Earnings before income taxes measure operations after financing costs. For the Quarter, the Company reported earnings of $8.6 million compared to $8.5 million in the comparable quarter of 2016. Earnings for the Period were $25.2 million compared to $25.0 million in the prior year comparative period. The increase in earnings in the Quarter and Period is attributable to an increase in royalty income.

Current income tax expense for the Quarter was $1.5 million and $4.2 million for the Period. For the 2016 comparable quarter and period, the current tax was $1.3 million and $4.1 million, respectively. The tax expense increased in both periods due to an increase in royalty income plus the fact that the available tax amortization on undepreciated capital assets decreased for the period.

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 decrease in ownership of the Partnership, an increase in royalty income, and a decrease in tax amortization resulted in an effective tax rate of 22.0% for the Period (2016 – 21.8%) compared to the Company's applicable statutory tax rate of 26.5% (2016 – 26.5%).

Deferred tax expense for the Quarter and Period**,** a non-cash item, was $0.3 million and $0.8 million, respectively, compared to $0.3 million and $1.0 million, for the respective periods in 2016. 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 decreased 1.4% to $6.7 million from $6.8 million in the comparable quarter last year. The decrease in earnings resulted from an increase in current taxes. For the Period, earnings increased to $20.1 million compared to $19.9 million in the same period of 2016. The increase in earnings resulted from a slight increase in royalty income offset by an increase in current taxes.

RECONCILIATION OF NON-IFRS MEASURES

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

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

The Company believes that the above noted measures provide investors with more meaningful information regarding the amount of cash that the Company has generated to pay dividends, and help illustrate the Company's operating performance and highlight trends in the Company's business. These measures are also frequently used by analysts, investors, and other interested parties in the evaluation of issuers in the Company's sector, particularly those with a royalty-based model. The adjustments to net earnings as recorded under IFRS relate to non-cash items included in earnings and cash payments accounted for on the statement of financial position. Investors are cautioned, however, that this should not be 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		9 months ended	
(in thousands of dollars, except number of shares)	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Earnings for the period before income taxes	**8,562**	**8,500**	**25,194**	**24,964**
Interest payment related to the 2015 swap termination costs	(91)	(121)	(316)	(355)
Adjusted earnings available for distribution to the Company and Pizza Pizza Limited	**8,471**	**8,379**	**24,878**	**24,609**
Current income tax expense	(1,499)	(1,308)	(4,240)	(4,092)
Adjusted earnings from operations	**6,972**	**7,071**	**20,636**	**20,517**
Less: Distribution on Class B and Class D Exchangeable Shares	(1,743)	(1,654)	(5,220)	(4,931)
Adjusted earnings available for shareholder dividends	**5,229**	**5,417**	**15,418**	**15,586**
Weighted average Shares – diluted	31,213,495	30,921,241	31,213,495	30,921,241

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 2.6% to $0.223 when compared to the same period of 2016, and decreased 0.5% for the Period. Basic EPS is adjusted as follows:

	3 months ended		9 months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Basic EPS	0.216	0.221	0.644	0.644
Adjustments:				
Interest rate swap draw down	(0.003)	(0.004)	(0.010)	(0.011)
Deferred tax expense	0.010	0.012	0.027	0.031
Adjusted EPS	**0.223**	**0.229**	**0.661**	**0.664**

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		9 months ended	
(in thousands of dollars, except as noted otherwise)	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Dividends declared to shareholders	5,266	5,266	15,798	15,601
Adjusted earnings available for shareholder dividends	5,229	5,417	15,418	15,586
Payout Ratio	**101%**	**97%**	**102%**	**100%**

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)	September 30, 2017	December 31, 2016
Total current assets	7,752	8,276
Less: Total current liabilities	2,957	3,107
Working Capital	**4,795**	**5,169**

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-week sales reporting period used in calculating same store sales.

	3 months ended		9 months ended	
(in thousands of dollars)	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Total Royalty Pool System Sales	139,023	136,859	407,448	402,203
Adjustments for stores not in both periods, Step-Out payments, and the impact of calendar reporting	(4,562)	(1,698)	(6,068)	(1,324)
Same Store Sales	134,461	135,161	401,380	400,879
SSSG	**(0.5%)**	**2.2%**	**0.1%**	**1.9%**

DIVIDENDS

The Company declared shareholder dividends of $5.3 million, or $0.2139 per Share, for the current Quarter and for the comparative quarter in 2016. The payout ratio was 101% for the Quarter and was 97% in the prior year comparable quarter.

For the Period, the Company declared shareholder dividends of $15.8 million, or $0.6417 per Share, compared to $15.6 million, or $0.6337 per Share, for the prior year comparable period. The payout ratio was 102% for the Period and was 100% in the prior year comparable period.

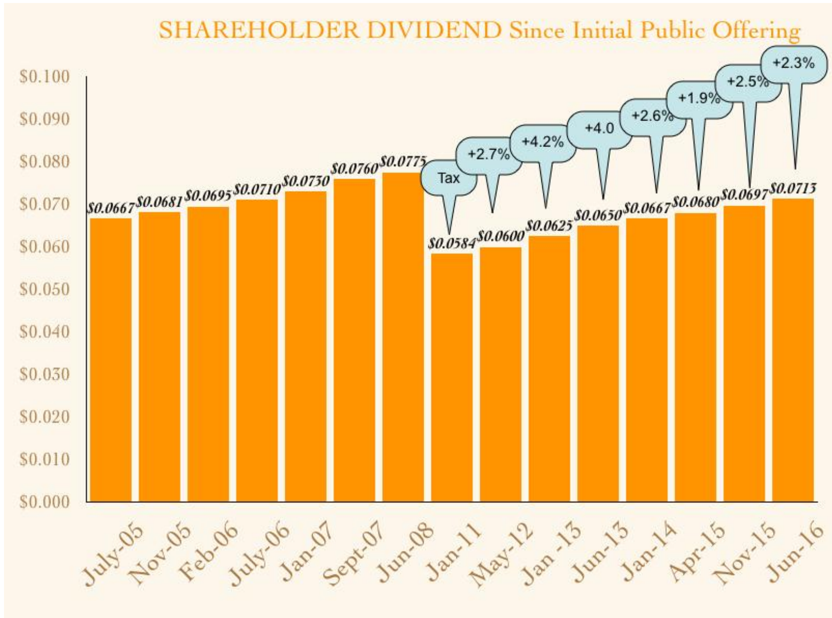
In June 2016, the Company increased the monthly dividend by 2.3% to $0.0713 per Share. On an annualized basis, the dividend was increased by $0.019 to $0.8556. The previous dividend increase was in November 2015, when the Company increased the monthly dividend by 2.5% to $0.0697 per Share.

Dividends declared for 2017 are as follows:

Period	Payment Date	Amount/share
January 1-31, 2017	February 15, 2017	7.13¢
February 1-28, 2017	March 15, 2017	7.13¢
March 1-31, 2017	April 13, 2017	7.13¢
April 1-30, 2017	May 15, 2017	7.13¢
May 1-31, 2017	June 15, 2017	7.13¢
June 1-30, 2017	July 14, 2017	7.13¢
July 1-31, 2017	August 15, 2017	7.13¢
August 1-31, 2017	September 15, 2017	7.13¢
September 1-30, 2017	October 13, 2017	7.13¢
Total		64.17¢

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 $4.8 million at September 30, 2017, which is a decrease of $36,000 for the Quarter and $374,000 for the Period. The decrease in the reserve was the result of relatively flat Adjusted earnings in the Quarter and Period compared to the prior year comparable period, coupled with an increase in the dividend effective June 2016.

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 September 30, 2017 was $7.2 million (December 31, 2016 - $6.8 million). In addition, the Partnership is required to maintain a funded debt-to-EBITDA ratio not to exceed 2.0:1 on a four quarter rolling average. The debt-to-EBITDA ratio for the last four-quarter rolling average is 1.35:1 (December 31, 2016 – 1.36:1). 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%

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OUTLOOK

During the Quarter, marketing messages placed on TV, on multiple digital channels and in traditional formats like print and billboards, continued drawing attention to Pizza Pizza Limited's 50th anniversary celebrations. Compelling value messages, featuring roll-back pricing, have been a major factor in increasing customer visits over the prior year.

Earlier in the year, PPL kicked off a system-wide restaurant reimaging program to modernize dining areas and signage in our restaurants. The refreshed environments will provide an enjoyable dining atmosphere to encourage loyalty and sales growth. The reimaging program is expected to be completed in three to five years.

In the third quarter, PPL reported a 0.5% decrease in SSSG compared to an increase of 2.2% in the same quarter last year; for the nine months, SSSG was 0.1% compared to 1.9% in the prior year comparative period. By brand, for the Quarter, Pizza Pizza reported a 0.2% decrease in SSSG and Pizza 73 reported a 2.2% decrease. For the year, Pizza Pizza reported a 0.5% increase in SSSG and Pizza 73 reported a decrease of 1.7%.

During the Quarter and for the Period, PPL continued to execute on its strategy of growing customer traffic through compelling promotional offerings at both brands. The promotions, which were designed to drive traffic at attractive price points, successfully grew both delivery and walk-in traffic when compared to the same periods last year, however the average customer check decreased slightly. Management believes this near-term strategy will stabilize and grow same store sales, especially at the Pizza 73 brand which operates largely in the weakened Alberta economy.

The Company has accumulated a $4.8 million working capital reserve which is available to stabilize dividends in the event of short- to medium-term variability in System Sales and to fund any unusual expenditures. Having established the working capital reserve, the Company is targeting an annual payout ratio at or near 100% in 2017. The Company does not have capital expenditure requirements or employees.

PPL believes its high-quality menu offerings, new product introductions, its geographic diversification, plus its continued investment in technological innovation, present long-term opportunities for sales growth and increasing its leading market share.

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 September 30, 2017. It was determined that the Company's disclosure controls and procedures and internal controls over financial reporting were effective.

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

TRANSACTIONS WITH RELATED PARTIES

The Company, through its ownership in the Partnership, has entered into related party transactions with PPL. PPL is considered a related party by virtue of holding Class B and Class D Exchangeable Shares that are exchangeable into common shares of PPRC. Transactions with PPL include: the annual vend-in of restaurants into the Royalty Pool, monthly distributions from the Partnership to its partners, and expenses paid by PPL on behalf of the Partnership. These transactions have been entered into in the normal course of business and are measured at the exchange amount. The transactions with PPL are all pursuant to the terms of the Pizza Pizza Royalty Limited Partnership's Partnership Agreement. See note 8 of the Financial Statements of the Company for further details of the related party transactions.

CRITICAL ACCOUNTING ESTIMATES OF THE COMPANY

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

Impairment of Rights and Marks
Determining whether the rights and marks owned by the Partnership are impaired requires an estimation of the recoverable amount of the cash generating unit ("CGU") in which the assets are included. The value-in-use calculation requires the Company to estimate the future cash flows expected to arise from the Pizza Pizza brand and the Pizza 73 brand (the CGU is defined by brand) and a suitable pre-tax discount rate in order to calculate present value. In measuring future cash flows, the Company made assumptions about future sales, vend-in of restaurants to the Royalty Pool, tax rates, and terminal growth rates, by brand, which were based on historical experience and expected future performance. Determining the applicable pre-tax discount rate also involved estimating appropriate adjustments to market risk and to Company-specific risk factors. The two most sensitive assumptions used in the annual impairment tests performed at December 31, 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 Financial Statements are consistent with those used in the Company's 2016 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. The Company has completed its assessment of the anticipated impact of the amended standard on its consolidated financial statements, and it 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.