SELECTED FINANCIAL HIGHLIGHTS

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

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

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

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

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

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

(1) The number restaurants for which the Pizza Pizza Royalty Limited Partnership (the "Partnership") earns a royalty ("Royalty Pool"), as defined in the amended and restated Pizza Pizza license and royalty agreement (the "Pizza Pizza License and Royalty Agreement") and the amended and restated Pizza 73 license and royalty agreement (the "Pizza 73 License and Royalty Agreement") (together, the "License and Royalty Agreements"). For the 2016 fiscal period, the Royalty Pool includes 636 Pizza Pizza restaurants and 100 Pizza 73 restaurants. The number of restaurants added to the

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

(2) Same store sales growth ("SSSG") means the change in period gross revenue of a particular Pizza Pizza or Pizza 73 restaurant as compared to sales in the previous comparative period, where the restaurant has been open at least 13 months. Additionally, for a Pizza 73 restaurant whose restaurant territory was adjusted due to an additional restaurant, the sales used to derive the Step-Out Payment (calculated as the difference between the average monthly Pizza 73 Royalty payment attributable to that Adjusted Restaurant in the 12 months immediately preceding the month in which the territory reduction occurs, less the Pizza 73 Royalty payment attributable to the restaurant in the current month) may be added to sales to arrive at SSSG. SSSG does not have any standardized meaning under International Financial Reporting Standards ("IFRS"). Therefore, these figures may not be comparable to similar figures presented by other companies. See "Reconciliation of Non-IFRS Measures".

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

(4) Represents the distribution to PPL from the Partnership on Class B and Class D Units of the Partnership. The Class B and D Units are exchangeable into common shares of the Company ("Shares") based on the value of the Class B Exchange Multiplier and the Class D Exchange Multiplier at the time of exchange as defined in the License and Royalty Agreements, respectively, and represent 20.4% of the fully diluted Shares at December 31, 2016 (December 31, 2015 – 19.9%). During the quarter ended March 31, 2016, as a result of the final calculation of the equivalent Class B and Class D Share entitlements related to the January 1, 2015 Adjustment to the Royalty Pool, PPL was paid a distribution on additional equivalent Shares as if such Shares were outstanding as of January 1, 2015. Included in the three months ended March 31, 2016, is the payment of $22 in distributions to PPL pursuant to the true-up calculation (March 31, 2015 - PPL was paid $80).

(5) "Adjusted earnings available for distribution to the Company and Pizza Pizza Limited", "Adjusted earnings from operations", "Adjusted earnings available for shareholder dividends", "Adjusted earnings per Share", "Payout Ratio", and "Working Capital" do not have any standardized meaning under IFRS. Therefore, these figures may not be comparable to similar figures presented by other companies. See "Reconciliation of Non-IFRS Measures".

(6) System Sales (as defined in the License and Royalty Agreements) reported by Pizza Pizza and Pizza 73 restaurants include the gross sales of Pizza Pizza company-owned, jointly-controlled and franchised restaurants, excluding sales and goods and service tax or similar amounts levied by any governmental or administrative authority. System Sales do not represent the consolidated operating results of the Company but are used to calculate the royalties payable to the Partnership as presented above.

OVERVIEW AND BUSINESS OF THE COMPANY

The following Management's Discussion and Analysis (the "MD&A") is a discussion of the results of operations and financial condition of the Company for the three months (the "Quarter") and year (the "Year") ended December 31, 2016. The Financial Statements of the Company are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The MD&A has been prepared as of March 8, 2017.

The Company, indirectly through the Partnership, owns the trademarks and trade names used by PPL in its Pizza Pizza and Pizza 73 restaurants. The Pizza Pizza trademarks and other intellectual property (the "Pizza Pizza Rights") were licensed to PPL in 2005 for 99 years for which PPL pays the Partnership a royalty equal to 6% of the System Sales of its Pizza Pizza restaurants in the Royalty Pool. On July 24, 2007, the Partnership acquired the trademarks and other intellectual property of Pizza 73 (the "Pizza 73 Rights") from Pizza 73 Inc. and licensed them to PPL for 99 years, for which PPL pays a royalty equal to 9% of the System Sales of the Pizza 73 restaurants in the Royalty Pool. For 2016, the Royalty Pool consists of 636 Pizza Pizza restaurants and 100 Pizza 73 restaurants.

Readers should note that the number of restaurants added to the Royalty Pool each year may differ from the number of restaurant openings and closings reported by PPL on an annual basis as the periods for which they are reported differ slightly (see "Royalty Pool Adjustments").

About the Pizza Pizza Brand
Pizza Pizza is a franchise-oriented restaurant business operating primarily in the province of Ontario in which it dominates the pizza quick service restaurant ("QSR") segment. Of the 651 Pizza Pizza restaurants at December 31, 2016, 641 are franchised or licensed and 10 are owned and operated as corporate restaurants. Of the 651 restaurants, 228 are non-traditional locations which have limited operating hours and a limited menu.

PPL, a privately-held company, provides a high level of service and operational support to restaurant operators, including turn-key restaurants, a central food distribution centre which supplies all food and non-food items used in Pizza Pizza restaurant operations, and monitoring systems intended to ensure product and service quality and operational consistency across the chain.

Pizza Pizza has a modern restaurant system. The centrally managed renovation or re-imaging program, funded by PPL's franchisees, allows for the continuous renewal of the Pizza Pizza concept.

About the Pizza 73 Brand
There are 101 Pizza 73 locations operating in the QSR segment, principally in the province of Alberta. The traditional Pizza 73 restaurants are not franchised, but instead are owned and operated as independent businesses. Each restaurant is operated by a corporation, with 76 jointly-owned by PPL and an independent owner/operator. There are 25 non-traditional locations which are sublicensed and have limited operating hours and a limited menu. Pizza 73 currently has five traditional locations outside of Alberta; three in Saskatchewan and two in British Columbia. Sales through its centralized call centre and on-line ordering, together, account for approximately 90% of Pizza 73's system sales. The Pizza 73 business also includes two central food distribution centres.

System Sales and PPL's Interest
A key attribute of the Company is that revenues are based on top-line System Sales of the restaurants in the Royalty Pool and not on the profitability of either PPL or the restaurants. Moreover, the Company is not subject to the variability of earnings or expenses of either PPL or the restaurants. The Company's only expenses are administration expenses, interest on debt, and income taxes. Thus, its success depends primarily on the ability of PPL to maintain and increase System Sales of the Royalty Pool and to meet its royalty obligations.

Increases in System Sales are derived from both the opening of new Pizza Pizza and Pizza 73 restaurants and SSSG. The key metric for yield growth of the Company is SSSG, which is dependent on maintaining operational excellence within each restaurant, general market conditions, pricing, and marketing programs undertaken by PPL. PPL has historically maintained a low closure rate of traditional restaurants throughout its chain.

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

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

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

ROYALTY POOL ADJUSTMENTS

Annually, on January 1 (the "Adjustment Date"), an adjustment is made to the Royalty Pool to include the forecasted System Sales from new Pizza Pizza restaurants opened on or before December 31 of the prior year, less System Sales from any Pizza Pizza restaurants that have been permanently closed during the year. Once adjusted, the Royalty Pool remains fixed for the year, consequently, the number of stores in the Royalty Pool may vary from the number of stores actually open at any given time during the year. As the Royalty Pool does not reflect current year changes until the next Adjustment Date. The change in the amount of the Royalty due to the Partnership as a result of changes in the System Sales of the Royalty Pool will affect PPL's retained interest through an adjustment to the rate at which the Class B units of the Partnership may ultimately be exchanged for Shares. On the Adjustment Date, the adjustment to the Class B Exchange Multiplier (as defined in the Pizza Pizza License and Royalty Agreement) involves first calculating the "Determined Amount", which is defined as 92.5% of the royalty revenue added to the Royalty Pool, divided by the prevailing yield of the Shares. Beginning January 1, 2012, the Determined Amounts are multiplied by a number equal to (1-Tax%) where "Tax%" is an estimate of the Company's effective tax rate for the year (determined using the total income taxes paid by the Company during the fiscal year divided by the total cash received by the Company during that fiscal year) (i.e., for the Adjustment Date of January 1, 2016, it will be the effective Company tax rate for the year ended December 31, 2015). This estimate of the effective tax rate will be subject to an adjustment when the actual effective entity level tax rate of the Company for the year is known. The Determined Amount is multiplied by 80%, then divided by the current market price of the Shares, and then further divided by the number of Class B units outstanding. This fraction is added to the Class B Exchange Multiplier from the preceding year, which was "one" on the closing of the Fund's initial public offering. On the following Adjustment Date, a second adjustment to the Class B Exchange Multiplier will be made in the same manner once the System Sales for new restaurants are known with certainty. The adjustment for new restaurants rolled into the Royalty Pool is designed to be accretive for current shareholders.

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

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

RESTAURANTS ADDED TO THE ROYALTY POOL

2015 Royalty Pool Adjustment

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

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

2016 Royalty Pool Adjustment – Class B Exchange Multiplier

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

2016 Royalty Pool Adjustment – Class D Exchange Multiplier

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

PPL's Ownership of the Company

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

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

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

SAME STORE SALES GROWTH ("SSSG")

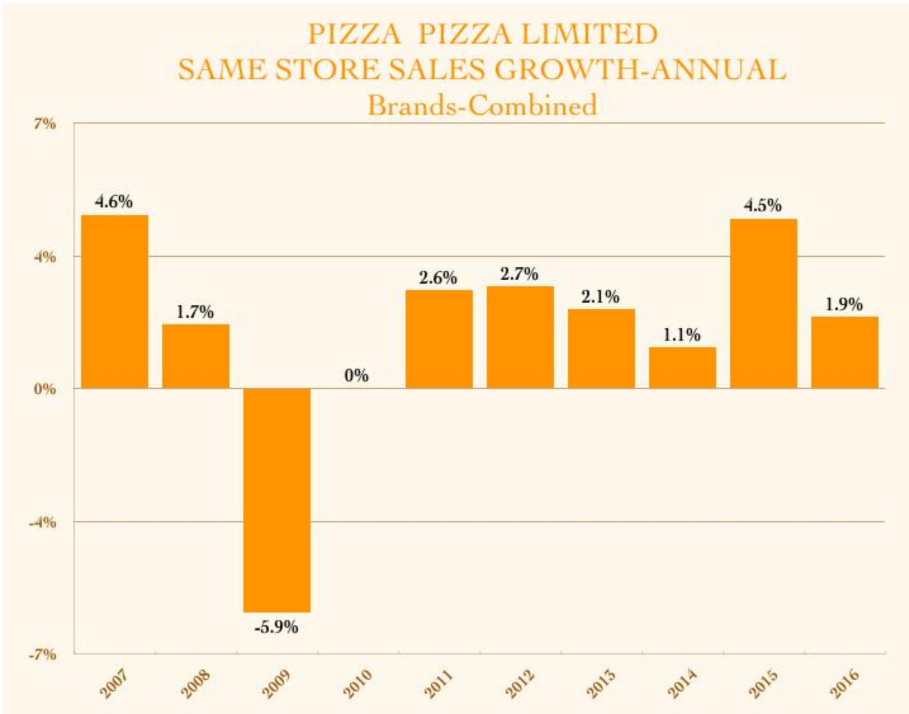
SSSG, the key driver of yield growth for shareholders of the Company, increased by 1.8% (3.4% - 2015) for the Quarter when compared to the same period in 2015 and increased by 1.9% (4.5% – 2015) for the Year. SSSG is not affected by the additional day during the leap year, as SSSG is calculated using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

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

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

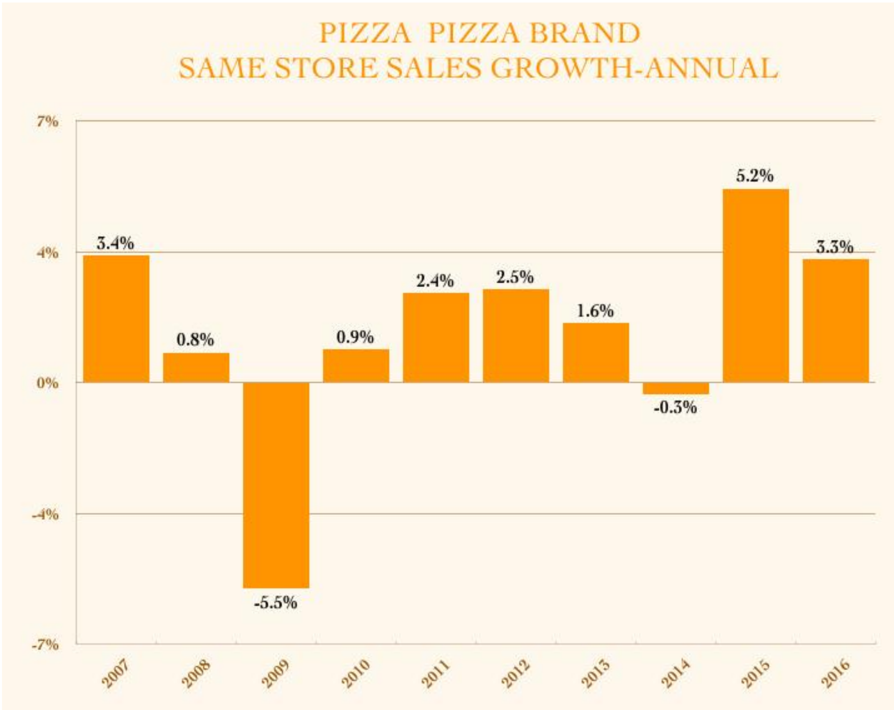
The following charts show historical SSSG performance:

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



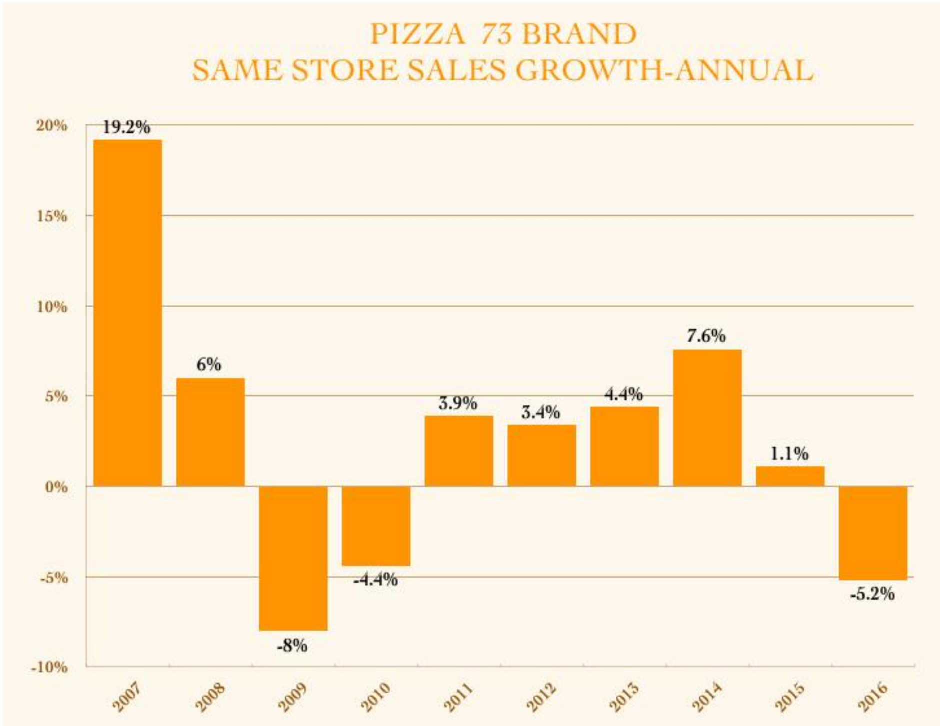
b) Quarterly SSSG chart, in which both brands are combined:

c) Annual SSSG, Pizza Pizza brand only:

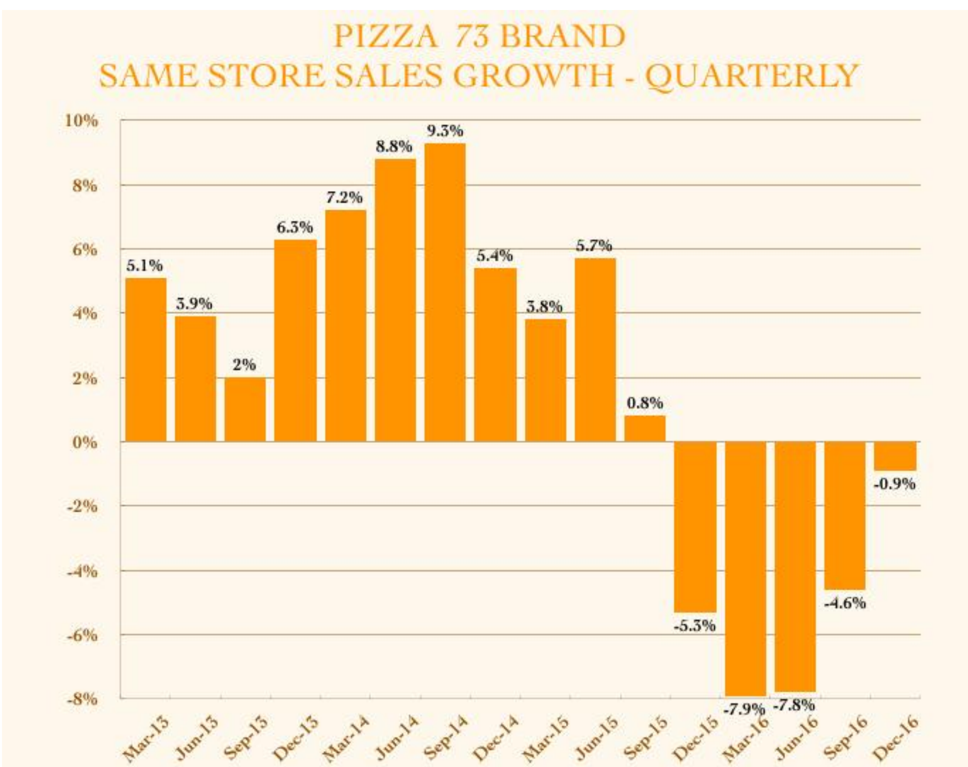


d) Quarterly SSSG, Pizza Pizza brand only:

e) Annual SSSG, Pizza 73 brand only:



f) Quarterly SSSG, Pizza 73 brand only



ROYALTY POOL SALES

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

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

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

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

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

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

ROYALTY POOL SALES - INDEPENDENT AUDIT RESULTS

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

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

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

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

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

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

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

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

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

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

COMPANY OPERATING RESULTS

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

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

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

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

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

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

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

Interest expense for the Quarter and Year is outlined in the table below which reconciles interest reported on the Financial Statements to the actual interest paid on the credit facility.

On April 24, 2015, in conjunction with the early renewal of the credit facility, the Partnership terminated its, then, existing swap agreements and entered into two new interest rate swap agreements. The new agreements fixed the facility interest rate until April 2020 at the Bankers' Acceptance rate of 1.875% plus a credit spread which is initially set at 0.875%. The effective interest rate on the $47 million bank loan is currently 2.75% compared to 4.12% prior to April 24, 2015.

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

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

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

Distributions to the Company by the Partnership on its Class A and Class C LP units are calculated on a pro rata ownership basis; the Company owns 79.6% of the Partnership and PPL owns 20.4%. Monthly, available Partnership funds are distributed based on the percentage ownership. The Company reserves a portion of its monthly distribution for taxes and, on occasion, replenishment of the cash reserve, prior to paying the shareholder dividend. See "Dividends".

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

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

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

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

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

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

RECONCILIATION OF NON-IFRS MEASURES

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

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

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

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

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

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

The **Basic EPS** and the **Adjusted EPS** calculations both include PPL's Class B and Class D Exchangeable Shares since they are exchangeable into and economically equivalent to the Shares. See "Adjusted EPS".

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

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

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

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

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

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

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

SSSG is a key indicator used by the Company to measure performance against internal targets and prior period results. SSSG is commonly used by financial analysts and investors to compare PPL to other QSR brands. SSSG is defined as the change in period gross revenue of Pizza Pizza and Pizza 73 restaurants as compared to sales in the previous comparative period, where the restaurant has been open at least 13 months. Additionally, for a Pizza 73 restaurant whose restaurant territory was adjusted due to an additional restaurant, the sales used to derive the Step-Out Payment may be added to sales to arrive at SSSG (as defined in footnote 2 on page 3). SSSG is not affected by the additional day during the leap year, as SSSG is calculated using sales on a weekly comparative basis. It is a key performance indicator for the Company as this measure excludes sales fluctuations due to store closings, permanent relocations and chain expansion.

The following table calculates SSSG by reconciling Royalty Pool System Sales, based on calendar year, to PPL's 13- and 52-week sales reporting periods used in calculating same store sales. PPL's fiscal year, 2015, contained 53 weeks, therefore it is necessary to add the 53rd week's sales to 2016 for comparability purposes.

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

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

DIVIDENDS

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

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

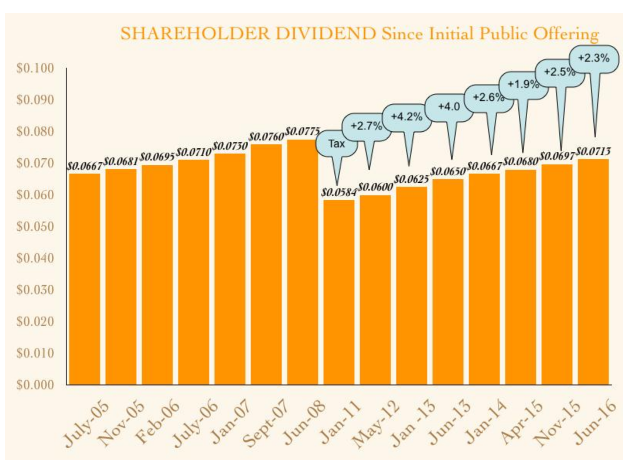
In June 2016, the Company increased the monthly dividend by 2.3% to $0.0713 per Share. On an annualized basis, the dividend was increased by $0.019 to $0.8556. The previous dividend increase was in November 2015, when the Company increased the monthly dividend by 2.5% to $0.0697 per Share.

Dividends declared for 2016 are as follows:

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

Dividends were funded entirely by cash flow from operations and the working capital reserve. No debt was incurred during the period to fund dividends.

From July 2005 to June 2008, the Company increased distributions six times. In January 2011, the Company began paying the new Specified Investment Flow-Through Tax, or SIFT Tax. This corporate income tax required an adjustment to the distribution in January 2011. Subsequent to January 2011, the distribution became an eligible dividend in the hands of shareholders as opposed to its previous treatment as interest income. Since January 2011, the dividend has been increased seven times as depicted in the chart below.



LIQUIDITY & CAPITAL RESOURCES

The Company's policy is to distribute all available cash in order to maximize returns to shareholders over time, after allowing for reasonable reserves. Despite seasonal variations inherent to the restaurant industry, the Company's policy is to make equal dividend payments to shareholders on a monthly basis in order to smooth out income to shareholders. Any further increase in dividends will be implemented with a view to maintain the continuity of uniform monthly distributions. It is expected that future dividends will continue to be funded entirely by cash flow from operations and the cash reserve.

The Company's working capital reserve is $5.2 million at December 31, 2016, which is an increase of $253,000 for the Year. The increase in the reserve was the result of higher royalties earned by the Company, offset by an increase in the dividend effective June 2016 and an increase in corporate taxes.

The reserve is available to stabilize dividends and fund other expenditures in the event of short- to medium-term variability in System Sales and, thus, the Company's royalty income. With this reserve now in place, going forward, the Company will continue to target an annual payout ratio at or near 100%.The Company does not have capital expenditure requirements or employees.

Credit Facilities

On April 24, 2015, the Partnership renewed its $47 million credit facility with a syndicate of Canadian chartered banks. The outstanding balance of the facility was unchanged, however the maturity of the facility was extended to April 24, 2020; the previous maturity was December 6, 2016. The facility bears interest at the Bankers' Acceptance rate plus a credit spread between 0.875% to 1.375%, depending on the level of debt-to-earnings before interest, taxes, depreciation and amortization ("EBITDA"), with EBITDA defined as annualized earnings before interest, taxes, depreciation and amortization. In conjunction with the early renewal of the credit facility, the Partnership also blended and extended its two existing swaps into two new swap arrangements. Beginning April 24, 2015, the portion of the interest rate which is fixed with the swaps decreased from 2.87% to 1.875% per annum. The Partnership's effective interest rate, beginning April 24, 2015, is 2.75% comprised of a fixed 1.875% plus the credit spread, currently set at 0.875%. Prior to April 24, 2015, the effective interest rate on the facility was 4.12%, comprised of a fixed 2.87% plus the credit spread of 1.25%.

The credit facility includes affirmative and negative covenants customary for agreements of this nature. In particular, the Partnership has agreed to a financial covenant in which, on a four quarter rolling basis, Distributions may not exceed Distributable Cash Flow for such period *plus* the aggregate amount of Distributable Cash Flow for prior Distribution Periods not distributed, which as at December 31, 2016 was $6.8 million (December 31, 2015 - $5.6 million). In addition, the Partnership is required to maintain a funded debt-to-EBITDA ratio not to exceed 2.0:1 on a four quarter rolling average. The debt-to-EBITDA ratio for the last four-quarter rolling average is 1.36:1 (December 31, 2015 – 1.38:1). The Partnership is presently making interest-only payments on the non-revolving credit facility. The debt-to-EBITDA ratio for the last four quarters' rolling average continues to be below 1.5:1 therefore the credit spread is 0.875%. If, in the future, the ratio increases above 1.5:1, the credit spread will change as follows:

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

OUTLOOK

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

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

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

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

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

SUBSEQUENT EVENTS

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

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

a. Pizza Pizza Royalty Corp. Outstanding Shares

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

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

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

b. 2017 Royalty Pool Adjustment – Class B Exchange Multiplier

On January 1, 2017, 15 net Pizza Pizza restaurants were added to the Royalty Pool as a result of 23 new restaurants opening and eight closing from January 1, 2016 to December 31, 2016. The additional system sales from the 23 new restaurants are estimated at $7.7 million annually less sales of $0.9 million from eight permanently closed Pizza Pizza restaurants resulting in net estimated Pizza Pizza sales of $6.8 million added to the Royalty Pool. The total number of Pizza Pizza restaurants in the Royalty Pool has increased to 651. The yield of the shares was determined to be 5.16% calculated using $16.43 as a weighted average share price. Weighted average share price is calculated based on the market price of the shares traded on the Toronto Stock Exchange during the period of twenty consecutive days ending on the fifth trading day before January 1, 2017. As a result of the contribution of the additional net sales to the Royalty Pool, the Class B Exchange Multiplier increased fractionally by 80% of the total adjustment or 0.110643; the new Class B Multiplier is 1.930631. This adjustment will also increase the entitlement of the holders of the Class B units to distributions of cash and allocations of income from the Partnership. The second adjustment to the Class B Exchange Multiplier will be adjusted to be effective January 1, 2017, once the actual performance of the new restaurants is determined in early 2018.

c. 2017 Royalty Pool Adjustment – Class D Exchange Multiplier

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

d. 2016 Royalty Pool Adjustment

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

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

CONTROLS AND PROCEDURES

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

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

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

TRANSACTIONS WITH RELATED PARTIES

The Company, through its ownership in the Partnership, has entered into related party transactions with PPL. PPL is considered a related party by virtue of holding Class B and Class D Exchangeable Shares that are exchangeable into common shares of PPRC. Transactions with PPL include: the annual vend-in of restaurants into the Royalty Pool, monthly distributions from the Partnership to its partners, and expenses paid by PPL on behalf of the Partnership. These transactions have been entered into in the normal course of business and are measured at the exchange amount. The transactions with PPL are all pursuant to the terms of the Pizza Pizza Royalty Limited Partnership's Partnership Agreement. See note 10 of the Financial Statements of the Company for further details of the related party transactions.

CRITICAL ACCOUNTING ESTIMATES OF THE COMPANY

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

Impairment of Rights and Marks
Determining whether the rights and marks owned by the Partnership are impaired requires an estimation of the recoverable amount of the cash generating unit ("CGU") in which the assets are included. The value-in-use calculation requires the Company to estimate the future cash flows expected to arise from the Pizza Pizza brand and the Pizza 73 brand (the CGU is defined by brand) and a suitable pre-tax discount rate in order to calculate present value. In measuring future cash flows, the Company made assumptions about future sales, vend-in of restaurants to the Royalty Pool, tax rates, and terminal growth rates, by brand, which were based on historical experience and expected future performance. Determining the applicable pre-tax discount rate also involved estimating appropriate adjustments to market risk and to Company-specific risk factors. The two most sensitive assumptions used in the annual impairment tests performed at December 31, 2016 are pre-tax discount rates and terminal growth rates by Pizza Pizza brand and Pizza 73 brand. Pizza Pizza GP Inc. believes that there have been no declines in the carrying value of the intangible assets in the Partnership.

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

consolidates its operations.

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

Significant accounting policies
The significant accounting policies used in the preparation of the accompanying 2016 audited consolidated financial statements are consistent with those used in the Company's 2015 audit annual consolidated financial statements, and described in Note 2 therein.

RECENT ACCOUNTING PRONOUNCEMENTS

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

IFRS 9, Financial Instruments ("IFRS 9")
IFRS 9, as issued in 2014, introduces new requirements for the classification and measurement of financial instruments, a new expected-loss impairment model that will require more timely recognition of expected credit losses and a substantially reformed model for hedge accounting, with enhanced disclosures about risk management activity. IFRS 9 also removes the volatility in profit or loss that was caused by changes in an entity's own credit risk for liabilities elected to be measured at fair value. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Company has not yet begun the process of evaluating the impact of this standard on its consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")
In May 2014, the IASB issued IFRS 15, which covers principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018. The new revenue standards may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. While the Company is still in the process of assessing the anticipated impact of the amended standard on its consolidated financial statements, it generally anticipates that the accounting for ongoing royalty revenues will not materially change. The Company has formed a project team to evaluate and implement the standard and currently anticipates adopting this standard in its first quarter of 2018 without restatement of prior periods presented.

IFRS 16, Leases ("IFRS 16")
In January 2016, the IASB has issued IFRS 16, its new leases standard that requires lessees to recognize assets and liabilities for most leases on their balance sheets. Lessees applying IFRS 16 will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The new standard will be effective from January 1, 2019 with limited early application permitted. The Company has not yet begun the process of evaluating the impact of this standard on its consolidated financial statements.

RISKS & UNCERTAINTIES OF THE COMPANY

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

The Restaurant Industry

The performance of the Company is directly dependent upon the royalty and interest payments received from PPL. The amount of royalty received from PPL is dependent on various external factors that may affect the limited service sector of the restaurant industry. The restaurant industry, generally, is intensely competitive with respect to price, service, location and food quality. Competitors include national and regional chains, as well as independently owned restaurants and retailers of frozen pizza. If PPL, Pizza Pizza franchisees and Pizza 73 operators are unable to successfully compete in the limited service sector, System Sales may be adversely affected, the amount of royalty reduced and the ability of PPL to pay the royalty may be impaired. Changes in demographic trends, traffic patterns, and the type, number, and location of competing restaurants also affect the restaurant industry. In addition, factors such as government regulations, risk of technology failures and breaches, smoking bylaws, inflation, publicity from any food borne illnesses, increased food, labour and benefits costs, and the availability of experienced management and hourly employees may adversely affect the restaurant industry in general and therefore, potentially, Pizza Pizza and Pizza 73 System Sales. PPL's success also depends on numerous factors affecting discretionary spending, including economic conditions, disposable consumer income and consumer confidence. Adverse changes in these factors could reduce guest traffic or impose practical limits on pricing, either of which could reduce sales and operating income, which could adversely affect revenue, the royalty and the ability of PPL to pay the royalty to the Company. For additional information concerning the performance of PPL, please refer to the PPL MD&A which is available at www.sedar.com, pizzapizza.ca and www.pizzapizzaroyaltycorp.com.

FORWARD-LOOKING STATEMENTS

Certain statements in this report, may constitute "forward-looking" statements, which involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this report, such statements include such words as "may", "will", "expect", "believe", "plan", and other similar terminology in conjunction with a discussion of future operating or financial performance. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this report. The Company does not intend to or assume any obligation to update any such forward looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities laws. These forward-looking statements involve a number of risks and uncertainties. The following are some factors that could cause actual results to differ materially from those expressed in or underlying such forward-looking statements: competition, changes in demographic trends, changing consumer preferences and discretionary spending patterns, changes in national and local business and economic conditions, legislation and governmental regulation, accounting policies and practices, and the results of operations and financial condition of PPL. The foregoing list of factors is not exhaustive and should be read in conjunction with the Company's Annual Information Form.

ADDITIONAL INFORMATION

Additional information about the Company, including the Company's most recent Annual Information Form, is available on SEDAR at www.sedar.com, www.pizzapizza.ca or at the Company's website www.pizzapizzaroyaltycorp.com.