

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 December 31, 2023 consolidated financial statements of the Company ("Financial Statements"). Readers should note that the 2023 results are not directly comparable to the 2022 results due to there being 743 restaurants in the 2023 Royalty Pool compared to 727 restaurants in the 2022 Royalty Pool.

(in thousands of dollars, except number of restaurants, days in the year, per share amounts, and noted otherwise)	December 31, 2023	December 31, 2022	December 31, 2021
Restaurants in Royalty Pool ⁽¹⁾	743	727	725
Same store sales growth ⁽²⁾	8.2%	15.2%	0.5%
Days in the Period	365	365	365
System Sales reported by Pizza Pizza restaurants in the Royalty Pool ⁽⁶⁾	\$ 544,388	\$ 490,626	\$ 416,904
System Sales reported by Pizza 73 restaurants in the Royalty Pool ⁽⁶⁾	83,949	77,656	76,718
Total System Sales	\$ 628,337	\$ 568,282	\$ 493,622
Royalty – 6% on Pizza Pizza System Sales	\$ 32,663	\$ 29,438	\$ 25,014
Royalty – 9% on Pizza 73 System Sales	7,556	6,989	6,905
Royalty income	\$ 40,219	\$ 36,427	\$ 31,919
Interest paid on borrowings ^{(3) (5)}	(1,280)	(1,322)	(1,355)
Administrative expenses	(643)	(632)	(559)
Interest income	378	82	-
Adjusted earnings available for distribution to the Company and Pizza Pizza Limited ⁽⁵⁾	\$ 38,674	\$ 34,555	\$ 30,005
Distribution on Class B and Class D Exchangeable Shares ⁽⁴⁾	(9,117)	(7,823)	(6,856)
Current income tax expense	(7,002)	(6,142)	(5,154)
Adjusted earnings available for shareholder dividends ⁽⁵⁾	\$ 22,555	\$ 20,590	\$ 17,995
Add back:			
Distribution on Class B and Class D Exchangeable Shares ⁽⁴⁾	9,117	7,823	6,856
Adjusted earnings from operations ⁽⁵⁾	\$ 31,672	\$ 28,413	\$ 24,851
Adjusted earnings per share ⁽⁵⁾	\$ 0.979	\$ 0.883	\$ 0.772
Basic earnings per share	\$ 0.958	\$ 0.856	\$ 0.743
Dividends declared by the Company	\$ 21,849	\$ 19,633	\$ 16,864
Dividend per share	\$ 0.8875	\$ 0.7975	\$ 0.685
Payout ratio ⁽⁵⁾	97%	95%	94%
Working capital ⁽⁵⁾	\$ 8,237	\$ 7,512	\$ 6,537
Total assets	\$ 370,092	\$ 367,831	\$ 363,057
Total liabilities	\$ 76,184	\$ 75,408	\$ 72,831

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	Q4 2023	Q3 2023	Q2 2023	Q1 2023
(in thousands of dollars, except number of restaurants, days in the quarter, per share amounts and as noted otherwise)				
Restaurants in Royalty Pool ⁽¹⁾	743	743	743	743
Same store sales growth ⁽²⁾	4.0%	7.0%	9.4%	13.6%
Days in the quarter	92	92	91	90
System Sales reported by Pizza Pizza restaurants in Royalty Pool ⁽⁶⁾	\$ 141,051	\$ 141,995	\$ 137,656	\$ 123,685
System Sales reported by Pizza 73 restaurants in Royalty Pool ⁽⁶⁾	22,861	21,219	20,820	19,050
Total System Sales	\$ 163,912	\$ 163,214	\$ 158,476	\$ 142,735
Royalty – 6% on Pizza Pizza System Sales	8,463	8,520	8,259	7,421
Royalty – 9% on Pizza 73 System Sales	2,058	1,910	1,874	1,714
Royalty income	\$ 10,521	\$ 10,430	\$ 10,133	\$ 9,135
Interest paid on borrowings ⁽³⁾⁽⁵⁾	(323)	(322)	(320)	(316)
Administrative expenses	(229)	(123)	(148)	(143)
Interest Income	115	95	77	92
Adjusted earnings available for distribution to the Company and to Pizza Pizza Limited ⁽⁵⁾	\$ 10,084	\$ 10,080	\$ 9,742	\$ 8,768
Distribution on Class B and Class D Exchangeable Shares ⁽⁴⁾	(2,370)	(2,316)	(2,255)	(2,176)
Current income tax expense	(1,834)	(1,833)	(1,766)	(1,568)
Adjusted earnings available for shareholder dividends ⁽⁵⁾	\$ 5,880	\$ 5,931	\$ 5,721	\$ 5,024
Add back:				
Distribution on Class B and Class D Exchangeable Shares ⁽⁴⁾	2,370	2,316	2,255	2,176
Adjusted earnings from operations ⁽⁵⁾	\$ 8,250	\$ 8,247	\$ 7,976	\$ 7,200
Adjusted earnings per share ⁽⁵⁾	\$ 0.255	\$ 0.255	\$ 0.247	\$ 0.223
Basic earnings per share	\$ 0.249	\$ 0.249	\$ 0.241	\$ 0.220
Dividends declared by the Company	\$ 5,662	\$ 5,539	\$ 5,417	\$ 5,231
Dividend per share	\$ 0.230	\$ 0.2250	\$ 0.2200	\$ 0.2125
Payout ratio ⁽⁵⁾	96%	93%	95%	104%

	Q4 2022	Q3 2022	Q2 2022	Q1 2022
(in thousands of dollars, except number of restaurants, days in the quarter, per share amounts and as noted otherwise)				
Restaurants in Royalty Pool ⁽¹⁾	727	727	727	727
Same store sales growth ⁽²⁾	13.0%	14.0%	20.3%	13.6%
Days in the quarter	92	92	91	90
System Sales reported by Pizza Pizza restaurants in Royalty Pool ⁽⁶⁾	\$ 132,108	\$ 130,794	\$ 122,931	\$ 104,793
System Sales reported by Pizza 73 restaurants in Royalty Pool ⁽⁶⁾	21,077	18,881	19,559	18,139
Total System Sales	\$ 153,185	\$ 149,675	\$ 142,490	\$ 122,932
Royalty – 6% on Pizza Pizza System Sales	\$ 7,926	\$ 7,848	\$ 7,376	\$ 6,287
Royalty – 9% on Pizza 73 System Sales	1,898	1,699	1,760	1,633
Royalty income	\$ 9,824	\$ 9,547	\$ 9,136	\$ 7,920
Interest paid on borrowings ⁽³⁾⁽⁵⁾	(323)	(322)	(320)	(356)
Administrative expenses	(233)	(119)	(169)	(112)
Interest Income	82	-	-	-
Adjusted earnings available for distribution to the Company and to Pizza Pizza Limited ⁽⁵⁾	\$ 9,350	\$ 9,106	\$ 8,647	\$ 7,452
Distribution on Class B and Class D Exchangeable Shares ⁽⁴⁾	(2,059)	(1,984)	(1,924)	(1,856)
Current income tax expense	(1,679)	(1,663)	(1,528)	(1,272)
Adjusted earnings available for shareholder dividends ⁽⁵⁾	\$ 5,612	\$ 5,459	\$ 5,195	\$ 4,324
Add back:				
Distribution on Class B and Class D Exchangeable Shares ⁽⁴⁾	2,059	1,984	1,924	1,856
Adjusted earnings from operations ⁽⁵⁾	\$ 7,671	\$ 7,443	\$ 7,119	\$ 6,180
Adjusted earnings per share ⁽⁵⁾	\$ 0.238	\$ 0.231	\$ 0.221	\$ 0.192
Basic earnings per share	\$ 0.232	\$ 0.225	\$ 0.215	\$ 0.185
Dividends declared by the Company	\$ 5,108	\$ 4,985	\$ 4,862	\$ 4,677
Dividend per share	\$ 0.2075	\$ 0.2025	\$ 0.1975	\$ 0.190
Payout ratio ⁽⁵⁾	91%	91%	94%	108%

(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 2023 fiscal year, the Royalty Pool includes 644 Pizza Pizza restaurants and 99 Pizza 73 restaurants.

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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") is a supplementary financial measure under NI 52-112 and therefore may not be comparable to similar measures presented by other issuers. SSSG means the change in Period's gross revenue of a particular Pizza Pizza or Pizza 73 restaurant as compared to sales in the previous comparative Period, where the restaurant has been open at least 13 months. Additionally, for a Pizza 73 restaurant whose restaurant territory was adjusted due to an additional restaurant, the sales used to derive the Step-Out Payment (calculated as the difference between the average monthly Pizza 73 Royalty payment attributable to that Adjusted Restaurant in the 12 months immediately preceding the month in which the territory reduction occurs, less the Pizza 73 Royalty payment attributable to the restaurant in the current month) may be added to sales to arrive at SSSG. SSSG does not have any standardized meaning under IFRS Accounting Standards as issued by the International Accounting Standards Board ("IFRS"). See "Reconciliation of Non-IFRS Measures".
- (3) The Company, indirectly through the Partnership, incurs interest expense on the \$47 million outstanding bank loan. Interest expense also includes amortization of loan fees. See "Interest Expense".
- (4) Represents the distribution to PPL from the Partnership on Class B and Class D Units of the Partnership. The Class B and D Units are exchangeable into common shares of the Company ("Shares") based on the value of the Class B Exchange Multiplier and the Class D Exchange Multiplier at the time of exchange as defined in the License and Royalty Agreements, respectively, and represent 23.9% of the fully diluted Shares at December 31, 2023 (December 31, 2022 – 23.5%). During the quarter ended March 31, 2023, as a result of the final calculation of the equivalent Class B and Class D Share entitlements related to the January 1, 2022 Adjustment to the Royalty Pool, PPL was not paid a distribution on additional equivalent Shares as if such Shares were outstanding as of January 1, 2022. Included in the three months ended March 31, 2023, is the payment of \$nil in distributions to PPL pursuant to the true-up calculation (March 31, 2022 - PPL received \$nil).
- (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" are non-GAAP financial measures under NI 52-112. They do not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other issuers. 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, and the monthly Make-Whole Payment, excluding sales and goods and service tax or similar amounts levied by any governmental or administrative authority. System Sales do not represent the consolidated operating results of the Company but are used to calculate the royalties payable to the Partnership as presented above.

OVERVIEW AND BUSINESS OF THE COMPANY

The following Management's Discussion and Analysis (the "MD&A") is a discussion of the results of operations and financial condition of the Company for the three months (the "Quarter") and year (the "Year") ended December 31, 2023. The Financial Statements of the Company are prepared in accordance with IFRS Accounting Standards ("IFRS") as issued by the International Accounting Standards Board. The MD&A has been prepared as of March 6, 2024.

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 and in its international franchising business. 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. The Partnership is also entitled to receive royalty payments based on PPL's international franchising activities using the Pizza Pizza Rights. For 2023, the Royalty Pool consists of 644 Pizza Pizza restaurants and 99 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 leads the pizza quick service restaurant ("QSR") segment. Of the 672 Pizza Pizza restaurants at December 31, 2023, 666 are franchised or licensed, and 6 are owned and/or managed as corporate restaurants. Of the 672 restaurants, 203 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 102 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 89 traditional restaurants at December 31, 2023, nine are franchised or licensed and 80 are jointly-owned by PPL and an independent owner/operator. There are 13 non-traditional locations which have limited operating hours and a limited menu. Pizza 73 currently has six traditional locations outside of Alberta; four in Saskatchewan and two in British Columbia. Sales through its centralized call centre and on-line ordering, together, account for approximately 90% of Pizza 73's system sales. The Pizza 73 business also includes a central food distribution centre in Edmonton.

About the International Franchising Business

In November 2021, the Partnership and PPL entered into a licence and royalty agreement for international operations (the "International Agreement"), under which PPL may be granted licences to use the Pizza Pizza Rights in connection with the business of franchising, licensing and/or operating restaurants dedicated to the sale of pizza and related products in designated territories outside of Canada (each, a "Territory"). PPL has the right to use the Pizza Pizza Rights for other ancillary uses in support of brand recognition and customer goodwill for the restaurant business in a Territory. PPL also has the right to sublicense the Pizza Pizza Rights to franchisees and sublicensees in a Territory.

PPL and the Partnership may agree to designate additional Territories for expansion pursuant to the International Agreement, subject to the prior agreement of the parties as to the compensation payable and any other terms applicable to the licence for that Territory. PPL's other obligations under the International Agreement, and the Partnership's remedies upon a breach, are generally consistent with the provisions of the Pizza Pizza Licence and Royalty Agreement, with modifications reflecting the fact that PPL is acting only as master franchisor in respect of the international operations, and will not be directly involved in the franchising, management or operation of the Mexican restaurants.

In consideration of the licence for Mexico, PPL is required to pay the Partnership, commencing with the first calendar month that is 18 months following the opening of the first traditional restaurant in Mexico, a fee calculated as 12.5% of the royalty received by PPL under the Master Franchise Agreement (without any deduction for withholding or any other taxes). The international licence and royalty agreement provides only for a cash royalty payment, and openings and closings of restaurants in Mexico will not result in changes to the Royalty Pool nor to the Class B and Class D Exchange Multipliers. As of December 31, 2023, two restaurants have opened in Mexico and royalties will commence in October 2024. These royalties will not be material to the Company's results.

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 "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.

As of December 31, 2023, PPL indirectly held an effective 23.9% interest in the Company (December 31, 2022 – 23.5%) 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.

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, 2023, it will be the effective Company tax rate for the year ended December 31, 2022). 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.

In the case where system sales of the closed restaurants exceed the additional system sales of the restaurants added to the Royalty Pool, the royalties on the deficit (the "Make-Whole Carryover Amount"), will be paid by PPL to the Partnership in that year, and will be carried over and continue to be paid for subsequent years, until on an Adjustment Date, additional sales of new restaurants are sufficient to offset the system sales attributable to all closed restaurants. Additionally, per the Pizza Pizza License and Royalty Agreement and the Partnership's Amended and Restated Limited Partnership Agreement (the "Partnership Agreement") whenever the Determined Amount is negative it shall be deemed to be zero.

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 Partnership Agreement provides 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

2022 Royalty Pool Adjustment

In early January 2023, a second adjustment was made to the royalty payments and PPL's Class B Exchange Multiplier based on the actual performance of the 34 new restaurants added to the Royalty Pool on January 1, 2022. The final 2022 Pizza Pizza Royalty Pool adjustment confirmed that the net additional System Sales added to the

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Royalty Pool were \$12.5 million and were applied against the opening Make-Whole Carryover Amount of \$15.3 million. As a result, the Make-Whole Payment for 2022 is to be paid and calculated as a percentage of \$2.7 million Royalty Pool sales. The Make-Whole Payment will continue to be paid for subsequent years, until on an Adjustment Date, additional system sales of additional restaurants are sufficient to offset the Pizza Pizza system sales attributable to all closed Pizza Pizza restaurants. As a result of the adjustments, the Class B Exchange Multiplier is unchanged at 2.118582 and Class B Units can be exchanged for 5,313,909 shares effective January 1, 2022.

In early January 2023, a second adjustment was made to the royalty payments and PPL's Class D Exchange Multiplier based on the actual performance of the three Pizza 73 restaurants added to the Royalty Pool on January 1, 2022. The final 2022 Pizza 73 Royalty Pool adjustment confirmed that the net additional system sales added to the Royalty Pool were \$0.9 million and were applied against the opening Make-Whole Carryover Amount of \$1.3 million. As a result, the Make-Whole Payment for 2022 is to be paid and calculated as a percentage of \$0.5 million Royalty Pool sales. The Make-Whole Payment will 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. As a result of the adjustments, the Class D Exchange Multiplier is unchanged at 22.44976 and Class D Units can be exchanged for 2,244,975 shares effective January 1, 2022.

2023 Royalty Pool Adjustment – Class B Exchange Multiplier

On January 1, 2023, 20 net Pizza Pizza restaurants were added to the Royalty Pool as a result of 43 new restaurants opening and 23 closing from January 1, 2022 to December 31, 2022. The total number of Pizza Pizza restaurants in the Royalty Pool has increased to 644. The additional system sales from the 43 new restaurants are estimated at \$13.8 million annually, less sales of \$7.3 million from the 23 permanently closed Pizza Pizza restaurants. As a result, \$6.5 million net, estimated Pizza Pizza sales were added to the Royalty Pool and applied against the \$2.7 million Make-Whole Carryover Amount, resulting in an Estimated Determined Amount of \$3.8 million added to the Royalty Pool.

The yield of the shares was determined to be 5.9% calculated using \$13.60 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, 2023. 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 0.063911; the new Class B Multiplier is 2.182493. 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, 2023, once the actual performance of the new restaurants is determined in early 2024. See "Subsequent Events".

2023 Royalty Pool Adjustment – Class D Exchange Multiplier

On January 1, 2023, four net Pizza 73 restaurants were removed from the Royalty Pool as a result of two new restaurants opening between September 2, 2021 and September 1, 2022 and six restaurants closing between January 1, 2022 and December 31, 2022. The total number of Pizza 73 restaurants in the Royalty Pool has decreased to 99. The forecasted additional system sales from the two new restaurants are estimated at \$0.5 million annually, less \$1.4 million in system sales attributable to the six closed Pizza 73 restaurants. As a result, a negative \$0.9 million net, estimated Pizza 73 sales were removed from the Royalty Pool.

The \$0.9 million of Pizza 73 sales removed from the Royalty Pool are added to the \$0.5 million Make-Whole Carryover Amount at the end of 2022. The cumulative Make-Whole Carryover Amount of \$1.4 million 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 5.9% calculated using \$13.60 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, 2023. 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, 2023, once the actual performance of the new restaurant is determined in early 2024. See "Subsequent Events".

Pizza Pizza Royalty Corp. Outstanding Shares

In exchange for adding the forecasted Pizza Pizza system sales to the Royalty Pool, PPL has received 160,304 additional equivalent Shares (through the change to the Class B Exchange Multiplier). These represent 80% of the forecasted equivalent Shares entitlement to be received (200,380 equivalent Shares represent 100%), with the final equivalent Shares entitlement to be determined when the new restaurants' 2023 actual sales performance is known with certainty in early 2024. See "Subsequent Events".

PPL's Class D equivalent Share entitlement is unchanged for 2023. 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 2023 no increase or decrease in the Exchange Multiplier is made. PPL will only have an increased Class D equivalent Share entitlement for 2023 if the actual sales performance of the new restaurants exceeds the Make-Whole Carryover Amount when the actual sales performance is known with certainty in early 2024. See "Subsequent Events".

After giving effect to PPL's entitlement to additional equivalent Shares at January 1, 2023, PPL owns equivalent Shares representing 23.9% 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 Company shares after accounting for their respective multipliers and adjustments as described below, after the impact of the January 1, 2023 Adjustment Date.

Shares outstanding & issuable on January 1, 2023		
Shares outstanding		24,618,392
Class B equivalent Shares held by PPL at December 31, 2022	5,313,909	
PPL additional Class B Equivalent Shares - True-up Holdback as at December 31, 2022	-	
Additional PPL Class B equivalent Shares as of January 1, 2023	160,304	5,474,213
Class D equivalent Shares held by PPL at December 31, 2022	2,244,975	
PPL additional Class D Equivalent Shares - True-up Holdback as at December 31, 2022	-	
Additional PPL Class D equivalent Shares as of January 1, 2023	-	2,244,975
Number of fully diluted shares		32,337,580
		23.9%

SAME STORE SALES GROWTH ("SSSG")

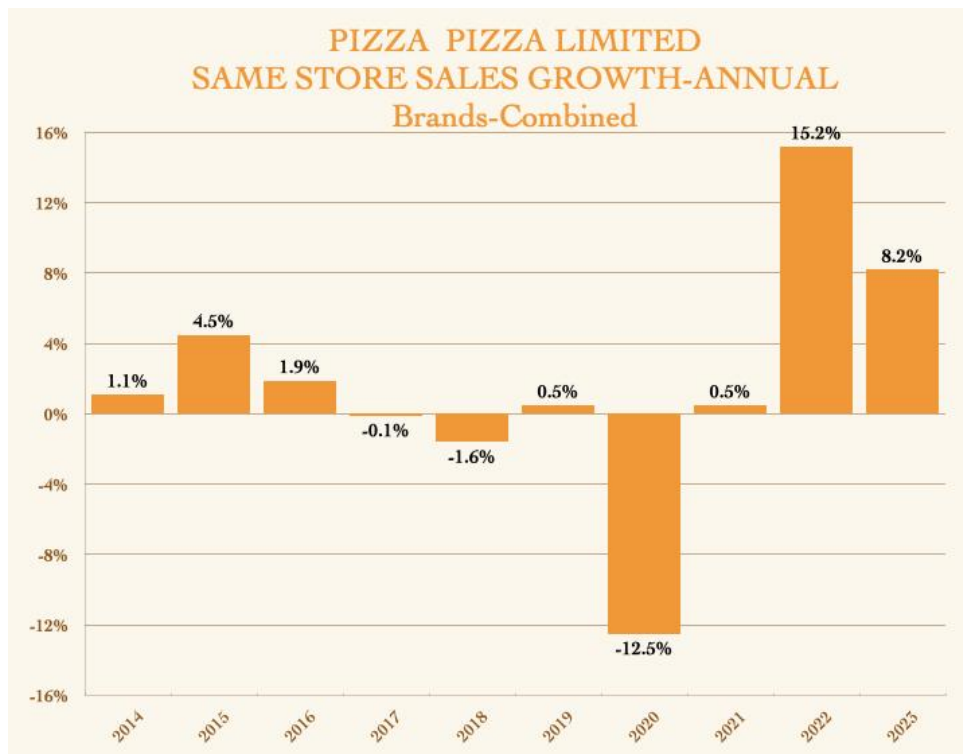
SSSG, the key driver of yield growth for shareholders of the Company, increased 4.0% (2022 – 13.0%) for the Quarter, and increased 8.2% for the Year (2022 – 15.2%). See "Reconciliation of Non-IFRS Measures".

SSSG	Fourth Quarter (%)		Year (%)	
	2023	2022	2023	2022
Pizza Pizza	3.5	15.2	8.4	17.8
Pizza 73	7.3	1.3	7.2	1.1
Combined	4.0	13.0	8.2	15.2

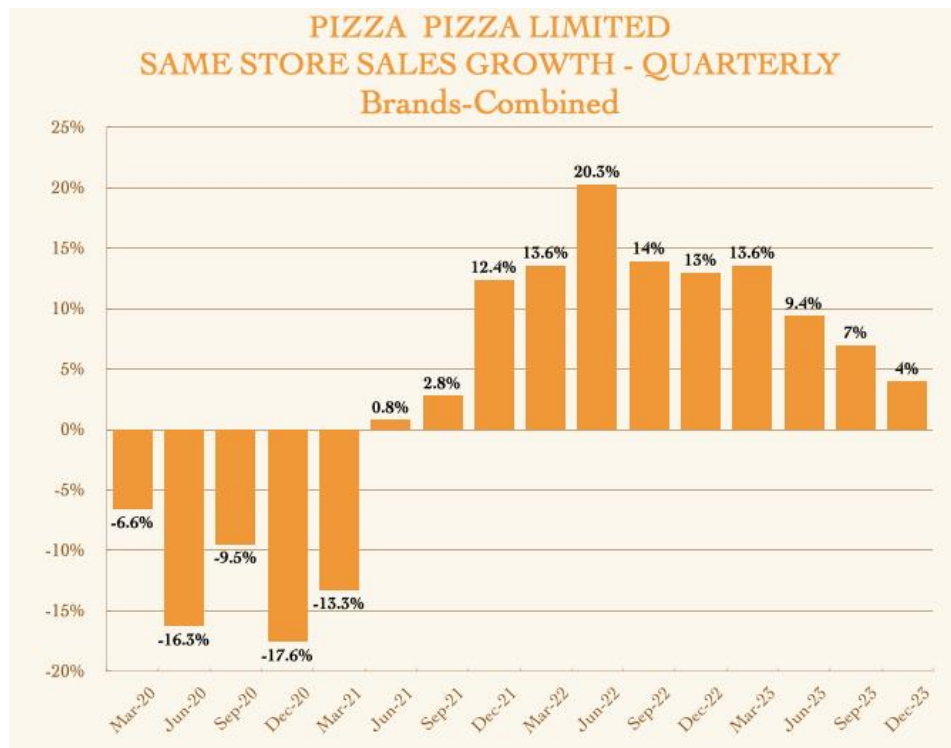
SSSG is driven by the change in the customer check and customer traffic, both of which are affected by changes in pricing and sales mix. During the Quarter, the average customer check increased as the brands passed along retail price increases. At both brands restaurant traffic increased due to strong value messaging, promotional brand activities and product innovation. Additionally, 2022 results reflected a comparison to periods impacted by COVID-19, and 2023 reflects more normalized performance.

The following charts show historical SSSG performance:

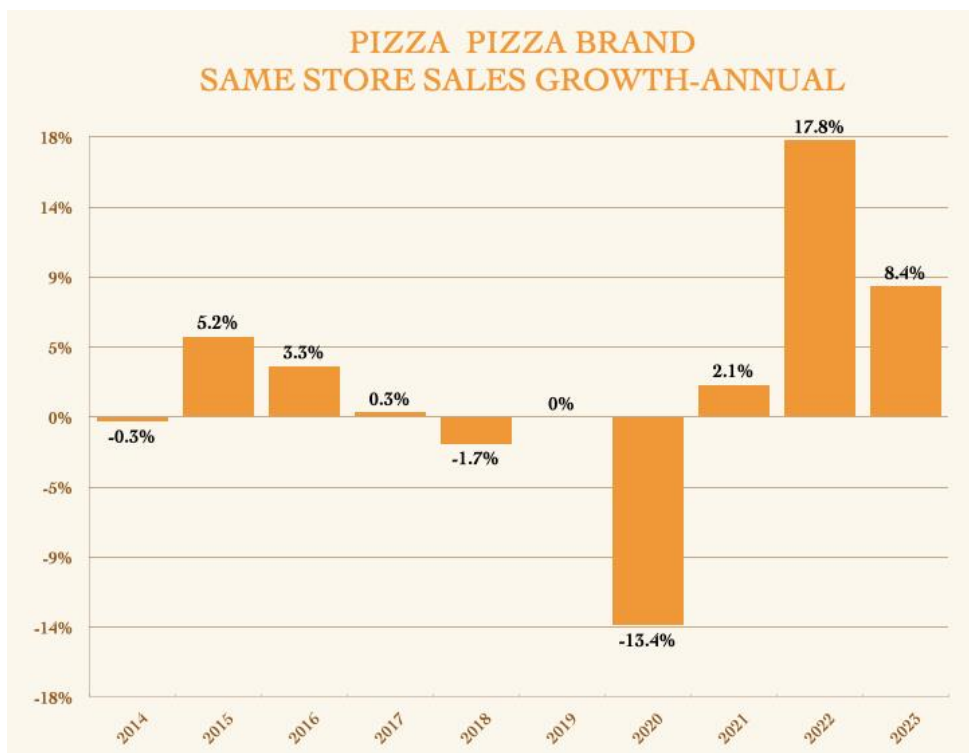
a) Annual SSSG, in which both brands are combined:



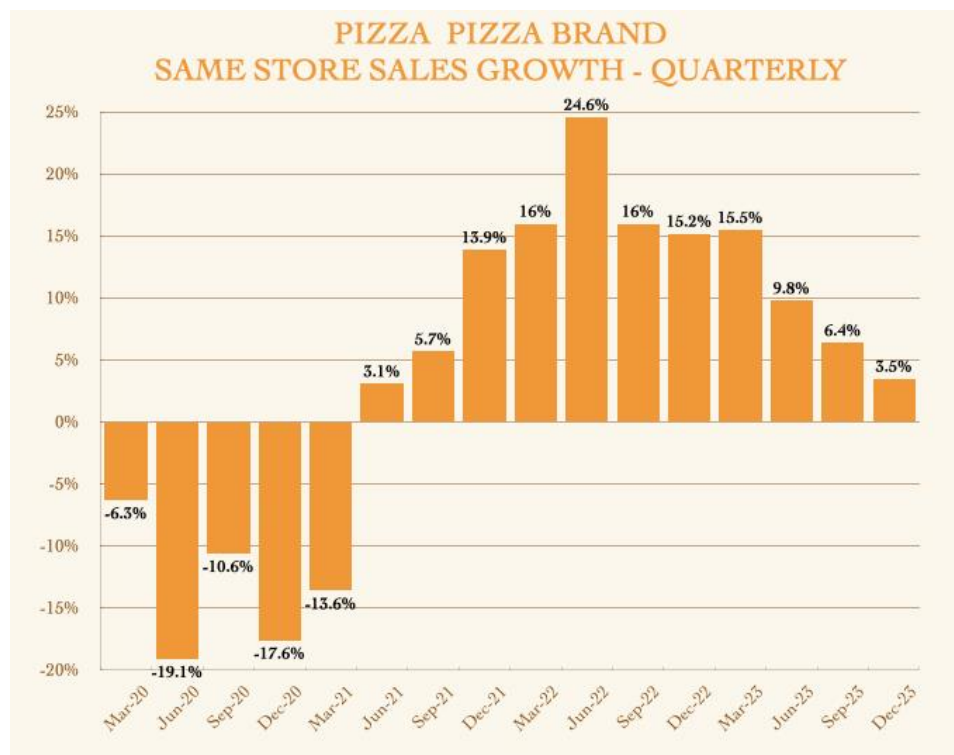
b) Quarterly SSSG, in which both brands are combined:



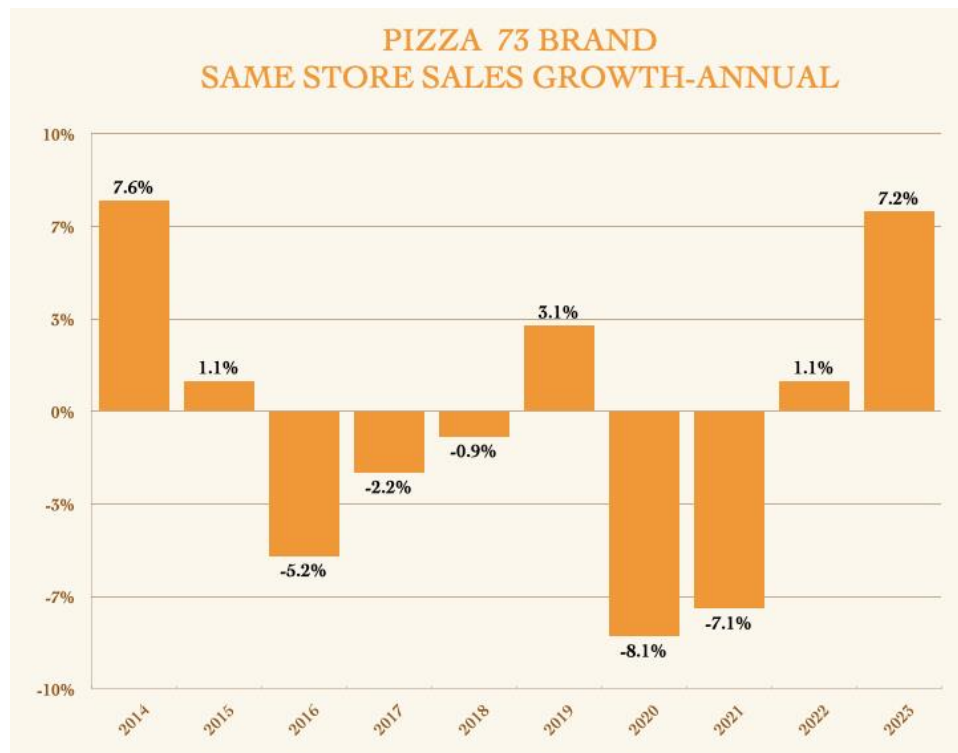
c) Annual SSSG, Pizza Pizza brand only:



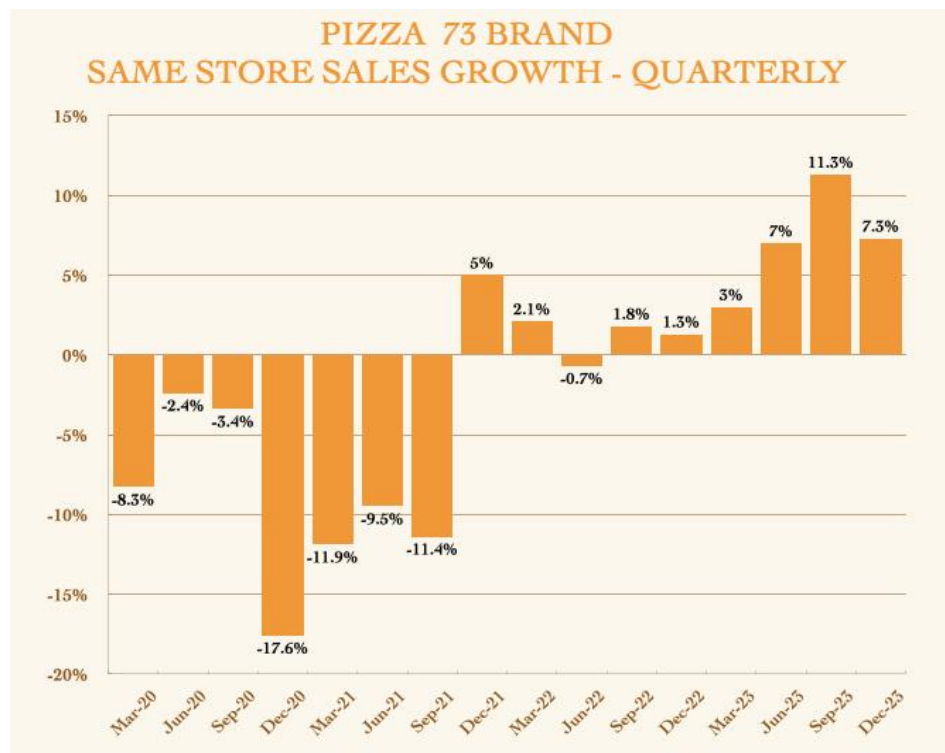
d) Quarterly SSSG, Pizza Pizza brand only:



e) Annual SSSG, Pizza 73 brand only:



f) Quarterly SSSG, Pizza 73 brand only:



ROYALTY POOL SALES

System Sales of the Royalty Pool are affected by the number of restaurants in the Pool for that respective year. For 2023, the number of restaurants in the Royalty Pool increased to 743 on January 1, 2023 (the "Adjustment Date") to include 45 new restaurants less 29 closed restaurants. In the prior year, the Royalty Pool included 727 restaurants.

Royalty Pool System Sales for the Quarter increased 7.0% to \$163.9 million from \$153.2 million in the same quarter last year. By brand, sales from the 644 Pizza Pizza restaurants in the Royalty Pool increased 6.8% to \$141.1 million for the Quarter compared to \$132.1 million in the same quarter last year. Sales from the 99 Pizza 73 restaurants increased 8.5% to \$22.9 million for the Quarter compared to \$21.1 million in the same quarter last year.

Royalty Pool System Sales for the Year increased 10.6% to \$628.3 million from \$568.3 million in 2022. By brand, for the Year, sales from the 644 Pizza Pizza restaurants in the Royalty Pool increased 11.0% to \$544.4 million compared to \$490.6 million in the prior year. Sales from the 99 Pizza 73 restaurants increased 8.1% to \$83.9 million compared to \$77.7 million in 2022.

For the Quarter and Year, the increase in Royalty Pool System Sales is primarily driven by the increase in same store sales and new restaurants added to the Royalty Pool on January 1, 2023. Additionally, while the number of restaurants in the Pizza 73 Royalty Pool remains less than 2019 when there were 104 restaurants, the negative impact on Royalty Pool System Sales due to prior year restaurant closures has been mitigated by the Make-Whole Carryover Amount. See "Same Store Sales Growth", 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.

For 2023, the Statement of Royalty Pool System Sales is as follows:

System Sales reported by Pizza Pizza Royalty Pool Restaurants
From January 1, 2023 to December 31, 2023
 (in thousands of dollars)

Total Pizza Pizza retail sales	545,057
New locations ⁽¹⁾	(6,063)
Make-Whole Payment for closed locations	5,394
Make-Whole Carryover Amount	-
2023 Pizza Pizza Royalty Pool System Sales	<u>544,388</u>

System Sales reported by Pizza 73 Royalty Pool Restaurants
From January 1, 2023 to December 31, 2023

Total Pizza 73 retail sales	83,045
New locations ⁽¹⁾	(1,087)
Make-Whole Payment for closed locations	494
Make-Whole Carryover Amount	1,497
2023 Pizza 73 Royalty Pool System Sales	<u>83,949</u>

Total 2023 Royalty Pool System Sales	<u>628,337</u>
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System Sales (as defined in the License and Royalty Agreements) reported by Pizza Pizza and Pizza 73 restaurants include the gross sales of Pizza Pizza company-owned, jointly-controlled and franchised restaurants, excluding sales and goods and service tax or similar amounts levied by any governmental or administrative authority.

Total Pizza Pizza retail sales for the year ended December 31, 2023 include sales reported by franchisees and

¹ Reflects sales at newly-opened restaurants not yet included in the applicable Royalty Pool.

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sales from PPL-owned locations during the reporting Year. Sales from new locations include sales from franchisee or PPL-owned locations that were opened on or after January 1, 2023 and on or prior to December 31, 2023. Sales from closed locations include sales from restaurants that were closed on or after January 1, 2023 and on or prior to December 31, 2023.

Total Pizza 73 retail sales for the year ended December 31, 2023 include sales reported by the jointly-controlled, franchised, and PPL-owned locations during the reporting Year. Sales from new locations include sales from jointly-controlled, franchised or PPL-owned locations that were opened after September 1, 2022 and on or prior to December 31, 2023. Sales from closed locations include sales from restaurants that were closed on or after January 1, 2023 and on or prior to December 31, 2023, and for which PPL is required to pay the Make-Whole Payment. Additionally, for a Pizza 73 restaurant whose restaurant territory was adjusted due to an additional restaurant, the sales used to derive the Step-Out Payments, as defined under the Pizza 73 License and Royalty Agreement, are added back to System Sales. Additionally, since the January 1, 2020 and 2021 vend-in resulted in the system sales of the closed Pizza 73 restaurants exceeding the additional system sales of the additional restaurant added to the Pizza 73 Royalty Pool, the Make-Whole Carryover Amount was paid by PPL to the Partnership and added to the Royalty Pool system sales.

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

COMPANY OPERATING RESULTS

The Financial Statements incorporate the assets and liabilities of the Company and its subsidiaries as at December 31, 2023 and the operating results of the Company and their subsidiaries for the Quarter and Year ended December 31, 2023. The Company's subsidiaries and its respective holdings are outlined below:

Subsidiary	 Holding
Pizza Pizza Royalty Limited Partnership	76.1%
Pizza Pizza GP Inc.	76.1%

Royalty income earned by the Partnership increased 7.1% to \$10.5 million for the Quarter and increased 10.4% to \$40.2 million for the Year. A 6% royalty was earned on the Royalty Pool of 644 Pizza Pizza restaurants reporting \$141.1 million in System Sales for the Quarter and \$544.4 million for the Year, while a 9% royalty was earned on the Royalty Pool of 99 Pizza 73 restaurants reporting \$22.9 million in System Sales for the Quarter and \$83.9 million for the Year.

Royalty income for the prior year's comparative quarter and year was \$9.8 million and \$36.4 million, respectively. The 624 Pizza Pizza restaurants in the Royalty Pool reported System Sales of \$132.1 million for the comparative quarter and \$490.6 million for the year, while the 103 Pizza 73 restaurants reported \$21.1 million and \$77.7 million for the comparative quarter and year, respectively.

For the Quarter and Year, the increase in royalty income is largely due to the increase in SSSG and the increase in the number of restaurants in the Royalty Pool. See "Same Store Sales Growth", and "Restaurants Added to the Royalty Pool".

Royalty income from the international licence will commence 18 months following the opening of the first traditional restaurant in Mexico. As of December 31, 2023, two restaurants have opened in Mexico and royalty income from the international licence will begin in October 2024. These royalties will not be material to the Company's results. See "About the International Franchising Business".

Administrative expenses for the Quarter were \$229,000 and \$643,000 for the Year. For the comparable periods, administrative expenses were \$233,000 and \$632,000, respectively. Administrative expenses are incurred in the Partnership, and consist of director fees, audit, legal and public reporting fees as well as directors & officers' insurance.

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The Company's **Operating earnings** for the Quarter increased 7.3% to \$10.3 million and increased 10.6% to \$39.6 million for the Year. The increase in earnings primarily reflect the increase in royalty income. See "Royalty Income".

Interest expense for the Quarter and Year is outlined in the table below.

The Partnership's interest rate swap agreements came into effect in April 2020. The interest rate swap agreements fixed the facility interest rate at the Bankers' Acceptance rate of 1.81% plus a credit spread that moves based upon covenant test levels. In April 2022, due to the impact of the full re-opening of the economy on the Partnership and its covenants, the credit spread decreased to 0.875% from 1.125%, resulting in a combined interest rate of 2.685%, compared to a combined interest rate of 2.935% from April 2021 to March 2022. See "Credit Facilities".

(in thousands of dollars)	Three months ended		Year ended	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Interest expense	318	318	1,262	1,304
Loan fee amortization	5	5	18	18
Interest paid on borrowings and loan fee amortization	323	323	1,280	1,322

Distributions made by the Partnership on the Class B and D Equivalent Shares on a per share basis were \$0.3055 for the Quarter (2022 - \$0.2725) and \$1.1750 for the Year (2022 - \$1.035). The monthly Partnership distribution to both PPL and PPRC increased in February, June and November 2022, and again in March, June and November of 2023.

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 76.1% of the Partnership and PPL owns 23.9%. 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 increased to \$10.1 million from \$9.4 million in 2022; for the Year earnings before income taxes increased to \$38.7 million from \$34.6 million in 2022. The increase in earnings in the Quarter and Year reflect the increase in royalty income and interest income earned on the Company's short term investments.

Current income tax expense for the Quarter increased to \$1.8 million from \$1.7 million in the prior year comparable period. For the Year, current income tax increased to \$7.0 million from \$6.1 million. The increase in current income tax for the Quarter and Year is a result of the increase in the Company's earnings before income taxes from the increase in royalty income.

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.

Deferred tax expense for the Quarter and Year, a non-cash item, was \$0.2 million and \$0.7 million, respectively, and was relatively consistent when compared to the same periods in 2022. 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 period attributable to shareholders increased 8.0% to \$8.0 million from \$7.5 million in the same quarter last year. For the Year, earnings increased 12.4% to \$31.0 million from \$27.6 million in 2022. The increase for the Quarter and Year is mainly the result of the increase in royalty income, as discussed above.

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 are 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 the Company's NI 52-112 non-IFRS financial measures: 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.

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)	2023	Q4 2023	Q3 2023	Q2 2023	Q1 2023
Earnings for the period before income taxes	38,674	10,084	10,080	9,742	8,768
Adjusted earnings available for distribution to the Company and Pizza Pizza Limited	38,674	10,084	10,080	9,742	8,768
Current income tax expense	(7,002)	(1,834)	(1,833)	(1,766)	(1,568)
Adjusted earnings from operations	31,672	8,250	8,247	7,976	7,200
Less: Distribution on Class B and Class D Exchangeable Shares	(9,117)	(2,370)	(2,316)	(2,255)	(2,176)
Adjusted earnings available for shareholder dividends	22,555	5,880	5,931	5,721	5,024
Weighted average Shares – diluted	32,337,580	32,337,580	32,337,580	32,337,580	32,337,580

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(in thousands of dollars, except number of shares)	2022	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Earnings for the period before income taxes	34,555	9,350	9,106	8,647	7,452
Adjusted earnings available for distribution to the Company and Pizza Pizza Limited	34,555	9,350	9,106	8,647	7,452
Current income tax expense	(6,142)	(1,679)	(1,663)	(1,528)	(1,272)
Adjusted earnings from operations	28,413	7,671	7,443	7,119	6,180
Less: Distribution on Class B and Class D Exchangeable Shares	(7,823)	(2,059)	(1,984)	(1,924)	(1,856)
Adjusted earnings available for shareholder dividends	20,590	5,612	5,459	5,195	4,324
Weighted average Shares – diluted	32,177,276	32,177,276	32,177,276	32,177,276	32,177,276

The **Basic EPS** and the **Adjusted EPS** calculations are based on fully diluted weighted average shares, and 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 calculated by dividing Adjusted earnings from operations, as explained above, by the fully diluted weighted average shares. Adjusted EPS for the Quarter increased 7.0% to \$0.255 when compared to the same period of 2022, and increased 10.9% to \$0.979 for the Year.

Basic EPS is adjusted as follows:	Three months ended		Year ended	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Basic EPS	\$ 0.249	\$ 0.232	\$ 0.958	\$ 0.856
Adjustments:				
Deferred tax expense	0.006	0.006	0.021	0.027
Adjusted EPS	\$ 0.255	\$ 0.238	\$ 0.979	\$ 0.883

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.

(in thousands of dollars, except as noted otherwise)	Three months ended		Year ended	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Dividends declared to shareholders	5,662	5,108	21,849	19,633
Adjusted earnings available for shareholder dividends	5,880	5,612	22,555	20,590
Payout Ratio	96%	91%	97%	95%

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

(in thousands of dollars)	December 31, 2023	December 31, 2022	December 31, 2021
Total current assets	12,549	11,582	9,341
Less: Total current liabilities	4,312	4,070	2,804
Working Capital	8,237	7,512	6,537

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

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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		Year ended	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Total Royalty Pool System Sales	163,912	153,185	628,337	568,282
Adjustments for stores not in both periods, Make-Whole Carryover Amount, Step-Out payments, and the impact of calendar reporting	(5,112)	(499)	(20,899)	(7,067)
Same Store Sales	158,800	152,686	607,438	561,215
SSSG	4.0%	13.0%	8.2%	15.2%

DIVIDENDS

The Company declared shareholder dividends of \$5.7 million for the Quarter, or \$0.230 per share, compared to \$5.1 million, or \$0.2075 per share, for the prior year comparable quarter. The payout ratio is 96% for the Quarter and was 91% in the prior year, comparable quarter.

The Company declared shareholder dividends of \$21.8 million for the Year, or \$0.8875 per share, compared to \$19.6 million, or \$0.7975 per share, for the prior year comparable period. The payout ratio is 97% for the Year and was 95% in 2022.

When COVID-19 first impacted System Sales in March 2020, the Company reduced its monthly dividend from \$0.0713 per share to \$0.05 per share beginning with the April 2020 dividend. As System Sales began to recover, the monthly dividend was increased, and since April 2020 has increased eight times. In 2022, the Company announced three dividend increases, February 2022, June 2022, and November 2022. In 2023, after careful consideration and taking into account the strong SSSG and working capital reserve, the Board of Directors announced three more dividend increases, the first in March 2023, the second in June 2023, finally in November 2023. The dividend per share moved ahead of the pre-COVID rate in March 2023.

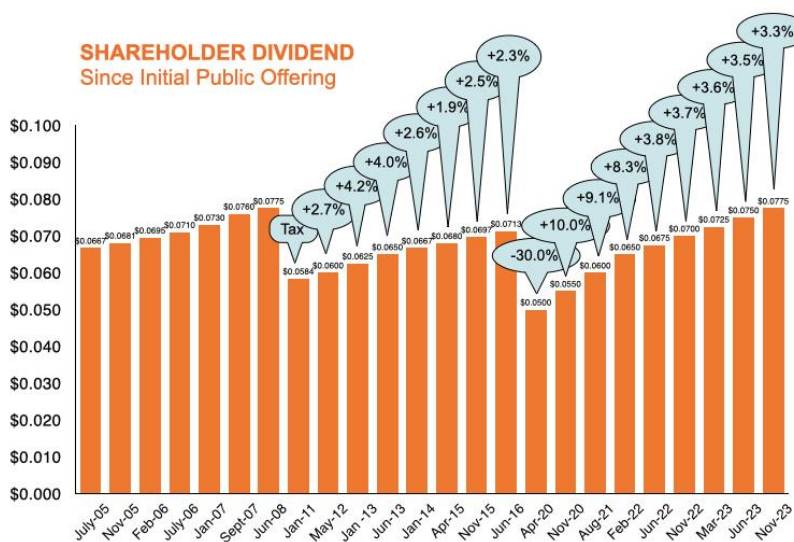
Dividends declared for 2023 are as follows:

<u>Period</u>	<u>Payment Date</u>	<u>Amount/share</u>
January 1-31, 2023	February 15, 2023	7.00¢
February 1-28, 2023	March 15, 2023	7.00¢
March 1-31, 2023	April 14, 2023	7.25¢
April 1-30, 2023	May 15, 2023	7.25¢
May 1-31, 2023	June 15, 2023	7.25¢
June 1-30, 2023	July 14, 2023	7.50¢
July 1-31, 2023	August 15, 2023	7.50¢
August 1-31, 2023	September 15, 2023	7.50¢
September 1-30, 2023	October 13, 2023	7.50¢
October 1-31, 2023	November 15, 2023	7.50¢
November 1-30, 2023	December 15, 2023	7.75¢
December 1-31, 2023	January 15, 2024	7.75¢
Total		88.75¢

The Company will continue to closely monitor sales and royalty income to determine when additional dividend adjustments may be warranted. Dividends were funded entirely by cash flow from operations and the working capital reserve. No debt was incurred during the year to fund dividends.

From July 2005 to September 2008, the Company's predecessor increased distributions six times. In January 2011, the Company's predecessor began paying the 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.

From January 2011, the dividend was increased seven times prior to the decrease in April 2020 during the early stages of the COVID-19 pandemic; since this decrease, the dividend has increased eight times as depicted in the chart below.



LIQUIDITY & CAPITAL RESOURCES

The Company's policy is to distribute all available cash in order to maximize returns to shareholders over time, after allowing for reasonable reserves. Despite seasonal variations inherent to the restaurant industry, the Company's policy is to make equal dividend payments to shareholders on a monthly basis in order to smooth out income to shareholders. After the reduction in the monthly dividend in April 2020, and the eight subsequent increases, including the most recent increase in November 2023, any further change will be implemented with a view to maintaining the continuity of consistent 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 \$8.2 million at December 31, 2023, which is an increase of \$0.7 million in the Year due to the 97% payout ratio. System Sales for the quarter ended March 31 have generally been the softest and historically results in a payout ratio over 100%. 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. See "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 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.

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In April 2021, the credit spread increased to 1.125% pursuant to the table described below, raising the combined interest rate to 2.935%. In April 2022, the credit spread decreased as the impact of COVID-19 lessened and earnings improved, causing the effective interest rate to decrease to 2.685%.

The credit facility includes affirmative and negative covenants customary for agreements of this nature, and as at December 31, 2023 all covenants have been met. The Partnership is required to maintain a funded debt-to-EBITDA ratio not to exceed 2.5:1.0 on a four quarter rolling average. The debt-to-EBITDA ratio for the last four-quarter rolling average is 1.19:1 (December 31, 2022 – 1.31:1). The Partnership is presently making interest-only payments on the non-revolving credit facility. As the debt-to-EBITDA level changes, 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.

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

The Company's working capital reserve is \$8.2 million at December 31, 2023, an increase of \$0.7 million from December 31, 2022. The \$8.2 million reserve is available to stabilize dividends 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.

New restaurant construction continues across Canada as PPL executes on its national expansion program. PPL management expects to grow its traditional restaurant network growth by 3 to 4% in 2024. Additionally, its franchisee pipeline remains strong and its renovation program continues through 2024.

The Company has not started collecting royalties on its international licence agreement with PPL. Royalty income from the international agreement will commence 18 months after opening the first traditional restaurant. Relative to the domestic royalty income, royalties on the international licence agreement will not be material, and will begin in October 2024, as the first two restaurants opened in Mexico in April 2023.

As it is the Company's practice to renegotiate the terms of its credit facility approximately one year in advance of its maturity, it intends to renegotiate the credit facility in 2024 that matures in 2025. The Company expects the new facility to be similar in size, however at higher interest rates as compared to its existing facility.

SUBSEQUENT EVENT

2023 Royalty Pool Adjustment

In early January 2024 a second adjustment was made to the royalty payments and PPL's Class B Exchange Multiplier based on the actual performance of the 43 new restaurants added to the Royalty Pool on January 1, 2023. As a result of the adjustments, the Class B Exchange Multiplier is 2.296438 and Class B Units can be exchanged for 5,760,014 shares effective January 1, 2023.

In early January 2024, a second adjustment was made to the royalty payments and PPL's Class D Exchange Multiplier based on the actual performance of the two Pizza 73 restaurants added to the Royalty Pool on January

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1, 2023. The final 2023 Pizza 73 Royalty Pool adjustment confirmed that a Make-Whole Payment for 2023 is to be paid and calculated as a percentage of \$1.5 million Royalty Pool sales. The Make-Whole Payment will continue to be paid for subsequent years, until on an Adjustment Date, additional system sales of additional restaurants are sufficient to offset the Pizza Pizza system sales attributable to all closed Pizza 73 restaurants. As a result of the adjustments, the Class D Exchange Multiplier is unchanged at 22.44976 and Class D Units can be exchanged for 2,244,975 shares effective January 1, 2023.

2024 Royalty Pool Adjustment – Class B Exchange Multiplier

On January 1, 2024, 28 net Pizza Pizza restaurants were added to the Royalty Pool as a result of 41 new restaurants opening and 13 closing from January 1, 2023 to December 31, 2023. The total number of Pizza Pizza restaurants in the Royalty Pool has increased to 672. The additional system sales from the 41 new restaurants are estimated at \$14.2 million annually, less sales of \$6.7 million from the 13 permanently closed Pizza Pizza restaurants. As a result, \$7.5 million net, estimated Pizza Pizza sales were added to the Royalty Pool, resulting in an Estimated Determined Amount of \$5.1 million added to the Royalty Pool.

The yield of the shares was determined to be 6.19% calculated using \$14.34 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, 2024. 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 0.113725; the new Class B Multiplier is 2.410163. 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, 2024, once the actual performance of the new restaurants is determined in early 2025.

2024 Royalty Pool Adjustment – Class D Exchange Multiplier

On January 1, 2024, three net Pizza 73 restaurants were added to the Royalty Pool as a result of four new restaurants opening between September 2, 2022 and September 1, 2023 and one restaurant closing between January 1, 2023 and December 31, 2023. The forecasted additional system sales from the four new restaurants are estimated at \$1.7 million annually, less \$0.7 in system sales attributable to the one closed Pizza 73 restaurant. As a result, \$1.0 million net, estimated Pizza 73 sales were added to the Royalty Pool and applied against the \$1.5 Make-Whole Carryover Amount.

The cumulative Make-Whole Carryover Amount of \$473,000 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 total number of Pizza 73 restaurants in the Royalty Pool has increased to 102.

The yield of the shares was determined to be 6.19% calculated using \$14.34 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, 2024. 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, 2024, once the actual performance of the new restaurant is determined in early 2025.

Pizza Pizza Royalty Corp. Outstanding Shares

In exchange for adding the forecasted Pizza Pizza system sales to the Royalty Pool, PPL has received 285,250 additional equivalent Shares (through the change to the Class B Exchange Multiplier). These represent 80% of the forecasted equivalent Shares entitlement to be received (356,563 equivalent Shares represent 100%), with the final equivalent Shares entitlement to be determined when the new restaurants' 2024 actual sales performance is known with certainty in early 2025.

PPL's Class D equivalent Share entitlement is unchanged for 2024. 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 2024 no increase or decrease in the Exchange Multiplier is made. PPL will only have an increased Class D equivalent Share entitlement for 2024 if the actual sales performance of the new restaurants exceeds the Make-Whole Carryover Amount when the actual sales performance is known with certainty in early 2025.

After giving effect to PPL's entitlement to additional equivalent Shares at January 1, 2024, PPL owns equivalent Shares representing 25.2% of the Company's fully diluted shares.

CONTROLS AND PROCEDURES

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

Management carried out an evaluation of the effectiveness of design and operation of the Company's disclosure controls and procedures and internal controls over financial reporting as of December 31, 2023. It was determined that the Company's disclosure controls and procedures and internal controls over financial reporting were effective.

During the Quarter and Year, 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 9 of the Financial Statements of the Company for further details of the related party transactions.

CRITICAL ACCOUNTING JUDGEMENTS AND 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 expected future cash flows from royalty income, terminal growth rates and discount rates. The significant assumptions used in the impairment tests performed at December 31, 2023 and December 31, 2022 are disclosed in the December 31, 2023 annual audited financial statements.

As at December 31, 2023, the Company has tested the Pizza Pizza CGU and Pizza 73 CGU for impairment in the manner described above and has determined that the recoverable amount exceeds the carrying value by approximately \$155.1 million and \$17.8 million, respectively. The impairment tests performed resulted in no impairment of the Rights and Marks as at December 31, 2023.

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.

RECENT ACCOUNTING PRONOUNCEMENTS

- a. Accounting standards and amendments issued and adopted:

Disclosure of accounting policies (Amendments to IAS 1 and IFRS Practice Statement 2)

On February 12, 2021, the IASB issued Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2). The amendments require the disclosure of material accounting policies rather than significant accounting policies. The amendments are effective for annual periods beginning on or after January 1, 2023. The Company has done an assessment of these amendments and there is no material impact to the Company's financial statements or disclosure.

The Company adopted these amendments in its consolidated financial statements for the annual period beginning January 1, 2023.

- b. Accounting standards and amendments issued but not yet adopted

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

On January 23, 2020, the IASB issued Presentation of Financial Statements (Amendments to IAS 1) and on October 31, 2022, the IASB issued Non-current Liabilities with Covenants (Amendments to IAS 1). The amendments are effective for annual periods beginning on or after January 1, 2024. These amendments clarify the classification of liabilities as current or non-current and improve the information a company provides about long-term debt with covenants. For the purposes of non-current classification, the amendments remove the requirement for a right to defer settlement or rollover of a liability for at least twelve months to be unconditional. Instead, such a right must exist at the end of the reporting period and have substance. In addition, covenants with which a company must comply after the reporting date do not affect the liability's classification at the reporting date. The Company has done an initial assessment of these amendments and does not anticipate an impact on the Company's business, financial statements or disclosure. The Company intends to adopt these amendments in its consolidated financial statements for the annual period beginning January 1, 2024.

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, liquidity risk and interest rate risk. For a detailed discussion of risks concerning the Company, see "Risk Factors" in the Company's Annual Information Form and note 9 in the Financial Statements, which are available at www.sedarplus.ca and the PPL financial statements for the period ended December 31, 2023 and the related MD&A.

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, pandemics and any related restrictions, 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 such as inflation and rising interest rates, 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.sedarplus.ca, www.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 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), 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 December 31, 2023 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.sedarplus.ca, www.pizzapizza.ca or at the Company's website www.pizzapizzaroyaltycorp.com.