

Pizza Pizza Limited

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") of the financial position and results of operations of Pizza Pizza Limited ("PPL") covers the 13-weeks (the "Quarter") and 52-weeks (the "Year") ended December 29, 2019. The MD&A should be read in conjunction with PPL's December 29, 2019 audited consolidated financial statements and notes thereto (the "Financial Statements"). PPL prepares its Financial Statements in accordance with International Financial Reporting Standards (IFRS). The MD&A has been prepared as of March 2, 2020.

OVERVIEW

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

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

About the Pizza Pizza Brand

Pizza Pizza restaurants operate primarily in the province of Ontario, where it dominates the pizza Quick Service Restaurant ("QSR") segment and is a franchise-oriented restaurant business. Of the 645 Pizza Pizza restaurants at December 29, 2019, 627 are franchised or licensed and 18 are owned and/or managed as corporate restaurants. Of the 645 restaurants, 217 are non-traditional locations which have limited operating hours and a limited menu.

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

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

About the Pizza 73 Brand

There are 104 Pizza 73 locations operating in the QSR segment, principally in the province of Alberta. Of the 107 locations, 86 are traditional restaurants at December 29, 2019, seven of which are franchised or licensed and 79 are jointly-owned by PPL and an independent owner/operator. There are 18 non-traditional locations which have limited operating hours and a limited menu. Pizza 73 has seven traditional locations outside of Alberta; four in Saskatchewan, two in British Columbia, and one in the Yukon. Sales through its centralized call centre and on-line ordering, together, account for approximately 90% of Pizza 73's system sales. The Pizza 73 business also includes a newly built, central food distribution centre in Edmonton.

Background

PPL's three distinct revenue sources, food and beverage sales, receipt of royalty payments and profits from the 50% ownership in the Pizza 73 restaurants, are driven by changes in retail system sales at franchised, jointly controlled and company restaurants. Changes in retail system sales are driven by economic conditions, marketing initiatives and store counts. PPL monitors these metrics closely, as they directly impact its revenues and profits, and PPL strives to consistently increase the related amounts.

PPL devotes significant attention to its innovative marketing programs which are funded by the restaurant operators' contribution to a marketing fund that is administered by PPL. In accordance with their franchise or operating agreements, each traditional Pizza Pizza restaurant contributes approximately 6% of system

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sales (in addition to the base royalty and other franchise fees) and each traditional Pizza 73 restaurant contributes approximately 8% of system sales.

SELECTED FINANCIAL DATA

The selected financial data set forth below should be read in conjunction with the December 29, 2019 Financial Statements. PPL has a floating year-end of the Sunday closest to December 31, accordingly, quarters consist of four 13-week periods with an additional week added to the last quarter every five to six years.

Consolidated Financial Data and Adjusted EBITDA⁽¹⁾ Calculation

	For the 13-week period ended December 29, 2019	For the 13-week period ended December 30, 2018 ⁽⁶⁾	For the 52-week period ended December 29, 2019	For the 52-week period ended December 30, 2018 ⁽⁶⁾
(all dollars in thousands, except number of restaurants)				
System Sales^{(2),(3)}	143,525	140,173	553,510	547,472
Same Store Sales Growth (SSSG)⁽⁴⁾	2.0%	(2.1%)	0.5%	(1.6%)
Number of Restaurants:				
Traditional	514	516	514	516
Non-traditional	235	257	235	257
New restaurants opened	7	7	19	26
Restaurants closed	20	1	43	13
Revenues ⁽⁵⁾	72,122	72,241	288,535	293,031
Cost of food sales and general & administrative expenses	(41,802)	(43,438)	(183,953)	(186,791)
Equity income from the Partnership	2,140	1,904	7,590	7,147
Royalty payments	(9,541)	(9,193)	(35,946)	(35,408)
Operating income (loss)	1,911	(2,696)	(1,235)	(1,773)
Income tax recovery (expense)	(1,001)	58	207	(33)
Income (loss) for the period attributable to the shareholders of Pizza Pizza Limited	1,716	(1,799)	2,489	1,385
Add (deduct):				
Equity income from Partnership	(2,140)	(1,904)	(7,590)	(7,147)
Royalty payments	9,541	9,193	35,946	35,408
Amortization of deferred gain	(582)	(582)	(2,330)	(2,330)
Amortization	125	559	3,731	4,300
Interest (income) / expense, net	(161)	(56)	(533)	(659)
Store service contributions ⁽⁵⁾	(20,704)	(22,253)	(80,292)	(84,524)
Store service expenditures ⁽⁵⁾	22,395	25,288	81,853	84,884
(Gain)/Loss on sale of Company-owned restaurants	(294)	93	(300)	(579)
Amortization and taxes included in Equity income from jointly-controlled companies	174	327	1,127	1,298
Provision for (recovery of) income taxes:				
Deferred	1,001	(58)	(207)	33
Adjusted EBITDA⁽¹⁾	\$ 11,071	\$ 8,808	\$ 33,894	\$ 32,069

Notes:

- 1) "EBITDA" is not a recognized measure under IFRS. References to EBITDA are to earnings determined in accordance with IFRS applicable to the financial statements before amounts for interest, taxes and depreciation and amortization. In addition, PPL has adjusted EBITDA for unusual charges in an attempt to demonstrate PPL operations as if a recombination of PPL and Pizza Pizza

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Royalty Corp. ("PPRC") occurred. Adjusted EBITDA excludes gains and losses on sales of assets and other items resulting from its relationship with the Partnership. PPL believes that, in addition to net earnings, adjusted EBITDA is a useful supplemental measure in evaluating its performance as it provides investors with an indication of cash available for debt service, working capital needs and capital expenditures. Investors are cautioned, however, that adjusted EBITDA should not be construed as an alternative to the statement of cash flows as a measure of liquidity and cash flows. The method of calculating adjusted EBITDA for the purposes of this MD&A may differ from that used by other issuers and, accordingly, adjusted EBITDA in this MD&A may not be comparable to adjusted EBITDA used by other issuers.

- (2) PPL has a floating year-end of the Sunday closest to December 31, accordingly, interim periods consist of four 13-week periods with an additional week added to the last interim period every 5 to 6 years.
- (3) System Sales reported by Pizza Pizza and Pizza 73 restaurants include the gross sales of Pizza Pizza company-owned, jointly-controlled and franchised restaurants, excluding sales and goods and service tax or similar amounts levied by any governmental or administrative authority. System Sales do not represent the consolidated operating results of PPL.
- (4) Same store sales growth ("SSSG") is not a recognized measure under IFRS. References to SSSG are to the changes in period gross revenue of Pizza Pizza and Pizza 73 restaurants as compared to sales in the previous period, where the restaurant has been open at least 13 months. Additionally, for a Pizza 73 restaurant whose restaurant territory was adjusted due to an additional restaurant, the sales used to derive the Step-Out Payment may be added to sales to arrive at SSSG. SSSG does not have any standardized meaning under IFRS. Therefore, these figures may not be comparable to similar figures presented by other companies. (See "Same Store Sales Growth").
- (5) As part of the transition to IFRS 15, the Company is required to record store service contributions and expenditures for advertising, order processing and commissary services provided by PPL in the statement of consolidated income.
- (6) Certain comparative figures have been restated to conform with current year presentation.

RESULTS OF OPERATIONS

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

System Sales

(in thousands of dollars)	For the 13-week period ended December 29, 2019	For the 13-week period ended December 30, 2018	For the 52-week period ended December 29, 2019	For the 52-week period ended December 30, 2018
Pizza Pizza	120,091	116,981	463,823	460,002
Pizza 73	23,434	23,191	89,687	87,470
Total	143,525	140,173	553,510	547,472

System sales were affected by net, new store additions and SSSG reported during the Quarter and Year. See "Same Store Sales Growth" and "New Restaurant Development".

Same Store Sales Growth

SSSG increased 2.0% (2018 – decreased 2.1%) for the Quarter and increased 0.5% (2018 – decreased 1.6%) for the Year compared to the same periods in 2018.

SSSG	Fourth Quarter (%)		Year (%)	
	2019	2018	2019	2018
Pizza Pizza	2.0	(2.6)	(0.0)	(1.7)
Pizza 73	2.0	0.3	3.1	(0.9)
Combined	2.0	(2.1)	0.5	(1.6)

SSSG is driven by the change in the customer check and customer traffic, both of which are affected by changes in pricing and sales mix. During the Quarter and Year, the average customer check increased while customer traffic decreased when measured against the same periods in 2018, when the average check increased significantly. During 2019, the average customer check has moderated with the use of value-focused promotional offerings as PPL executes on its strategy to grow customer traffic counts.

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Management continues to employ retail pricing strategies designed to increase traffic, in what continues to be, a highly competitive, value-oriented retail environment.

SSSG is a key indicator used by PPL to measure performance against internal targets and prior period results. SSSG is commonly used by financial analysts and investors to compare PPL to other QSR brands. SSSG is defined as the change in period gross revenue of Pizza Pizza and Pizza 73 restaurants as compared to sales in the previous comparative period, where the restaurant has been open at least 13 months. Additionally, for a Pizza 73 restaurant whose restaurant territory was adjusted due to an additional restaurant, a Step-Out Payment may be added to sales to arrive at SSSG. It is a key performance indicator for PPL as this measure excludes sales fluctuations due to store closings, permanent relocations and chain expansion.

(in thousands of dollars)	For the 13-week period ended December 29, 2019	For the 13-week period ended December 30, 2018	For the 52-week period ended December 29, 2019	For the 52-week period ended December 30, 2018
Total System Sales	143,525	140,173	553,510	547,472
Adjustments for stores not in both fiscal years, and step-outs	(1,605)	(1,040)	(7,438)	(4,112)
Same Store Sales	141,920	139,133	546,072	543,360
SSSG	2.0%	(2.1)%	0.5%	(1.6)%

New Restaurant Development

**For the 13-week period ended
December 29, 2019**

(Number of Restaurants) ¹	Pizza Pizza			Pizza 73			PPL
	Traditional	Non-traditional	Total	Traditional	Non-traditional	Total	Grand Total
As at September 29, 2019	425	230	655	87	20	107	762
Openings	7	-	7	-	-	-	7
Closings	(4)	(13)	(17)	(1)	(2)	(3)	(20)
As at December 29, 2019	428	217	645	86	18	104	749

**For the 13-week period ended
December 30, 2018**

(Number of Restaurants) ¹	Pizza Pizza			Pizza 73			PPL
	Traditional	Non-traditional	Total	Traditional	Non-traditional	Total	Grand Total
As at September 30, 2018	424	231	655	87	25	112	767
Openings	4	2	6	1	-	1	7
Closings	-	(1)	(1)	-	-	-	(1)
As at December 30, 2018	428	232	660	88	25	113	773

During the Quarter, PPL opened seven traditional Pizza Pizza restaurants, three in British Columbia, two in Quebec and two in Ontario; PPL closed four traditional and 13 non-traditional Pizza Pizza restaurants. Additionally, one traditional and two non-traditional Pizza 73 restaurants were closed.

**For the 52-week period ended
December 29, 2019**

(Number of Restaurants) ¹	Pizza Pizza			Pizza 73			PPL
	Traditional	Non-traditional	Total	Traditional	Non-traditional	Total	Grand Total
As at December 31, 2018	428	232	660	88	25	113	773
Openings	11	8	19	-	-	-	19
Closings	(11)	(23)	(34)	(2)	(7)	(9)	(43)
As at December 29, 2019	428	217	645	86	18	104	749

¹ Number of restaurants added to the Partnership's 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.

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For the 52-week period ended December 30, 2018							
(Number of Restaurants) ¹	Pizza Pizza			Pizza 73			PPL
	Traditional	Non-traditional	Total	Traditional	Non-traditional	Total	Grand Total
As at January 1, 2018	421	231	652	84	24	108	760
Openings	9	11	20	4	2	6	26
Closings	(2)	(10)	(12)	-	(1)	(1)	(13)
As at December 30, 2018	428	232	660	88	25	113	773

During the Year, PPL opened 11 traditional Pizza Pizza restaurants, five in British Columbia, three in Quebec and three in Ontario; 11 traditional Pizza Pizza restaurants were closed. Additionally, eight non-traditional Pizza Pizza restaurants were opened and 23 non-traditional locations were closed. At the Pizza 73 brand, PPL closed two traditional and seven non-traditional restaurants in Alberta.

The closure of traditional restaurants is the result of management's review of underperforming restaurants with an enhanced focus on restaurant level profitability across its entire national network of locations. Non-traditional restaurants are more volatile in nature than traditional restaurants due to their shorter contractual arrangements. Of the 30 non-traditional closures, 13 were operating in cinemas and six were in gas bars. Management anticipates returning to overall net positive store growth for 2020 at both brands.

Revenues

(in thousands of dollars)	For the 13-week period ended December 29, 2019	For the 13-week period ended December 30, 2018	% change	For the 52-week period ended December 29, 2019	For the 52-week period ended December 30, 2018	% change
Food Sales ²	43,304	42,735	1.3%	177,463	177,958	-0.3%
Royalties, franchise fees and other revenue	8,114	7,253	3.6%	30,780	30,549	0.8%

Food sales for both geographic markets are driven by SSSG and movement in the number of stores. Food sales in Eastern Canada represents food sales from the PPL distribution centre to the stores after the elimination of intercompany transactions, as well as corporate store food sales to customers. For the Quarter and Year, the change in food sales relates to the movement in SSSG and the change in the number of restaurants being serviced since the same quarter of 2018.

Royalties, franchisee fees and other revenue, for the Quarter and Year, increased when compared to the same periods in 2018. The increase in the Quarter is the result of franchisee fees earned on seven traditional restaurants openings.

Store service contributions and expenditures

(in thousands of dollars)	For the 13-week period ended December 29, 2019	For the 13-week period ended December 30, 2018	% change	For the 52-week period ended December 29, 2019	For the 52-week period ended December 30, 2018	% change
Contributions	20,704	22,253	-7.0%	80,292	84,524	-5.0%
Expenditures	(22,395)	(25,288)	-11.4%	(81,853)	(84,884)	-3.6%
Net recovery/(deficit)	(1,691)	(3,035)	-155.7%	(1,561)	(360)	333.6%

¹ Number of restaurants added to the Partnership's 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.

² Comparative figures have been restated to conform with current year presentation.

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As part of the transition to IFRS 15, in its consolidated statement of income, PPL is required to record store service contributions and expenditures in relation to central advertising and order processing at both brands, as well as the Pizza 73 commissary services provided by PPL. Store service contributions fluctuate as system sales and new store openings vary. PPL expects expenditures to match contributions, however due to timing of advertising campaigns and other significant expenditures, PPL anticipates fluctuations in the net recovery/deficit balance from period to period.

Cost of Food Sales

	For the 13-week period ended December 29, 2019	For the 13-week period ended December 30, 2018	% change	For the 52-week period ended December 29, 2019	For the 52-week period ended December 30, 2018	% change
(in thousands of dollars)						
Cost of food sales ¹	33,597	33,632	-0.1%	143,437	143,425	0.0%

Cost of food sales is dependent on the movement in food sales for the Quarter and Year. The change in the cost of food sales is attributable to the movement in food sales as well as managing the food costs for the periods. Furthermore, PPL continued to leverage its buying power and manage food costs through its centralized purchasing system.

General and Administrative ("G&A") Expenses

	For the 13-week period ended December 29, 2019	For the 13-week period ended December 30, 2018	% change	For the 52-week period ended December 29, 2019	For the 52-week period ended December 30, 2018	% change
(in thousands of dollars)						
G&A expenses	8,205	9,673	-15.2%	40,516	43,366	-6.6%

G&A expenses include corporate expenses and company store expenses incurred at the company owned and managed stores. For the Quarter and Year, the decrease in G&A expenses relates to lower depreciation and less company store expenses after the elimination of intercompany transactions.

Royalty Payments

	For the 13-week period ended December 29, 2019	For the 13-week period ended December 30, 2018	% change	For the 52-week period ended December 29, 2019	For the 52-week period ended December 30, 2018	% change
(in thousands of dollars)						
Pizza Pizza	7,352	7,085	3.8%	27,735	27,525	0.8%
Pizza 73	2,189	2,108	3.8%	8,211	7,883	4.2%
Total	9,541	9,193	3.8%	35,946	35,408	1.5%

As per the License & Royalty Agreements, PPL pays the Partnership a monthly royalty based on the system sales of the Pizza Pizza and Pizza 73 restaurants in the Royalty Pool. The restaurants in the Royalty Pool increased to 772 on January 1, 2019 to include 25 new restaurants less 11 closed restaurants. In the prior year, the Royalty Pool included 758 restaurants. By brand, eight net Pizza Pizza and six net Pizza 73 restaurants were added to the Royalty Pool. See "Pizza Pizza Limited and Pizza Pizza Royalty Corp.," "Royalty Pool Adjustments", and "Restaurants Added to the Royalty Pool".

For the Quarter and Year, the increase in royalty payments is the result of new restaurants added to the Royalty Pool on January 1, 2019 and the positive SSSG (see "Same Store Sales Growth").

¹ Comparative figures have been restated to conform with current year presentation.

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Equity income from Pizza Pizza Royalty Limited Partnership

PPL accounts for its investment in the Partnership using the equity method of accounting. As December 29, 2019, PPL owned an effective 23.0% interest in the Partnership, compared to 22.3% in 2018. PPL's 23.0% interest in the earnings of the Partnership is through its ownership of Class B and Class D Units. (See "Pizza Pizza Limited and Pizza Pizza Royalty Corp.").

Equity income was \$2.1 million for the Quarter and \$7.6 million for the Year when compared to 2018 at \$1.9 million and \$7.1 million, respectively. The increase in equity income reflects higher earnings arising from increased net income of the Partnership, in addition to PPL's increased ownership.

Equity income from Jointly-controlled companies

PPL accounts for its 50% share interest in 79 jointly-controlled Pizza 73 restaurants (2018 – 80) as an investment in joint ventures, and applies the equity method of accounting.

For the Quarter, equity income was relatively flat when compared to the same period of 2018 at \$1.0 million and for the Year decreased to \$4.1 million compared to \$4.6 million in 2018. The decrease in equity income for the Year is the result of the increase in labour costs and promotional expenses at the Pizza 73 stores.

Current income tax recovery

Current income tax for the Quarter and Year, as well as the comparable periods of 2018, was \$nil. The results of the Quarter, Year and prior year comparable periods resulted in taxable losses, which are being carried forward to future years.

Deferred tax expense (recovery)

For the Quarter and Year, deferred tax expense was \$1.0 million and a recovery of \$207,000, respectively. For the comparable quarter and 52-week period, the deferred tax recovery was \$58,000 and an expense of \$33,000, respectively. The variance is due to a change in the applied tax rate and decrease in the tax value of capital assets.

Net Income

PPL reported income for the Quarter of \$1.7 million compared to a loss of \$1.8 million in the 2018 comparable quarter; for the Year, income increased to \$2.5 million from \$1.4 million in 2018. The increase in earnings for the Quarter and Year is mainly attributed to a decrease in G&A expenses, as described above.

Shareholders' Deficiency

The \$100.8 million shareholders' deficiency shown in the Financial Statements is largely a result of PPL having paid \$107.5 million in capital dividends to shareholders in 2005, \$16.8 million in capital dividends in 2007, \$7.2 million in capital dividends in 2012, and \$39.0 million in capital dividends in 2016. The source of dividends to shareholders was the proceeds received from the Partnership in payment for the PPL Rights & Marks in 2005, funds from operations since 2005, and proceeds from the sale of Class B Partnership Units in 2015. The balance of the deferred gain from the 2005 sale of the PPL Rights & Marks is \$196.9 million as at December 29, 2019 and is being amortized into earnings over a term of 99 years.

SUMMARY OF QUARTERLY RESULTS

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

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	13 weeks ended December 29, 2019	13 weeks ended September 29, 2019	13 weeks ended June 30, 2019	13 weeks ended March 31, 2019	13 weeks ended December 30, 2018 ¹	13 weeks ended September 30, 2018	13 weeks ended July 1, 2018	13 weeks ended April 1, 2018
Revenues	\$ 72,122	\$ 71,777	\$ 72,479	\$ 72,157	\$ 72,241	\$ 71,632	\$ 73,988	\$ 75,170
Net income (loss)	\$ 2,892	\$ 253	\$ 900	\$ (381)	\$ (1,799)	\$ 1,522	\$ (409)	\$ 2,071
Adjusted EBITDA	\$ 11,071	\$ 7,443	\$ 7,778	\$ 7,602	\$ 8,808	\$ 8,520	\$ 6,282	\$ 8,459

LIQUIDITY & CAPITAL RESOURCES

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

	For the 52-weeks ended December 29, 2019	For the 52-weeks ended December 30, 2018
Cash provided by (cash used):		
Operating activities	(6,638)	(15,968)
Investing activities	9,971	11,083
Financing activities	(2,963)	(3,055)
Increase (decrease) in cash and cash equivalents	370	(7,940)

As of December 29, 2019, PPL had negative working capital of \$8.8 million and its cash, cash equivalents and short-term investment were \$10.2 million. PPL collects most of its receivables within seven days from the date of the related sale and pays its payables within 30 days; PPL generally experiences over 100 turns of inventory per year. These factors, coupled with ongoing cash flows from operations, which are used primarily to pay the Partnership the royalty on the Royalty Pool system sales, may reduce its working capital amounts. PPL's primary sources of liquidity are cash flows from operations and distributions received on PPL's interest in the Partnership. PPL has historically funded capital expenditures and debt repayments from cash flows from operations and proceeds from the disposal of company-owned restaurants.

Cash used in operating activities for the Year was \$6.6 million compared with \$16.0 million used in 2018. When compared to the prior year, the \$9.3 million decrease in cash used in operating activities is largely attributable to an increase of \$14.6 million in cash provided by changes in working capital, offset by the receipt in 2018 of \$6.5 million in unearned vendor allowances.

Cash provided by investing activities for the Year was \$10.0 million compared to \$11.1 million in 2018. The decrease in cash provided by investing activities is mainly attributed to repayment of notes receivable, a decrease in issuance of note receivable, and an increase in contributions to renovation funds, offset by an increase in short term investments in the Year, as compared to redemptions of short-term investments in the same period of 2018.

Cash used in financing activities for the Year was \$3.0 million compared to \$3.1 million in 2018, primarily relates to of the net change in advances from related parties.

Certain bank covenants must be maintained by PPL and are related to the Partnership's credit facility, all of which were met as of December 29, 2019 and December 30, 2018.

Based upon its current level of operations and anticipated growth, PPL believes that the cash generated from its operations will be adequate to pay the Partnership a 6% royalty on the Pizza Pizza Royalty Pool

¹ Comparative figures have been restated to conform with current year presentation.

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

OFF-BALANCE SHEET ARRANGEMENTS

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

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Thereafter
	(in thousands of dollars)					
Minimum lease obligation	36,500	31,436	26,042	19,214	12,286	7,587
Less: Sublease to franchisees	31,188	27,338	22,292	16,169	10,456	6,374
Net lease obligation	5,312	4,097	3,750	3,045	1,830	1,213

PIZZA PIZZA LIMITED AND PIZZA PIZZA ROYALTY CORP.

PPRC has licensed the Pizza Pizza Rights and Marks to PPL, for which PPL pays a 6% royalty on the system sales of those Pizza Pizza restaurants included in the specific listing of restaurants referred to as the "Royalty Pool" (as described under "Royalty Pool Adjustments"). There are 660 Pizza Pizza restaurants in the Royalty Pool for 2019.

In July 2007, the Partnership acquired the Pizza 73 trademarks and other intellectual property associated with Pizza 73 (together, "Pizza 73 Rights"). The Partnership licensed the Pizza 73 Rights to PPL for a 9% royalty on system sales of the Pizza 73 restaurants included in the Royalty Pool (as described under "Royalty Pool Adjustments"). For 2019, there are 112 Pizza 73 restaurants in the Royalty Pool.

As of December 29, 2019, PPL indirectly held an effective 23.0% interest in the Partnership (December 30, 2018– 22.3%) by holding all Class B and Class D Units of the Partnership. PPL has the right to exchange one Class B or Class D Unit indirectly for that number of common shares of PPRC ("Shares") equal to the Class B Exchange Multiplier or Class D Exchange Multiplier, respectively, applicable at the date of such exchange, as described under "Royalty Pool Adjustments". The Class B and Class D Units are entitled to receive monthly distributions established by PPRC's board of directors. A monthly distribution is paid to both PPL and PPRC on a pro rata ownership basis, with PPRC's ownership held through its Class A and Class C limited partnership Units of the Partnership.

ROYALTY POOL ADJUSTMENTS

Annually, on January 1 (the "Adjustment Date"), an adjustment is made to the Royalty Pool to include the forecasted System Sales from new Pizza Pizza restaurants opened on or before December 31 of the prior year, less System Sales from any Pizza Pizza restaurants that have been permanently closed during the year. Once adjusted, the Royalty Pool remains fixed for the year, consequently, the number of stores in the Royalty Pool may vary from the number of stores actually open at any given time during the year. As

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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 $(1 - \text{Tax}\%)$ where "Tax%" is an estimate of the Company's effective tax rate for the year (determined using the total income taxes paid by the Company during the fiscal year divided by the total cash received by the Company during that fiscal year) (i.e., for the Adjustment Date of January 1, 2018, it will be the effective Company tax rate for the year ended December 31, 2017). This estimate of the effective tax rate will be subject to an adjustment when the actual effective entity level tax rate of the Company for the year is known. The Determined Amount is multiplied by 80%, then divided by the current market price of the Shares, and then further divided by the number of Class B units outstanding. This fraction is added to the Class B Exchange Multiplier from the preceding year, which was "one" on the closing of the Fund's initial public offering. On the following Adjustment Date, a second adjustment to the Class B Exchange Multiplier will be made in the same manner once the System Sales for new restaurants are known with certainty. The adjustment for new restaurants rolled into the Royalty Pool is designed to be accretive for current shareholders.

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

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

RESTAURANTS ADDED TO THE ROYALTY POOL

2018 Royalty Pool Adjustment

In early January 2019, adjustments to royalty payments and PPL's Class B Exchange Multiplier were made based on the actual performance of the 17 new restaurants added to the Royalty Pool on January 1, 2018. As a result of the adjustments, the Class B Exchange Multiplier remains unchanged at 2.000691 and Class B Units can be exchanged for 5,018,210 shares effective January 1, 2018.

In early January 2019, 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, 2018. As a result of the adjustments, the Class D Exchange Multiplier is 21.27782 and Class D Units can be exchanged for 2,127,782 shares effective January 1, 2018.

2019 Royalty Pool Adjustment – Class B Exchange Multiplier

On January 1, 2019, eight net Pizza Pizza restaurants were added to the Royalty Pool as a result of 18 new restaurants opening and 10 closing from January 1, 2018 to December 31, 2018. The total number of Pizza Pizza restaurants in the Royalty Pool has increased to 660. The additional system sales from the 18

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new restaurants are estimated at \$5.9 million annually, less sales of \$2.1 million from 10 permanently closed Pizza Pizza restaurants, resulting in net estimated Pizza Pizza sales of \$3.1 million added to the Royalty Pool. The yield of the shares was determined to be 9.5% calculated using \$9.05 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, 2019. 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 0.059961; the new Class B Multiplier is 2.060652. 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, 2019, once the actual performance of the new restaurants is determined in early 2020. (See "Subsequent Events")

2019 Royalty Pool Adjustment – Class D Exchange Multiplier

On January 1, 2019, six net Pizza 73 restaurants were added to the Royalty Pool as a result of seven new restaurants opening between September 2, 2017 and September 1, 2018 and one restaurant closing between January 1, 2018 and December 31, 2018. The forecasted additional system sales from the seven new restaurants are estimated at \$2.5 million annually, less \$0.2 million in system sales attributable to the one closed Pizza 73 restaurant. The net estimated sales were further reduced by \$1.4 million in system sales attributable to certain restaurants previously added to the Royalty Pool whose territory adjusted a previously existing restaurant; resulting in overall net estimated Pizza 73 sales of \$0.9 million added to the Royalty Pool. The total number of Pizza 73 restaurants in the Royalty Pool has increased to 112. The yield of the shares was determined to be 9.5% calculated using \$9.05 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, 2019. 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 0.52925; the new Class D Multiplier is 21.80706. 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, 2019, once the actual performance of the new restaurants is determined in early 2020. (See "Subsequent Events")

Pizza Pizza Royalty Corp. Outstanding Shares at January 1, 2019

In exchange for adding the forecasted Pizza Pizza system sales to the Royalty Pool, PPL has received 150,398 additional equivalent Shares (through the change to the Class B Exchange Multiplier). These represent 80% of the forecasted equivalent Shares entitlement to be received (187,997 equivalent Shares represent 100%), with the final equivalent Shares entitlement to be determined when the new restaurants' 2019 actual sales performance is known with certainty in early 2020. (See "Subsequent Events")

In exchange for adding the forecasted Pizza 73 system sales to the Royalty Pool, PPL has received 52,925 additional equivalent Shares (through the change to the Class D Exchange Multiplier). These represent 80% of the forecasted equivalent Shares entitlement to be received (66,156 equivalent Shares represent 100%), with the final equivalent Shares entitlement to be determined when the new restaurants' 2019 actual sales performance is known with certainty in early 2020. (See "Subsequent Events")

After giving effect to PPL's entitlement to additional equivalent Shares at January 1, 2019, PPL owns equivalent Shares representing 23.0% of the Company's fully diluted shares.

OUTLOOK

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

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SSSG is driven by the change in the customer check and customer traffic, both of which are affected by changes in pricing and sales mix. During the Quarter and Year, the average customer check increased while customer traffic decreased when measured against the same periods in 2018, when the average check increased significantly. During 2019, the average customer check has moderated with the use of value-focused promotional offerings as PPL executes on its strategy to grow customer traffic counts. Management continues to employ retail pricing strategies designed to increase traffic, in what continues to be, a highly competitive, value-oriented retail environment.

At both PPL's brands, the 2020 marketing strategies will be structured to support restaurant profitability while also increasing customer traffic to the restaurant or by placing off-site orders for delivery or pickup through our wide array of digital ordering platforms.

During 2019, PPL opened 19 restaurants and closed 43. Historically, PPL has maintained a low restaurant closure rate. However, during the second half of 2019, with an enhanced focus on restaurant level profitability across the entire national network of locations, Management began undertaking a review of underperforming traditional restaurants. Thirteen traditional and 30 nontraditional locations closed. Of the 30 nontraditional closures, 13 were operating in cinemas and six were in gas bars. Management anticipates returning to positive store growth in 2020 at both brands.

When PPL reports closed restaurants, an amount reflecting the reduction in the Royalty resulting from the decrease in System Sales will be paid by PPL to the Partnership, monthly, commencing from the date of permanent closure of a restaurant and paid until the following Adjustment Date (January 1). On the subsequent Adjustment Date, the calculated lost System Sales from the closed restaurants will be offset against forecasted System Sales of the new restaurants added to the Royalty Pool. (See "Royalty Pool Adjustments")

SUBSEQUENT EVENTS

The chart below shows the PPRC 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 and adjustments as described below.

Shares outstanding & issuable on January 1, 2020		
Shares outstanding		24,618,392
Class B equivalent Shares held by PPL at December 31, 2019	5,168,608	
PPL additional Class B Equivalent Shares - True-up Holdback as at December 31, 2019	143,765	
Additional PPL Class B equivalent Shares as of January 1, 2020	<u>1,536</u>	5,313,909
Class D equivalent Shares held by PPL at December 31, 2019	2,180,706	
PPL additional Class D Equivalent Shares - True-up Holdback as at December 31, 2019	64,269	
Additional PPL Class D equivalent Shares as of January 1, 2020	<u>-</u>	2,244,975
Number of fully diluted shares		<u>32,177,276</u>
		23.5%

a. 2019 Royalty Pool Adjustment

In early January, 2020, a second adjustment was made to the royalty payments and PPL's Class B Exchange Multiplier based on the actual performance of the 18 new restaurants added to the Royalty Pool on January 1, 2019. As a result of the adjustments, the Class B Exchange Multiplier is 2.117969 and Class B Units can be exchanged for 5,312,373 shares effective January 1, 2019.

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In early January 2020, a second adjustment was made to the royalty payments and PPL's Class D Exchange Multiplier based on the actual performance of the seven Pizza 73 restaurants added to the Royalty Pool on January 1, 2019. As a result of the adjustments, the Class D Exchange Multiplier is 22.44976 and Class D Units can be exchanged for 2,244,976 shares effective January 1, 2019.

b. 2020 Royalty Pool Adjustment – Class B Exchange Multiplier

On January 1, 2020, 15 net Pizza Pizza restaurants were removed from the Royalty Pool as a result of 19 new restaurants opening and 34 closing from January 1, 2019 to December 31, 2019. The total number of Pizza Pizza restaurants in the Royalty Pool has decreased to 645. The additional system sales from the 19 new restaurants are estimated at \$8,725,000 annually, less sales of \$8,687,000 from 34 permanently closed Pizza Pizza restaurants, resulting in net estimated Pizza Pizza sales of \$38,000 added to the Royalty Pool. The yield of the shares was determined to be 9.0% calculated using \$9.54 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, 2020. 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 0.000612; the new Class B Multiplier is 2.118582. 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, 2020, once the actual performance of the new restaurants is determined in early 2021.

c. 2020 Royalty Pool Adjustment – Class D Exchange Multiplier

On January 1, 2020, eight net Pizza 73 restaurants were removed from the Royalty Pool as a result of one new restaurant opening between September 2, 2018 and September 1, 2019 and nine restaurants closing between January 1, 2018 and December 31, 2018. The forecasted additional system sales from the one new restaurant is estimated at \$546,000 annually, less \$981,000 in system sales attributable to the nine closed Pizza 73 restaurants. As a result, a negative \$435,000 net, estimated Pizza 73 sales were removed from the Royalty Pool. The net estimated sales were further reduced by \$1,446,000 in system sales attributable to certain restaurants previously added to the Royalty Pool whose territory adjusted a previously existing restaurant. The total number of Pizza 73 restaurants in the Royalty Pool has decreased to 104.

Since the system sales of the closed Pizza 73 restaurants exceeded the additional system sales of the additional restaurant added to the Pizza 73 Royalty Pool, the Make-Whole Payment paid by PPL to PPRLP will be carried over, and continue to be paid for subsequent years, until on an Adjustment Date, additional system sales of additional restaurants are sufficient to offset the Pizza 73 system sales attributable to all closed Pizza 73 restaurants.

The yield of the shares was determined to be 9.0% calculated using \$9.54 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, 2020. 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 22.44976. The second adjustment to the Class D Exchange Multiplier will be adjusted to be effective January 1, 2020, once the actual performance of the new restaurants is determined in early 2021.

d. Pizza Pizza Royalty Corp. Outstanding Shares

In exchange for adding the forecasted Pizza Pizza system sales to the Royalty Pool, PPL has received

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1,536 additional equivalent Shares (through the change to the Class B Exchange Multiplier). These represent 80% of the forecasted equivalent Shares entitlement to be received (1,920 equivalent Shares represent 100%), with the final equivalent Shares entitlement to be determined when the new restaurants' 2020 actual sales performance is known with certainty in early 2021.

PPL's Class D equivalent Share entitlement is unchanged for 2020. 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 2020, no increase or decrease in the Exchange Multiplier is made. PPL will only have a Class D equivalent Share entitlement for 2020 if the actual sales performance of the one new Pizza 73 restaurant, 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 2021.

After giving effect to PPL's entitlement to additional equivalent Shares at January 1, 2020, PPL owns equivalent Shares representing 23.5% of the Company's fully diluted shares.

TRANSACTIONS WITH RELATED PARTIES

PPL has entered into related party transactions with companies under common control. These transactions are entered into in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Significant related party transactions include rent expense, distributions on Class B and Class D Partnership Units, management fees and food purchases as disclosed in note 22 of the Financial Statements of PPL. PPL does not have any outstanding commitments related to transactions with related parties, other than those disclosed in note 22 of the Financial Statements of PPL.

Distributions payable and advances to or from related parties and receipt of or repayments of advances from related parties are summarized in note 22 of the Financial Statements of PPL. Advances from related party are due to the parent company. Advances from related party and receivables from jointly-controlled companies are non-interest bearing, have no specified terms of repayment and are unsecured. The related party has waived the right to demand repayment prior to December 30, 2020; accordingly, the advances from related party have been classified as long-term.

CRITICAL ACCOUNTING POLICIES

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

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

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

PPL accounts for its 23.0% (December 30, 2018– 22.3%) share interest in the Partnership as an investment

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in an associate and applies equity accounting whereby PPL's investment is increased by its 23.0% share of income for the period of the Partnership and reduced for distributions received during the Partnership's fiscal period. The Partnership's financial and fiscal periods differ from PPL's, as the Partnership operates on a calendar year-end.

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

PPL accounts for its 50% (December 30, 2018 – 50%) share interest in the 79 jointly-controlled companies as an investment in a joint venture and applies equity accounting whereby PPL's investment is increased by its 50% share of income for the period of the joint ventures and reduced for distributions received during the joint ventures' fiscal period. The jointly-controlled companies' financial and fiscal periods differ from PPL's, as the joint ventures have a floating year-end of the Saturday immediately preceding July 31.

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

CRITICAL ACCOUNTING ESTIMATES

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

Impairment of investment in Pizza Pizza Royalty Limited Partnership

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

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

Impairment of investment in jointly-controlled companies

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

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

Impairment of non-trade assets

PPL, at each period-end, identifies impairment indicators and assesses whether there is any objective evidence that its non-trade assets are impaired. If impaired, the carrying value of these assets is written down to its estimated recoverable amount, and charged to the consolidated statements of income.

RECENT ACCOUNTING PRONOUNCEMENTS

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

IFRS 16, Leases ("IFRS 16")

In January 2016, the IASB has issued IFRS 16, Leases, its new leases standard that requires lessees to recognize assets and liabilities for most leases on their balance sheets. Lessees applying IFRS 16 will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The new standard is effective for years beginning on or after January 1, 2019 with early application permitted.

Given that the standard is effective January 1, 2019 and PPL's fiscal year commenced on December 31, 2018, PPL did not early adopt the standard. Additionally, PPL formed a project team and evaluated the impact of this standard on its consolidated financial statements and will adopt the standard on December 30, 2019 using the modified retrospective approach. As PPL is a lessee with numerous leases and corresponding subleases to franchisees, this standard will have a significant impact on the leased and subleased assets and their related liabilities. Upon adoption, PPL will measure the right of use asset, adjusted for any lease receivable to the extent the lease has been subleased, at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease immediately before the date of initial application. PPL will elect to apply the standard to contracts that were previously identified as leases under IAS 17 and IFRIC 4. PPL will also elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application and lease contracts for which the underlying asset is of low value.

PPL expects a significant portion of its operating leases to be recognized on the balance sheet under the new standard. The cumulative effect of initially applying IFRS 16 is expected to be recognized as an adjustment to the opening retained earnings as of the date of initial application.

RISKS & UNCERTAINTIES

The performance of PPL is primarily dependent upon its ability to maintain and increase system sales at the Pizza Pizza and Pizza 73 restaurants, add new profitable restaurants to the network and attract qualified restaurant operators. Sales are subject to a number of factors that affect the restaurant industry generally and the quick service segment of this industry, in particular, which is highly competitive with respect to price, service, location and food quality. In addition, factors such as the availability of experienced management and hourly employees may also adversely affect the system sales. Competitors include national and regional chains, as well as independently-owned restaurants, third party food delivery services, home meal delivery companies and retailers of frozen pizza. If PPL and the Pizza Pizza and Pizza 73 restaurants are unable to successfully compete in the quick service sector, system sales may be adversely affected. Changes in demographic trends, traffic patterns and the type, number and location of competing restaurants

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also affect the restaurant industry. In addition, factors such as government regulations, risk of technology failures, inflation, publicity from any food-borne illnesses and increased food, labour and benefits costs may adversely affect the restaurant industry in general and therefore, potentially, system sales. PPL's success also depends on numerous factors affecting discretionary spending, including economic conditions, disposable consumer income and consumer confidence. Adverse changes in these factors could reduce guest traffic or impose practical limits on pricing, either of which could reduce revenue and operating income, which could adversely affect system sales and the ability of PPL to pay the royalty to the Partnership.

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

FORWARD-LOOKING STATEMENTS

Certain statements in this report, including those concerning PPL's plans and strategies described under "Outlook", may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this report, such statements include such words as "may", "will", "expect", "believe", "plan", and other similar terminology in conjunction with a discussion of future operating or financial performance. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this report. These forward-looking statements involve a number of risks and uncertainties. The following are some factors that could cause actual results to differ materially from those expressed in or underlying such forward-looking statements: competition, changes in demographic trends, changing consumer preferences and discretionary spending patterns, changes in national and local business and economic conditions, legislation and governmental regulation, accounting policies and practices, and the results of operations and financial condition of PPL. The foregoing list of factors is not exhaustive and should be considered in conjunction with the other risks and uncertainties described in PPRC's Annual Information Form. PPL assumes no obligation to update these forward looking statements, except as required by applicable securities laws.

ADDITIONAL INFORMATION

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