

PIZZA PIZZA ROYALTY CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS

SELECTED FINANCIAL HIGHLIGHTS

The following tables set out selected financial information and other data of Pizza Pizza Royalty Corp. ("PPRC" or the "Company") and should be read in conjunction with the March 31, 2020 unaudited interim condensed consolidated financial statements of the Company ("Financial Statements"), as well as the Company's audited consolidated financial statements and accompanying notes, and the related Management's Discussion and Analysis for the year ended December 31, 2019. Readers should note that the 2020 results are not directly comparable to the 2019 results due to there being 749 restaurants in the 2020 Royalty Pool compared to 772 restaurants in the 2019 Royalty Pool.

(in thousands of dollars, except number of restaurants, days in the year, per share amounts, and noted otherwise)	Three months ended March 31, 2020	Three months ended March 31, 2019
Restaurants in Royalty Pool ⁽¹⁾	749	772
Same store sales growth ⁽²⁾	-6.6%	-1.5%
Days in the Period	91	90
System Sales reported by Pizza Pizza restaurants in the Royalty Pool ⁽⁶⁾	\$ 105,170	\$ 111,033
System Sales reported by Pizza 73 restaurants in the Royalty Pool ⁽⁶⁾	20,580	22,880
Total System Sales	\$ 125,750	\$ 133,913
Royalty – 6% on Pizza Pizza System Sales	\$ 6,310	\$ 6,662
Royalty – 9% on Pizza 73 System Sales	1,852	2,059
Royalty income	\$ 8,162	\$ 8,721
Interest paid on borrowings ^{(3) (5)}	(308)	(311)
Administrative expenses	(115)	(104)
Adjusted earnings available for distribution to the Company and Pizza Pizza Limited ⁽⁵⁾	\$ 7,739	\$ 8,306
Distribution on Class B and Class D Exchangeable Shares ⁽⁴⁾	(2,141)	(1,966)
Current income tax expense	(1,319)	(1,421)
Adjusted earnings available for shareholder dividends ⁽⁵⁾	\$ 4,279	\$ 4,919
Add back:		
Distribution on Class B and Class D Exchangeable Shares ⁽⁴⁾	2,141	1,966
Adjusted earnings from operations⁽⁵⁾	\$ 6,420	\$ 6,885
Adjusted earnings per share ⁽⁵⁾	\$ 0.200	\$ 0.216
Basic earnings per share	\$ 0.195	\$ 0.211
Dividends declared by the Company	\$ 5,266	\$ 5,266
Dividend per share	\$ 0.2139	\$ 0.2139
Payout ratio ⁽⁵⁾	123%	107%
	March 31, 2020	December 31, 2019
Working capital ⁽⁵⁾	\$ 2,597	\$ 3,583
Total assets	\$ 359,251	\$ 359,008
Total liabilities	\$ 73,064	\$ 71,549

PIZZA PIZZA ROYALTY CORP.
Management's Discussion & Analysis
For the three months ended March 31, 2020

	Q1 2020	Q4 2019	Q3 2019	Q2 2019
(in thousands of dollars, except number of restaurants, days in the quarter, per share amounts and as noted otherwise)				
Restaurants in Royalty Pool ⁽¹⁾	749	772	772	772
Same store sales growth ⁽²⁾	(6.6)	2.0%	-0.1%	1.6%
Days in the quarter	91	92	92	91
System Sales reported by Pizza Pizza restaurants in Royalty Pool ⁽⁶⁾	\$ 105,170	\$ 122,539	\$ 116,506	\$ 112,173
System Sales reported by Pizza 73 restaurants in Royalty Pool ⁽⁶⁾	20,580	24,321	21,957	22,077
Total System Sales	\$ 125,750	\$ 146,860	\$ 138,463	\$ 134,250
Royalty – 6% on Pizza Pizza System Sales	\$ 6,310	\$ 7,352	\$ 6,990	\$ 6,730
Royalty – 9% on Pizza 73 System Sales	1,852	2,189	1,976	1,987
Royalty income	\$ 8,162	\$ 9,541	\$ 8,966	\$ 8,717
Interest paid on borrowings ⁽³⁾⁽⁵⁾	(308)	(329)	(327)	(305)
Administrative expenses	(115)	(142)	(108)	(140)
Adjusted earnings available for distribution to the Company and to Pizza Pizza Limited ⁽⁵⁾	\$ 7,739	\$ 9,070	\$ 8,531	\$ 8,272
Distribution on Class B and Class D Exchangeable Shares ⁽⁴⁾	(2,141)	(1,935)	(1,935)	(1,935)
Current income tax expense	(1,319)	(1,577)	(1,471)	(1,414)
Adjusted earnings available for shareholder dividends ⁽⁵⁾	\$ 4,279	\$ 5,558	\$ 5,125	\$ 4,915
Add back:				
Distribution on Class B and Class D Exchangeable Shares ⁽⁴⁾	2,141	1,935	1,935	1,935
Adjusted earnings from operations ⁽⁵⁾	\$ 6,420	\$ 7,493	\$ 7,060	\$ 6,850
Adjusted earnings per share ⁽⁵⁾	\$ 0.200	\$ 0.234	\$ 0.221	\$ 0.206
Basic earnings per share	\$ 0.195	\$ 0.226	\$ 0.212	\$ 0.214
Dividends declared by the Company	\$ 5,266	\$ 5,266	\$ 5,266	\$ 5,266
Dividend per share	\$ 0.2139	\$ 0.2139	\$ 0.2139	\$ 0.2139
Payout ratio ⁽⁵⁾	123%	95%	103%	107%

	Q1 2019	Q4 2018	Q3 2018	Q2 2018
(in thousands of dollars, except number of restaurants, days in the quarter, per share amounts and as noted otherwise)				
Restaurants in Royalty Pool ⁽¹⁾	772	758	758	758
Same store sales growth ⁽²⁾	-1.5%	-2.1%	-0.8%	-3.3%
Days in the quarter	90	92	92	91
System Sales reported by Pizza Pizza restaurants in Royalty Pool ⁽⁶⁾	\$ 111,033	\$ 118,084	\$ 117,189	\$ 110,265
System Sales reported by Pizza 73 restaurants in Royalty Pool ⁽⁶⁾	22,880	23,398	21,268	20,791
Total System Sales	\$ 133,913	\$ 141,482	\$ 138,457	\$ 131,056
Royalty – 6% on Pizza Pizza System Sales	\$ 6,662	7,085	7,031	6,616
Royalty – 9% on Pizza 73 System Sales	2,059	2,105	1,915	1,871
Royalty income	\$ 8,721	\$ 9,190	\$ 8,946	\$ 8,487
Interest paid on borrowings ⁽³⁾⁽⁵⁾	(311)	(355)	(334)	(331)
Administrative expenses	(104)	(164)	(122)	(131)
Adjusted earnings available for distribution to the Company and to Pizza Pizza Limited ⁽⁵⁾	\$ 8,306	\$ 8,671	\$ 8,490	\$ 8,025
Distribution on Class B and Class D Exchangeable Shares ⁽⁴⁾	(1,966)	(1,861)	(1,861)	(1,861)
Current income tax expense	(1,421)	(1,494)	(1,447)	(1,368)
Adjusted earnings available for shareholder dividends ⁽⁵⁾	\$ 4,919	\$ 5,316	\$ 5,182	\$ 4,796
Add back:				
Distribution on Class B and Class D Exchangeable Shares ⁽⁴⁾	1,966	1,861	1,861	1,861
Adjusted earnings from operations ⁽⁵⁾	\$ 6,885	\$ 7,177	\$ 7,043	\$ 6,657
Adjusted earnings per share ⁽⁵⁾	\$ 0.216	\$ 0.227	\$ 0.222	\$ 0.210
Basic earnings per share	\$ 0.211	\$ 0.217	\$ 0.213	\$ 0.202
Dividends declared by the Company	\$ 5,266	\$ 5,265	\$ 5,266	\$ 5,266
Dividend per share	\$ 0.2139	\$ 0.2139	\$ 0.2139	\$ 0.2139
Payout ratio ⁽⁵⁾	107%	99%	102%	110%

(1) The number of 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 2020 fiscal year, the Royalty Pool includes 645 Pizza Pizza restaurants and 104 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 Year gross revenue of a particular Pizza Pizza or Pizza 73 restaurant as compared to sales in the previous comparative Year, where the restaurant has been open at least 13 months. Additionally, for a Pizza 73 restaurant whose restaurant territory was adjusted due to an additional restaurant, the sales used to derive the Step-Out Payment (calculated as the difference between the average monthly Pizza 73 Royalty payment attributable to that Adjusted Restaurant in the 12 months immediately preceding the month in which the territory reduction occurs, less the Pizza 73 Royalty payment attributable to the restaurant in the current month) may be added to sales to arrive at SSSG. SSSG does not have any standardized meaning under International Financial Reporting Standards ("IFRS"). Therefore, these figures may not be comparable to similar figures presented by other companies. See "Reconciliation of Non-IFRS Measures".
- (3) The Company, indirectly through the Partnership, incurs interest expense on the \$47 million outstanding bank loan. Interest expense also includes amortization of loan fees and off-market swap payments. See "Interest Expense".
- (4) Represents the distribution to PPL from the Partnership on Class B and Class D Units of the Partnership. The Class B and D Units are exchangeable into common shares of the Company ("Shares") based on the value of the Class B Exchange Multiplier and the Class D Exchange Multiplier at the time of exchange as defined in the License and Royalty Agreements, respectively, and represent 23.5% of the fully diluted Shares at March 31, 2020 (December 31, 2019 – 23.0%). During the quarter ended March 31, 2020, as a result of the final calculation of the equivalent Class B and Class D Share entitlements related to the January 1, 2019 Adjustment to the Royalty Pool, PPL was paid a distribution on additional equivalent Shares as if such Shares were outstanding as of January 1, 2019. Included in the three months ended March 31, 2020, is the payment of \$164 in distributions to PPL pursuant to the true-up calculation (March 31, 2019 - PPL was paid \$31).
- (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", "Interest paid on borrowings", "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" and "Interest Expense".
- (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") ended March 31, 2020. 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 May 13, 2020.

The Company, indirectly through the Partnership, owns the trademarks, trade names and other intellectual property used by PPL in its Pizza Pizza and Pizza 73 restaurants. The Pizza Pizza trademarks, trade names 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, trade names 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 2020, the Royalty Pool consists of 645 Pizza Pizza restaurants and 104 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 639 Pizza Pizza restaurants at March 31, 2020, 618 are franchised or licensed, 20 are owned and operated as corporate restaurants and one is jointly-owned by PPL and an independent owner/operator. Of the 639 restaurants, 213 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 103 Pizza 73 locations operating in the QSR segment, principally in the province of Alberta. The majority of the traditional Pizza 73 restaurants are not franchised, but instead are owned and operated as independent businesses. Of the 85 traditional restaurants at March 31, 2020, seven are franchised or licensed and 78 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 currently has seven traditional locations outside of Alberta; four in Saskatchewan, two in British Columbia and one in the Yukon. Sales through its centralized call centre and on-line ordering, 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.

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. See "COVID-19 Impact", "Outlook" and "Risks and Uncertainties of the Company".

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 March 31, 2020, PPL indirectly held an effective 23.5% interest in the Company (December 31, 2019 – 23.0%) by holding all Class B and Class D Units of the Partnership. PPL has the right to exchange one Class B or Class D Unit indirectly for that number of Shares equal to the Class B Exchange Multiplier or Class D Exchange Multiplier, respectively, applicable at the date of such exchange, as described under "Royalty Pool Adjustments". The Class B and Class D Units are entitled to receive monthly distributions established by PPRC's board of directors. A monthly distribution is paid to both PPL and PPRC on a pro rata ownership basis, with PPRC's ownership held through its Class A and Class C limited partnership units of the Partnership.

COVID-19 IMPACT

The global crisis resulting from the COVID-19 pandemic has had a substantial impact on the restaurant operations at Pizza Pizza Limited ("PPL") for the three months ended March 31, 2020, and is expected to continue with the timing of recovery uncertain. System-wide sales growth, Royalty Pool System Sales and same store sales were also negatively impacted for the three months ended March 31, 2020.

Pizza Pizza and Pizza 73 System Sales have been negatively impacted as its restaurant operators have taken significant measures in their restaurants to protect the health of employees and consumers in compliance with social-distancing recommendations and requirements of applicable health authorities, including the closure of restaurant seating areas. Fortunately, the restaurants were allowed to remain open for delivery and takeout sales.

To better understand the COVID-19 impact on the Company's Royalty Pool System Sales, readers should know that Pizza Pizza and Pizza 73 operate traditional and non-traditional restaurants. The Royalty Pool sales mix includes delivery, pickup, walk-in and non-traditional sales. By brand, Pizza Pizza traditional restaurant sales have historically consisted of approximately 60% delivery and pickup sales and 40% walk-in sales, whereas Pizza 73

traditional restaurant sales have been approximately 90% delivery and pickup sales and 10% walk-in sales. As a result of government-mandated social distancing policies, the walk-in sales at both brands decreased significantly beginning in mid-March and this trend continued throughout April; however, walk-in sales began modestly improving in May.

During the first quarter, substantially all traditional Pizza Pizza and Pizza 73 restaurants remained open across Canada, with only 15 locations temporarily closing after the quarter due to the pandemic. However, the majority of non-traditional Pizza Pizza and Pizza 73 restaurants have closed, with the exception of a few locations in hospitals and gas bars. Normally, non-traditional locations, offering a limited menu and operating, for example, in sporting arenas, outdoor entertainment venues, universities, hospitals, and cinemas, account for nearly 10% of System Sales.

The medium and long term impact to the Company from COVID-19 will depend on consumer behavior after the economy fully reopens, the financial solutions achieved with government, lenders, franchisees, and landlords, and the macro impact on the overall economy, in particular household debt and levels of disposable income. Potential financial solutions which may be required include, but are not limited to, obtaining sufficient financial support from government(s) for PPL and restaurant operators, support from lenders, and obtaining rent relief from landlords.

With the decrease in System Sales, the Company's royalty income has also decreased and, as a result, the Company has announced that its monthly dividend will be reduced from \$0.0713 per share to \$0.05 per share beginning with the April 2020 dividend. Additionally, the Partnership also reduced its monthly distribution to PPL by 30% on PPL's Class B and Class D Exchangeable Shares, beginning in April 2020.

The Company continues to closely monitor System Sales and royalty income, and will consider further changes to the monthly dividend taking into account the duration and impact of the COVID-19 pandemic on restaurant operations, and the timing and pace of economic recovery in the markets that Pizza Pizza and Pizza 73 serve. See "Risks & Uncertainties of the Company".

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 $(1 - \text{Tax}\%)$ 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, 2020, it will be the effective Company tax rate for the year ended December 31, 2019). 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 initial public offering of the Company's predecessor. 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 Year 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

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.

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.

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 20 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.

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, 2019 and December 31, 2019. 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 20 consecutive days ending on the fifth trading day before January 1, 2020. As per the 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.

Pizza Pizza Royalty Corp. Outstanding Shares

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

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 Shares after accounting for their respective multipliers and adjustments as described below.

<u>Shares outstanding & issuable on January 1, 2020</u>		
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%

SAME STORE SALES GROWTH ("SSSG")

SSSG, the key driver of yield growth for shareholders of the Company, decreased 6.6% (2019 – decreased 1.5%) for the Quarter. See "Reconciliation of Non-IFRS Measures" and "COVID-19 IMPACT".

The Company typically provides only comparative, quarterly SSSG for Pizza Pizza and Pizza 73 restaurants. However, due to the timing of the COVID-19 impact on System Sales, the Company is providing the

following period-level detail which indicates how Pizza Pizza and Pizza 73 restaurant sales trended during the quarter; April is also included.

As mentioned earlier, Royalty Pool System Sales include delivery, pickup, walk-in and non-traditional sales. The sales impact felt from the pandemic began in the last two weeks of March and continued through most of April; however, both brands experienced week-over-week sales increases during the period. The significant decline in walk-in sales encountered in March and April was partially offset by increased delivery and pickup sales; however, the non-traditional sales portion of the sales mix decreased almost entirely and is not expected to return in the near future.

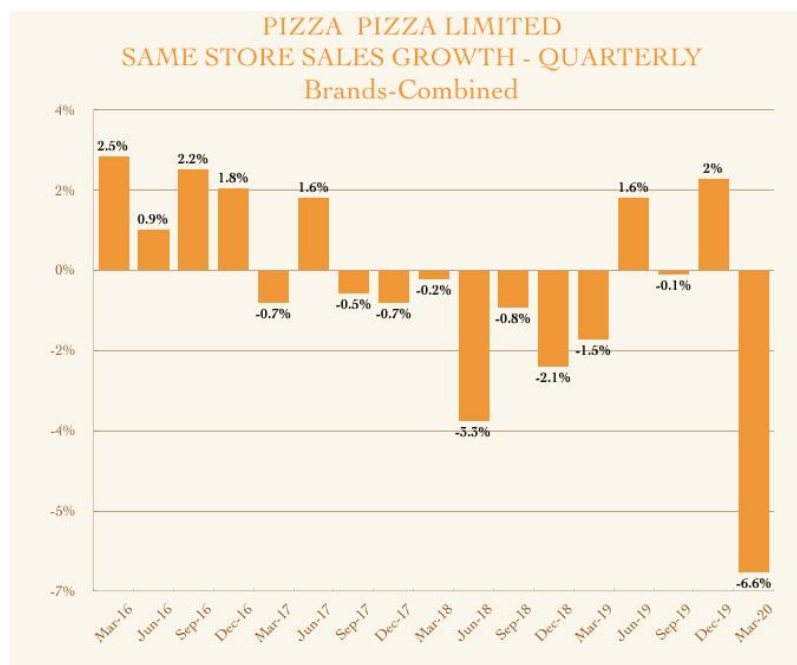
The Company and PPL note that the situation remains fluid and they continue to assess the impact the COVID-19 pandemic has had and will have on restaurant sales.

SSSG	Monthly - 2020 (%)				First Quarter (%)	
	January	February	March	April	2020	2019
Pizza Pizza	3.1	0.2	-18.4	-29.3	-6.3	-2.4
Pizza 73	-1.4	-8.0	-13.7	-12.2	-8.3	2.9
Combined	2.3	-1.2	-17.6	-26.4	-6.6	-1.5

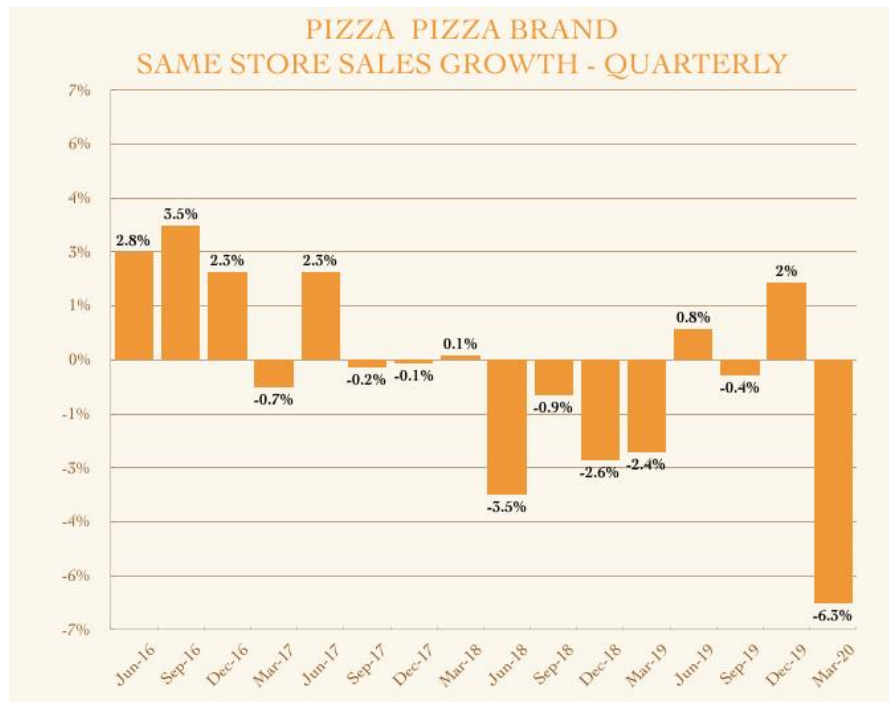
SSSG is normally driven by the change in the customer check and customer traffic, both of which are affected by changes in pricing and sales mix. As mentioned earlier, beginning in mid-March, SSSG was negatively impacted as a direct result of the COVID-19 pandemic and the government-mandated social distancing policies. As a result of closing restaurant seating, walk-in sales decreased significantly, negatively impacting overall customer traffic. The decline in walk-in sales resulted in an overall increase in the average check at both brands as the average check of a walk-in customer is much lower than a delivery order check amount. The negative sales effect from the decline in customer traffic, as well as the decrease in non-traditional sales, more than offset the effect of the increase in the average check, resulting in negative SSSG for the Quarter. See "COVID-19 Impact" and "Royalty Pool Sales".

The following charts show historical SSSG performance:

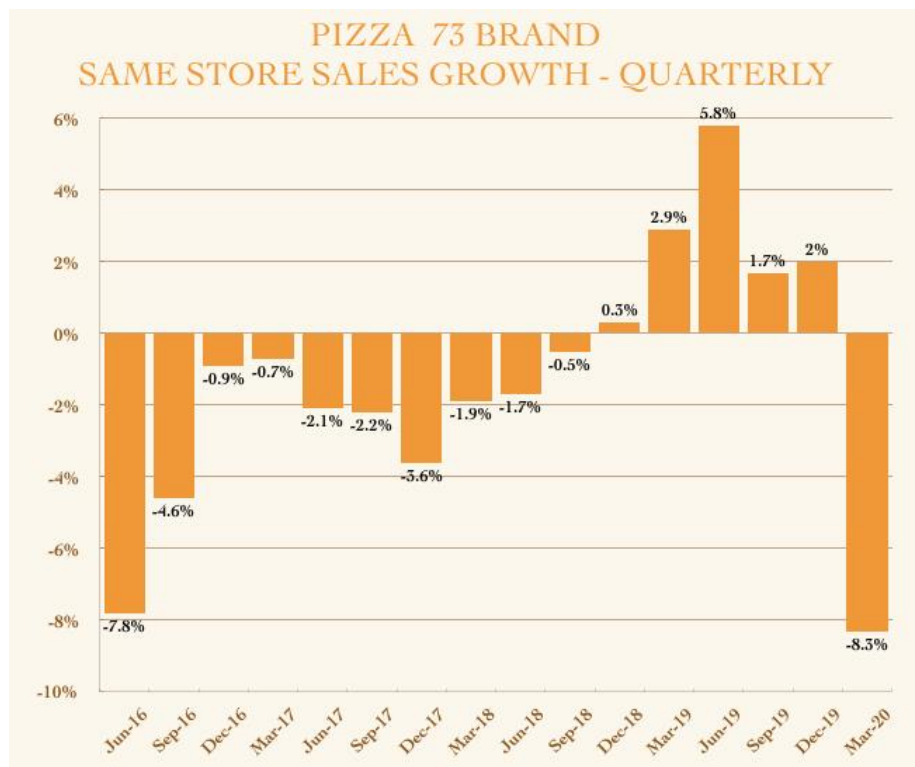
a) Quarterly SSSG, in which both brands are combined:



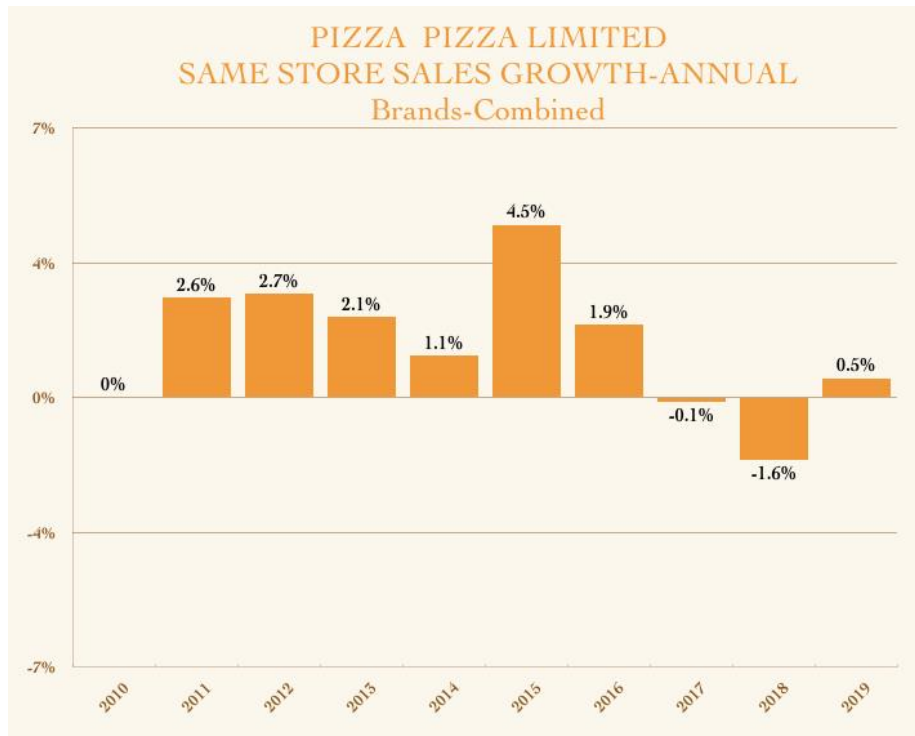
b) Quarterly SSSG, Pizza Pizza brand only:



c) Quarterly SSSG, Pizza 73 brand only:



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



ROYALTY POOL SALES

Pizza Pizza and Pizza 73 System Sales have been negatively impacted as its restaurant operators have taken significant measures in their restaurants to protect the health of employees and guests in compliance with social-distancing recommendations and requirements of applicable health authorities, including the closure of restaurant seating areas. See “COVID-19 Impact”.

Additionally, the number of restaurants in the Royalty Pool decreased to 749 on January 1, 2020 (the “Adjustment Date”) to include 20 new restaurants less 43 closed restaurants. In the prior year, the Royalty Pool included 772 restaurants.

Royalty Pool System sales for the Quarter decreased 6.1% to \$125.8 million from \$133.9 million in the same quarter last year. By brand, sales from the 645 Pizza Pizza restaurants in the Royalty Pool decreased 5.3% to \$105.2 million for the Quarter compared to \$111.0 million in the same quarter last year. Sales from the 104 Pizza 73 restaurants decreased 10.1% to \$20.6 million for the Quarter compared to \$22.9 million in the same quarter last year.

Total Royalty Pool System Sales for the Quarter decreased over the comparative periods largely as a result of the negative impact of COVID-19 and the change in the number of restaurants in the Royalty Pool on January 1, 2020. See “Same Store Sales Growth”, “COVID-19 Impact”, and “Restaurants Added to the Royalty Pool”.

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

COMPANY OPERATING RESULTS

The Financial Statements incorporate the assets and liabilities of the Company and its subsidiaries as at March 31, 2020 and the operating results of the Company and their subsidiaries for the Quarter ended March 31, 2020. The Company's subsidiaries and its respective holdings are outlined below:

<u>Subsidiary</u>	<u>Holding</u>
Pizza Pizza Royalty Limited Partnership	76.5%
Pizza Pizza GP Inc.	76.5%

Royalty income earned by the Partnership decreased 6.4% to \$8.2 million for the Quarter. A 6% royalty was earned on the Royalty Pool of 645 Pizza Pizza restaurants reporting \$105.2 million in System Sales for the Quarter and a 9% royalty was earned on the Royalty Pool of 104 Pizza 73 restaurants reporting \$20.6 million in System Sales for the Quarter.

Royalty income for the prior year's comparative quarter was \$8.7 million. The 660 Pizza Pizza restaurants in the Royalty Pool reported System Sales of \$111.0 million for the comparative quarter, while the 112 Pizza 73 restaurants reported System Sales of \$22.9 million for the comparative quarter.

The overall decrease in royalty income earned on the restaurants in the Royalty Pool is largely due to the of the negative impact of COVID-19 and the change in the number of restaurants in the Royalty Pool on January 1, 2020. See "Same Store Sales Growth", "COVID-19 Impact", and "Restaurants Added to the Royalty Pool".

Administrative expenses for the Quarter were \$115,000 compared to \$104,000 for the 2019 comparable quarter. Administrative expenses are incurred in the Partnership, and consist of director fees, audit, legal and public reporting fees as well as directors & officers insurance. The increase in the administrative expenses for the Quarter reflects higher legal fees.

The Company's **Operating earnings** for the Quarter decreased 6.6% to \$8.0 million as compared to \$8.6 million. The decrease in earnings is due to the decrease in royalty income. See "Royalty Income".

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

Interest rate swap agreements fixed the facility interest rate until April 2020 at the Bankers' Acceptance rate of 1.875% plus a credit spread which was initially set at 0.875%. The effective interest rate on the \$47 million bank loan is currently 2.75% (2018 - 2.75%). See "Credit Facilities".

(in thousands of dollars)	Three months ended	
	March 31, 2020	March 31, 2019
Interest expense	306	343
Loan fee amortization	2	2
Interest expense per financial statements	308	345
Interest paid to (received from) draw down swap termination and out-of-market costs	-	(34)
Interest paid on borrowings and loan fee amortization	308	311

Distributions made by the Partnership on the Class B and D Equivalent Shares on a per share basis were \$0.2613 for the Quarter which is unchanged from the same quarter in 2019. The monthly Partnership distribution to both PPL and PPRC was last increased in June 2016 to \$0.0871 (\$1.046 annualized). While the distribution per unit remained unchanged, the increase in the number of Class B and Class D Equivalent Shares relating to the January 1, 2019 true-up increased the overall distributions paid. See "Subsequent Event".

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 76.5% of the Partnership and PPL owns 23.5%. Monthly, available Partnership funds are distributed based on the percentage ownership. The Company reserves a portion of its monthly distribution for taxes and, on occasion, replenishment of the cash reserve, prior to paying the shareholder dividend. See "Dividends".

Earnings before income taxes measure operations after financing costs. For the Quarter, the Company's reported earnings decreased 6.4% to \$7.7 million in 2020 from \$8.3 million in 2019. The decrease in earnings in the Quarter is attributable to the decrease in royalty income.

Current income tax expense for the Quarter decreased to \$1.3 million compared to \$1.4 million in the same quarter last year. The Company's decrease in royalty income and decrease in ownership of the Partnership, offset by and a decrease in tax amortization resulted in the decrease in tax expense.

Of particular note is that the Company's adjusted 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, as well as the taxable income allocated to PPL. The amount of tax amortization deducted is based on a declining balance basis and will decrease annually.

The Company's decrease in royalty income offset by a decrease in ownership of the Partnership and a decrease in tax amortization resulted in an effective tax rate of 20.5% for the Quarter (2019 – 22.1%) compared to the Company's applicable statutory tax rate of 26.5% (2018 – 26.5%).

Deferred tax expense for the Quarter, a non-cash item, was \$0.1 million and was consistent with the comparable period in 2019. 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 year attributable to shareholders decreased 6.7% to \$6.3 million from \$6.7 million in the same quarter last year. The decrease in earnings in the Quarter is attributable to the decrease in royalty income.

RECONCILIATION OF NON-IFRS MEASURES

The Company's earnings, as presented under IFRS includes non-cash items, such as deferred tax, that do not affect the Company's business operations or its ability to pay dividends to shareholders. The Company believes its 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");
- Payout Ratio; and
- Working Capital.

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, together with Interest Paid on Borrowings and SSSG, 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 construed 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, Payout Ratio, Working Capital, Interest Paid on Borrowings and SSSG 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. For a reconciliation of Interest Paid on Borrowings, see "Interest Expense".

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

(in thousands of dollars, except number of shares)	Three months ended	
	March 31, 2020	March 31, 2019
Earnings for the period before income taxes	7,739	8,272
Interest payment related to the 2015 swap termination costs	-	34
Adjusted earnings available for distribution to the Company and Pizza Pizza Limited	7,739	8,306
Current income tax expense	(1,319)	(1,421)
Adjusted earnings from operations	6,420	6,885
Less: Distribution on Class B and Class D Exchangeable Shares	(2,141)	(1,966)
Adjusted earnings available for shareholder dividends	4,279	4,919
Weighted average Shares – diluted	32,177,276	31,967,706

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 7.4% to \$0.20 when compared to the same period of 2019.

Basic EPS is adjusted as follows:

	Three months ended	
	March 31, 2020	March 31, 2019
Basic EPS	\$ 0.195	\$ 0.211
Adjustments:		
Interest rate swap draw down	-	0.001
Deferred tax expense	0.005	0.004
Adjusted EPS	\$ 0.200	\$ 0.216

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.

PIZZA PIZZA ROYALTY CORP.
Management's Discussion & Analysis
For the three months ended March 31, 2020

(in thousands of dollars, except as noted otherwise)	Three months ended	
	March 31, 2020	March 31, 2020
Dividends declared to shareholders	5,266	5,266
Adjusted earnings available for shareholder dividends	4,279	4,919
Payout Ratio	123%	107%

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)	March 31, 2020	December 31, 2019
Total current assets	5,535	6,680
Less: Total current liabilities	2,938	3,097
Working Capital	2,597	3,583

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). 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 periods, to PPL's 13-week sales reporting period used in calculating same store sales.

(in thousands of dollars)	Three months ended	
	March 31, 2020	March 31, 2019
Total Royalty Pool System Sales	125,750	133,913
Adjustments for stores not in both periods, Step-Out payments, and the impact of calendar reporting	47	809
Same Store Sales	125,797	134,722
SSSG	-6.6%	-1.5%

DIVIDENDS

The Company declared shareholder dividends of \$5.3 million, or \$0.2139 per Share, for the current Quarter and for the comparative quarter in 2019. The payout ratio was 123% for the Quarter and was 107% in the prior year, comparable quarter.

Dividends declared for 2020 are as follows:

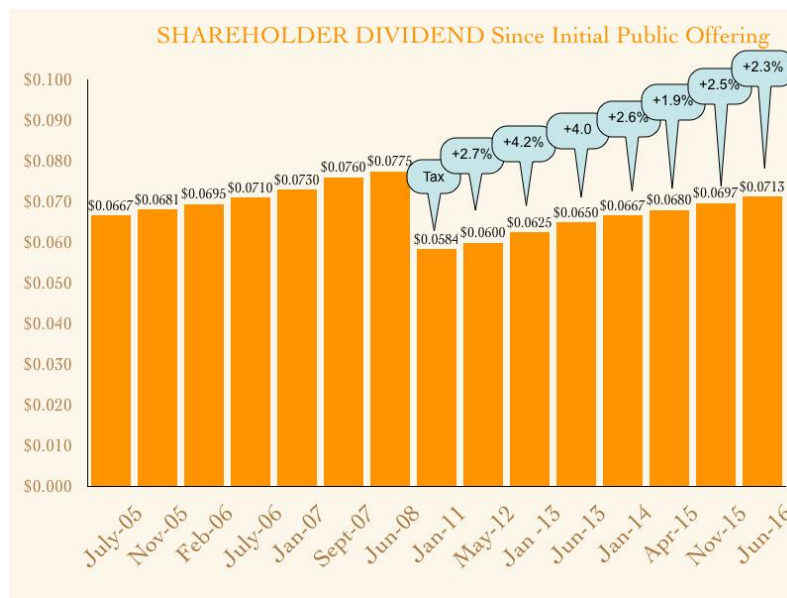
Period	Payment Date	Amount/share
January 1-31, 2020	February 14, 2020	7.13¢
February 1-28, 2020	March 13, 2020	7.13¢
March 1-31, 2020	April 15, 2020	7.13¢
Total		21.39¢

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

With the decrease in System Sales resulting from COVID-19, the Company's royalty income has also decreased and, as a result, subsequent to the Quarter end, the Company has announced its monthly dividend was reduced from \$0.0713 per Share to \$0.05 per Share beginning with the April 2020 dividend. See "Subsequent Event". The Company will continue to monitor System Sales and royalty income, and will consider further changes to the monthly dividend taking into account the duration and impact of the COVID-19 pandemic on restaurant operations, and the timing and pace of economic recovery in the markets that Pizza Pizza and Pizza 73 serve.

From July 2005 to September 2008, the Company's predecessor increased distributions six times. In January 2011, the Company's predecessor 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. The Company's last dividend increase was in June 2016, when the monthly dividend increased by 2.3% to \$0.0713 per share (\$0.8556 annualized).



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. After the recent reduction in the monthly dividend, any further change will be implemented with a view to maintaining 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 \$2.6 million at March 31, 2020, which is a decrease of \$986,000 since December 31, 2019. The decrease in the reserve is attributable to the increased payout ratio of 123% which is a direct result of the financial impact of the COVID-19 pandemic, as well as a 2020 true-up payment to PPL of \$164,000 made in relation to the January 1, 2019 Adjustment Date. See "COVID-19 Impact" and "Restaurants

Added to the Royalty Pool". With the reduction in the monthly dividend, the Company believes that there is sufficient cashflow to service the Company's obligations as they fall due.

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. The Company has historically targeted a payout ratio at or near 100% on an annualized basis. However, this policy is under review as the Company continues to closely monitor System Sales and royalty income, and will consider further changes to the monthly dividend taking into account the duration and impact of the COVID-19 pandemic on Royalty Pool sales, and the timing and pace of economic recovery in the markets that Pizza Pizza and Pizza 73 serve. See "COVID-19 Impact" and "Dividends".

Credit Facilities

On June 28, 2019, the Partnership amended and extended its \$47 million credit facility with a syndicate of chartered banks from April 2020 to April 2025. The Partnership's interest rate was unchanged from April 2015 to April 2020 at 2.75% (2018 – 2.75%). The effective rate, is comprised of a portion fixed with swaps of 1.875% plus the credit spread, currently set at 0.875%. In 2019, the Partnership entered into a five year forward swap arrangement, commencing April 2020, at which time the credit facility will have a new, effective interest rate of 2.685% comprised of a fixed rate of 1.81% plus a credit spread, currently at 0.875%.

The credit facility bears interest at the Canadian 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.

The credit facility includes affirmative and negative covenants customary for agreements of this nature, and as at March 31, 2020, all covenants have been met; the Company expects to meet all covenants in 2020. The Partnership is required to maintain a funded debt-to-EBITDA ratio not to exceed 2.5:1.00 on a four quarter rolling average. The debt-to-EBITDA ratio for the last four-quarter rolling average is 1.35:1 (December 31, 2019 – 1.33:1). 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

The success of the Company depends primarily on the ability of Pizza Pizza Limited to maintain and increase restaurant sales and to meet its royalty obligations. Increases in restaurant sales are derived from both the opening of new Pizza Pizza and Pizza 73 restaurants and increases in SSSG. SSSG is the key metric for shareholder yield growth.

Pizza Pizza and Pizza 73 System Sales have been negatively impacted as its restaurant operators have taken significant measures in their restaurants to protect the health of employees and consumers in compliance with social-distancing recommendations and requirements of applicable health authorities, including the closure of restaurant seating areas. Fortunately, the restaurants were allowed to remain open for delivery and takeout sales.

As mentioned earlier, Pizza Pizza and Pizza 73 operate traditional and non-traditional restaurants. The Royalty Pool sales mix includes delivery, pickup, walk-in and non-traditional sales. By brand, Pizza Pizza traditional restaurant sales have historically consisted of approximately 60% delivery and pickup sales and 40% walk-in sales, whereas Pizza 73 traditional restaurant sales have been approximately 90% delivery and pickup sales and 10% walk-in sales. As a result of government-mandated social distancing policies, the walk-in sales at both brands

decreased significantly beginning in mid-March and this trend continued throughout April; however, walk-in sales began modestly improving in May.

The sales impact felt from the pandemic began in the last two weeks of March and continued through most of April; however, both brands experienced week-over-week sales increases during the period. The significant decline in walk-in sales encountered in March and April was partially offset by increased delivery and pickup sales; however, the non-traditional sales portion of the sales mix decreased almost entirely and is not expected to return in the near future.

The negative financial impact of COVID-19 has continued into the second quarter. See "SSSG". Based on the experience of other restaurant brands within and outside of Canada, the Company believes that the food service industry, and more particularly the quick service restaurant (QSR) segment of the industry, will recover from the impact of COVID-19. However, the timing and strength of the recovery cannot now be predicted with any degree of certainty.

PPL continues working closely with its franchisees, partners, suppliers and landlords to support the ongoing operation of our traditional locations through these unprecedented market conditions. Pizza Pizza and Pizza 73 delivery sales remain stable and PPL is actively taking measures with its marketing, operations and technology teams to drive increased delivery business. PPL provides contactless delivery and introduced its tamper-proof pizza box recently. Customers also now have the option to order, pay and even tip their driver online through websites or apps. This offers customers the added peace of mind that our pizzas leave 500 degree ovens and are placed immediately into a secure box which will be delivered as per the customer's instructions without any direct human contact.

The Company's working capital reserve is \$2.6 million at March 31, 2020, which is a decrease of \$986,000 since December 31, 2019. The decrease in the reserve is attributable to the increased payout ratio of 123% which is a direct result of COVID-19, as well as a 2020 true-up payment to PPL of \$164,000 made in relation to the January 1, 2019 Adjustment Date. With the 30% reduction in the monthly dividend, the Company believes that there is sufficient cashflow to maintain this dividend level in the near term and to service the Company's obligations as they fall due. The Partnership also reduced its monthly distribution to PPL by 30% on PPL's Class B and Class D equivalent shares.

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. The Company has historically targeted a payout ratio at or near 100% on an annualized basis. However, this policy is under review as the Company continues to closely monitor System Sales and royalty income, and will consider further changes to the monthly dividend taking into account the duration and impact of the COVID-19 pandemic on restaurant operations, and the timing and pace of economic recovery in the markets that Pizza Pizza and Pizza 73 serve.

The Company's royalty income and shareholder value are driven by Pizza Pizza Limited's exploitation of the Pizza Pizza and Pizza 73 intellectual property owned by the Partnership. As Canada's #1 pizzeria, PPL leverages its market-leading positions by staying top-of-mind with consumers. PPL believes its leading market share is the result of providing a variety of high-quality menu offerings, introducing new products and investing heavily in technological innovation.

SUBSEQUENT EVENT

Subsequent to the Quarter, the Company's Board of Directors declared a dividend for the month of April 2020. The Company has announced its monthly dividend will be reduced from \$0.0713 per Share to \$0.05 per Share beginning with the April 2020 dividend. The dividend will be payable to shareholders of record at the close of business on April 30, 2020, and will be paid on May 15, 2020. The Company's Board of Directors also announced its monthly cash dividend of \$0.05 per share for May 2020. The dividend will be payable to shareholders of record at the close of business on May 29, 2020, and will be paid on June 15, 2020.

The Partnership also reduced its monthly distribution to PPL by 30% on PPL's Class B and Class D equivalent shares, beginning April 2020.

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 March 31, 2020. It was determined that the Company's disclosure controls and procedures and internal controls over financial reporting were effective.

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

TRANSACTIONS WITH RELATED PARTIES

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

CRITICAL ACCOUNTING ESTIMATES OF THE COMPANY

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

Impairment of Rights and Marks

Determining whether the Rights and Marks are impaired requires an estimation of the recoverable amount of the Cash Generating Unit ("CGU") in which the assets are included. The value-in-use calculation requires that the Company estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. The significant estimates and assumptions used in the impairment tests performed at December 31, 2019 are disclosed in the December 31, 2019 audited annual financial statements of the Company.

The impact that COVID-19 has had on the performance of the restaurants in the Royalty Pool was considered to be an impairment trigger, therefore the Partnership performed an impairment test of its investment in the Pizza Pizza and Pizza 73 Rights and Marks. The calculations were based on best estimates as a specific point in time, and as a result are subject to estimation uncertainty. As a result of this test, it was determined that there was no impairment.

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.

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, and the PPL financial statements for the period ended March 29, 2020 and the related MD&A.

COVID-19

The COVID-19 pandemic has had and is continuing to have negative impacts on the Canadian economy, the QSR segment of the restaurant industry, the ability and willingness of the general public to dine outside the home and travel, consumer spending on restaurants and other discretionary expenses and the level of consumer confidence in the safety of QSR restaurants including Pizza Pizza and Pizza 73 restaurants, all of which are negatively impacting PPL, its franchisees and restaurant operators, PPRC and the Partnership, including their respective businesses, results of operations and financial condition. These and other COVID-19 related impacts may negatively affect their ability to obtain additional equity or debt financing, or re-finance existing debt, or make interest and principal payments to their respective lenders, make lease payments and otherwise satisfy their respective financial obligations as they become due, and may cause any of PPL, its franchisees and restaurant operators, PPRC and the Partnership to be in non-compliance with one or more of the financial covenants under their respective existing credit facilities and cause a default thereunder. Modifications to the operations of PPL restaurants in the Royalty Pool in response to COVID-19 as well as temporary or permanent restaurant closures have resulted, and are expected to continue to result in material declines to System Sales of PPL restaurants in the Royalty Pool relative to past performance. These declines will result in significant reductions to the amount of fees and other revenues received by PPL from its franchisees and restaurant operators and the amount of royalties payable to and earned by the Partnership, and correspondingly, funds available to be paid as distributions by the Partnership to PPL and PPRC (and thus, funds available for dividends on the Shares). PPL may become liable for the loan obligations of certain of its franchisees and restaurant operators, if such franchisees and restaurant operators default on their loans as a result of the impacts of COVID-19 or otherwise; such obligations may be significant and PPL may be unsuccessful in seeking recovery from such franchisees and restaurant operators, all of which may adversely affect PPL's business, results of operations and financial condition. The pace of recovery following the COVID-19 outbreak cannot be accurately predicted and may be slow. Further government restrictions related to COVID-19 may be imposed, which could restrict the ability of PPL restaurants to operate, or result in forced closures, further reduced guest traffic, supply interruptions or staff shortages. Government programs expected to be helpful to PPL franchisees and restaurant operators may not be available to some franchisees and restaurant operators or to the extent required to mitigate financial impacts resulting from the COVID-19 pandemic.

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, third party food delivery services, home meal delivery companies 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 and other risk factors, please refer to the PPL MD&A and PPRC's Annual Information Form which are available at www.sedar.com, pizzapizza.ca and www.pizzapizzaroyaltycorp.com.

FORWARD-LOOKING STATEMENTS

Certain statements in this report, including information regarding the Company's dividend policy, its ability to meet covenants and other financial obligations, and the potential business and financial impacts of the COVID-19 pandemic on the Company, PPL and its franchisees and restaurant operators and their ability to achieve their business objectives, 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 events or operating or financial performance. These statements reflect management's current expectations regarding future events and operating and financial performance and speak only as of the date of this MD&A. 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: changes in national and local business and economic conditions including those resulting from the COVID-19 pandemic (such as restrictions on restaurant operations, customers' ability and willingness to visit restaurants and their perception of health and food safety issues, discretionary spending patterns and supply chain limitations, and the related financial impact on PPL and its franchisees and restaurant operators and their ability to meet debt and lease obligations), impacts of legislation and governmental regulation, accounting policies and practices, competition, changes in demographic trends and changing consumer preferences, 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 other information included in the foregoing MD&A, the PPL financial statements for the period ended March 29, 2020 and the related MD&A and 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.