



## **PIZZA PIZZA LIMITED**

**Unaudited Interim Condensed Consolidated Financial Statements  
For the thirteen and thirty-nine weeks ended September 29, 2019**

**Pizza Pizza Limited**  
500 Kipling Avenue  
Toronto, ON M8Z 5E5  
Phone: (416) 967-1010 Fax: (416) 967-5941

**NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of unaudited interim condensed consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these unaudited interim condensed consolidated financial statements.



Paul Goddard  
Chief Executive Officer



Curtis Feltner  
Chief Financial Officer

**Pizza Pizza Limited**  
**Unaudited Interim Consolidated Statements of Financial Position**  
**As at September 29, 2019 and December 30, 2018**  
**(Expressed in thousands of Canadian dollars)**

|  | September 29, 2019 | December 30, 2018 |
|--|--------------------|-------------------|
|  | \$                 | \$                |
| <b>Assets</b>  |                    |                   |
| <b>Current assets</b>  |                    |                   |
| Cash and cash equivalents  | 6,720              | 4,818             |
| Short-term investment  | 4,035              | 2,005             |
| Trade, other receivables and prepayments                               | 19,669             | 24,739            |
| Inventories  | 4,655              | 7,396             |
| Income taxes recoverable   | -                  | 7                 |
| Receivables from jointly-controlled companies (note 10)                | 2,625              | 3,517             |
| <b>Total current assets</b>  | <b>37,704</b>      | <b>42,482</b>     |
| <b>Non-current assets</b>  |                    |                   |
| Property, plant and equipment  | 10,653             | 12,007            |
| Notes receivable   | 5,152              | 13,607            |
| Renovation funds   | 6,303              | 9,501             |
| Deferred tax asset   | 51,002             | 49,811            |
| Investment in Pizza Pizza Royalty Limited Partnership (note 3)         | 23,065             | 23,514            |
| Investment in jointly-controlled companies (note 4)                    | 18,501             | 18,624            |
| Intangible assets  | 3,847              | 4,737             |
| <b>Total non-current assets</b>  | <b>118,523</b>     | <b>131,801</b>    |
| <b>Total assets</b>  | <b>156,227</b>     | <b>174,283</b>    |
| <b>Liabilities and shareholders' deficiency</b>                        |                    |                   |
| <b>Current liabilities</b>   |                    |                   |
| Trade and other payables   | 40,278             | 48,694            |
| Deposits from franchisees  | 2,080              | 1,510             |
| Borrowings (note 5)  | 179                | 220               |
| Income taxes payable   | 35                 | -                 |
| Provisions   | 1,681              | 1,167             |
| <b>Total current liabilities</b>                                       | <b>44,253</b>      | <b>51,591</b>     |
| <b>Non-current liabilities</b>   |                    |                   |
| Borrowings (note 5)  | 283                | 472               |
| Deferred franchise fees  | 1,864              | 1,853             |
| Unearned vendor allowances   | 4,622              | 5,414             |
| Advances from related party (note 10)                                  | 3,949              | 13,548            |
| Renovation funds   | 6,258              | 5,353             |
| Deferred gain  | 197,471            | 199,219           |
| <b>Total non-current liabilities</b>                                   | <b>214,447</b>     | <b>225,859</b>    |
| <b>Shareholders' deficiency</b>  |                    |                   |
| Common shares and special voting shares                                | -                  | -                 |
| Accumulated other comprehensive income                                 | 34                 | 112               |
| Deficit  | (102,507)          | (103,279)         |
| <b>Total shareholders' deficiency attributable to the shareholders</b> | <b>(102,473)</b>   | <b>(103,167)</b>  |
| <b>Total liabilities and shareholders' deficiency</b>                  | <b>156,227</b>     | <b>174,283</b>    |

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.  
Approved by the Directors on November 6, 2019.

**Pizza Pizza Limited**

**Unaudited Interim Consolidated Statements of Income (Loss)**

**For the 13-week and 39-week periods ended September 29, 2019 and September 30, 2018**

**(Expressed in thousands of Canadian dollars)**

|  | For the 13-<br>week period<br>ended<br>September<br>29, 2019<br>\$ | For the 13-<br>week period<br>ended<br>September<br>30, 2018<br>\$ | For the 39-<br>week period<br>ended<br>September<br>29, 2019<br>\$ | For the 39-<br>week period<br>ended<br>September<br>30, 2018<br>\$ |
|--|--|--|--|--|
| <b>Revenue</b>   |  |  |  |  |
| Food sales (note 6)  | 45,290   | 44,056   | 134,159  | 135,223  |
| Royalties, franchise fees and other revenue (note 7)                                 | 7,486  | 7,816  | 22,666   | 23,296   |
| Store service contributions (note 8)   | 19,001   | 19,760   | 59,588   | 62,271   |
| <b>Total revenue</b>   | <b>71,777</b>  | <b>71,632</b>  | <b>216,413</b>   | <b>220,790</b>   |
| Cost of food sales   | (36,872)   | (35,346)   | (109,840)  | (109,793)  |
| General and administrative expenses (note 9)   | (11,165)   | (10,545)   | (32,340)   | (33,693)   |
| Store service expenditures (note 8)  | (19,570)   | (19,484)   | (59,458)   | (59,596)   |
| Royalty payments   | (8,967)  | (8,943)  | (26,405)   | (26,215)   |
| Equity income from Pizza Pizza Royalty Limited Partnership (note 3)                  | 1,856  | 1,792  | 5,449  | 5,243  |
| Equity income from jointly-controlled companies (note 4)                             | 1,001  | 958  | 3,000  | 3,382  |
| Gain on sale of Company-owned restaurants  | 1  | 626  | 6  | 672  |
| <b>Operating income (loss)</b>   | <b>(1,939)</b>   | <b>690</b>   | <b>(3,175)</b>   | <b>790</b>   |
| Interest and other income  | 538  | 339  | 999  | 790  |
| Amortization of deferred gain  | 583  | 583  | 1,748  | 1,748  |
| Interest on borrowings   | -  | (10)   | (8)  | (53)   |
| <b>Income (loss) for the period before income taxes</b>                              | <b>(818)</b>   | <b>1,602</b>   | <b>(436)</b>   | <b>3,275</b>   |
| Deferred tax recovery (expense)  | 1,071  | (80)   | 1,208  | (91)   |
| <b>Income for the period attributable to the shareholders of Pizza Pizza Limited</b> | <b>253</b>   | <b>1,522</b>   | <b>772</b>   | <b>3,184</b>   |

**Pizza Pizza Limited**

**Unaudited Interim Consolidated Statements of Comprehensive Income (Loss)**

**For the 13-week and 39-week periods ended September 29, 2019 and September 30, 2018**

**(Expressed in thousands of Canadian dollars)**

|  | For the 13-<br>week period<br>ended<br>September<br>29, 2019<br>\$ | For the 13-<br>week period<br>ended<br>September<br>30, 2018<br>\$ | For the 39-<br>week period<br>ended<br>September<br>29, 2019<br>\$ | For the 39-<br>week period<br>ended<br>September<br>30, 2018<br>\$ |
|--|--|--|--|--|
| <b>Income for the period</b>   | <b>253</b>   | <b>1,522</b>   | <b>772</b>   | <b>3,184</b>   |
| <b>Other comprehensive income (loss)</b>   |  |  |  |  |
| <i>Items that may be reclassified subsequently to net income:</i>  |  |  |  |  |
| Share of other comprehensive income of the Pizza<br>Pizza Royalty Limited Partnership (note 3)           | (18)   | 68   | (62)   | 91   |
| Deferred tax impact of share of other comprehensive<br>income of Pizza Pizza Royalty Limited Partnership | (4)  | 8  | (16)   | 24   |
| <b>Total comprehensive income attributable to<br/>shareholders</b>                                       | <b>231</b>   | <b>1,598</b>   | <b>694</b>   | <b>3,299</b>   |

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

**Pizza Pizza Limited**

**Unaudited Interim Consolidated Statements of Changes in Shareholders' Deficiency**

**(For the 39-week periods ended September 29, 2019 and September 30, 2018**

**(Expressed in thousands of Canadian dollars)**

|  | Common<br>shares and<br>special voting<br>shares<br>\$ | Accumulated<br>other<br>comprehensive<br>income (loss)<br>\$ | Deficit<br>\$ | Total<br>\$ |
|--|--|--|---------------|-------------|
| <b>As at December 30, 2018</b>   | -  | 112  | (103,279)     | (103,167)   |
| <b>Comprehensive income (loss)</b>   |  |  |               |             |
| Income for the 39-week period ended September 29, 2019   | -  | -  | 772           | 772         |
| Share of other comprehensive income on Pizza Pizza Royalty limited Partnership's cash flow hedge | -  | (62)   | -             | (62)        |
| Tax effect of cash flow hedge  |  | (16)   | -             | (16)        |
| <b>Total comprehensive income (loss)</b>   | -  | (78)   | 772           | 694         |
| <b>As at September 29, 2019</b>  | -  | 34   | (103,578)     | (102,473)   |
| <b>As at January 1, 2018</b>   | -  | (170)  | (104,664)     | (104,834)   |
| <b>Comprehensive income (loss)</b>   |  |  |               |             |
| Income for the 39-week period ended September 30, 2018   | -  | -  | 1,662         | 1,662       |
| Share of other comprehensive income on Pizza Pizza Royalty limited Partnership's cash flow hedge | -  | 23   | -             | 23          |
| Tax effect of cash flow hedge  | -  | 16   | -             | 16          |
| <b>Total comprehensive income (loss)</b>   | -  | 39   | 1,662         | 1,701       |
| <b>As at September 30, 2018</b>  | -  | (131)  | (103,002)     | (103,133)   |

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

**Pizza Pizza Limited****Unaudited Interim Consolidated Statements of Cash Flows**

For the 39-week periods ended September 29, 2019 and September 30, 2018

(Expressed in thousands of Canadian dollars)

|   | September 29, 2019 | September 30, 2018 |
|---|--------------------|--------------------|
|   | \$                 | \$                 |
| <b>Operating activities</b>   |                    |                    |
| Income for the period   | 772                | 3,184              |
| Depreciation of property, plant and equipment                       | 3,512              | 3,256              |
| Amortization of intangible assets                                   | 890                | 973                |
| Amortization of leasehold inducements                               | -                  | (1)                |
| Receipt of unearned vendor allowances                               | -                  | 4,500              |
| Amortization of unearned vendor allowances                          | (792)              | (525)              |
| Amortization of deferred franchise fees                             | 12                 | (352)              |
| Amortization of deferred gain                                       | (1,748)            | (1,748)            |
| Net provisions during the period                                    | 514                | (301)              |
| Gain on sale of Company-owned restaurants                           | (6)                | (672)              |
| Equity income from Pizza Pizza Royalty Limited Partnership (note 3) | (5,449)            | (5,243)            |
| Equity income from jointly-controlled companies (note 4)            | (3,000)            | (3,382)            |
| Deferred income tax expense/(recovery)                              | (1,208)            | 91                 |
|   | <b>(6,503)</b>     | <b>(220)</b>       |
| Changes in non-cash operating elements of working capital (note 11) | 898                | (12,571)           |
| <b>Cash used in operating activities</b>                            | <b>(5,605)</b>     | <b>(12,791)</b>    |
| <b>Investing activities</b>   |                    |                    |
| Additions to property, plant and equipment                          | (3,072)            | (2,681)            |
| Proceeds from sale of Company-owned restaurants                     | 920                | 1,096              |
| Distributions from Pizza Pizza Royalty Limited Partnership (note 3) | 5,836              | 5,694              |
| Dividends from jointly-controlled companies (note 4)                | 3,123              | 3,693              |
| Repayment of notes receivable                                       | 11,968             | 4,273              |
| Issuance of notes receivable  | (3,513)            | (2,913)            |
| Contributions to renovation funds                                   | 18,989             | 12,557             |
| Disbursement from renovation funds                                  | (14,887)           | (12,217)           |
| Withdrawals from (additions to) short-term investments              | (2,030)            | 1,995              |
| <b>Cash provided by investing activities</b>                        | <b>17,334</b>      | <b>11,497</b>      |
| <b>Financing activities</b>   |                    |                    |
| Proceeds from borrowings  | 332                | 262                |
| Repayments of borrowings  | (561)              | (631)              |
| Repayment of advances from related party (note 10)                  | (9,662)            | (2,372)            |
| Advances from related party   | 63                 | 731                |
| <b>Cash used in financing activities</b>                            | <b>(9,828)</b>     | <b>(2,010)</b>     |
| <b>Increase (decrease) in cash and cash equivalents</b>             | <b>1,901</b>       | <b>(3,304)</b>     |
| Cash and cash equivalents, beginning of period                      | 4,818              | 12,758             |
| <b>Cash and cash equivalents, end of period</b>                     | <b>6,719</b>       | <b>9,454</b>       |

See supplementary cash for information (note 11)

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

# Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 39-week periods ended September 29, 2019 and September 30, 2018

(in thousands of Canadian dollars except common shares, special voting shares and number of share)

## 1. Nature of Business

Pizza Pizza Limited ("PPL" or the "Company"), a privately-held corporation incorporated by Articles of Incorporation under the *Business Corporations Act* (Canada) on December 27, 1989, operates in the food service industry primarily throughout Ontario and Alberta and primarily franchises and operates quick-service restaurant ("QSR") businesses under the brand names of Pizza Pizza and Pizza 73. PPL derives revenue from franchises through the sale of franchise restaurants, food and beverages and royalties. PPL also derives revenue from Company-owned and managed restaurants through the sale of food products to retail customers.

PPL is incorporated and domiciled in Canada and the address of its registered office is 500 Kipling Avenue, Toronto, Ontario, Canada. The ultimate parent of PPL is 1373153 Ontario Limited, a private Corporation that does not prepare and make available financial statements for public use.

Below are the number of traditional and non-traditional franchisees and licensees as at:

|  | September 29, 2019 | September 30, 2018 |
|--|--------------------|--------------------|
| Franchisees and licensees              | 673                | 680                |
| Jointly-controlled restaurants         | 80                 | 81                 |
| Company-owned and operated restaurants | 9                  | 6                  |

## 2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these unaudited interim condensed consolidated financial statements are set out below. These policies have been consistently applied to all periods presented unless otherwise stated.

### a) Fiscal year-end and interim period

PPL has a floating year-end on the Sunday closest to December 31; accordingly, interim periods consist of four 13-week periods with an additional week added to the last interim period every 5 to 6 years.

### b) Basis of preparation

PPL prepares its unaudited interim condensed consolidated financial statements in accordance with IAS 34 – Interim Financial Reporting ("IAS 34"). Accordingly, these unaudited interim condensed consolidated financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements as at and for the 52-week period ended December 30, 2018.

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the unaudited interim condensed consolidated financial statements, were the same as those that applied to the Company's audited consolidated financial statements as at and for the 52-week period ended December 30, 2018.

The accounting policies adopted in the preparation of these unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual audited consolidated financial statements as at and for the 52-week period ended December 30, 2018. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.



## Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 39-week periods ended September 29, 2019 and September 30, 2018

(in thousands of Canadian dollars except common shares, special voting shares and number of share)

### c) Changes in accounting policies and disclosure

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

#### IFRS 16, Leases (“IFRS 16”)

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

Given that the standard is effective January 1, 2019 and PPL’s fiscal year commences on December 31, 2019, PPL will not be early adopting the standard. Additionally, PPL has formed a project team and has begun the process of evaluating the impact of this standard on its consolidated financial statements and expects to adopt the standard on December 30, 2019 using the modified retrospective approach. The Company anticipates that it will have to measure the right of use asset upon adoption at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease immediately before the date of initial application. The Company will elect to apply the standard to contracts that were previously identified as leases under IAS 17 and IFRIC 4. The Company will also elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

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

### d) Basis of consolidation

These unaudited interim condensed consolidated financial statements incorporate the assets and liabilities of PPL and its subsidiaries as at September 29, 2019 and December 30, 2018 and the results of these entities for the 13-week and 39-week periods ended September 29, 2019 and September 30, 2018, respectively.

PPL consolidates the results of its investments over which it exercises control. Specifically, an investor controls an investee when it has power over the investee, it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date on which control is transferred to PPL and deconsolidated from the date that control ceases. Inter-entity transactions, balances and unrealized gains/losses on transactions between entities are eliminated.

#### *Investment in associate*

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

PPL accounts for its 23.0% (December 30, 2018 – 22.3%) share interest in the Pizza Pizza Royalty Limited Partnership (the “Partnership”) as an investment in an associate and applies equity accounting whereby PPL’s investment is increased by its 23.0% share of income for the period of the Partnership and reduced for distributions received during the Partnership’s fiscal period. The Partnership’s financial and fiscal periods differ from PPL’s, as the Partnership operates on a calendar year-end.

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

## Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 39-week periods ended September 29, 2019 and September 30, 2018

(in thousands of Canadian dollars except common shares, special voting shares and number of share)

### *Investments in joint ventures*

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

PPL accounts for its 50% (December 31, 2018 – 50%) share interest in the 80 jointly controlled companies as an investment in joint ventures and applies equity accounting whereby PPL's investment is increased by its 50% share of income for the period of the joint ventures and reduced for distributions received during the joint ventures' fiscal period. The jointly controlled companies' financial and fiscal periods differ from PPL's, as the joint ventures have a floating year-end of the Saturday immediately preceding July 31.

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

### 3. Investment in Pizza Pizza Royalty Limited Partnership

PPL owns Class B and Class D Partnership Units that are exchangeable for Pizza Pizza Royalty Corp. ("PPRC") common shares ("Shares") based on the exchange multiplier applicable at the exchange date and represent an effective 23.0% interest in the Partnership as at September 29, 2019 (December 30, 2018 – 22.3%).

The table below reconciles the balance of PPL's investment in the Partnership, which is accounted for using equity accounting.

|   | For the 39-week<br>period ended<br>September 29, 2019 | For the 52-week<br>period ended<br>December 30, 2018 |
|---|---|--|
| Balance – beginning of period                 | 23,514  | 23,877   |
| Equity income of the Partnership              | 5,449   | 7,147  |
| Distributions received from Partnership       | (5,836)   | (7,555)  |
| Share of Partnership other comprehensive loss | (62)  | 45   |
| <b>Balance – end of period</b>                | <b>23,065</b>   | <b>23,514</b>  |

The business of the Partnership is the ownership and licensing of the Pizza Pizza and Pizza 73 Rights and Marks through two separate License and Royalty Agreements with PPL. Additionally, the Partnership will collect the royalty payable by PPL under each License and Royalty Agreement, as well as performing the administration of PPRC pursuant to the Administration Agreement.

A breakdown of the Partnership's aggregated assets, liabilities, revenue and profits is as follows:

|                   | As at September 29,<br>2019 | As at December 30,<br>2018 |
|-------------------|-----------------------------|----------------------------|
| Total assets      | 361,519                     | 354,864                    |
| Total liabilities | 79,230                      | 76,078                     |

## Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 39-week periods ended September 29, 2019 and September 30, 2018

(in thousands of Canadian dollars except common shares, special voting shares and number of share)

|   | Three months<br>ended<br>September<br>29, 2019 | Three months<br>ended<br>September<br>29, 2018 | Nine months<br>ended<br>September<br>29, 2019 | Nine months<br>ended<br>September<br>29, 2018 |
|---|--|--|---|---|
| Revenues                                  | 8,966  | 8,945  | 26,405  | 26,218  |
| Profit before income taxes for the period | 8,522  | 8,502  | 25,056  | 24,909  |

### a) 2018 Royalty Pool Adjustment

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

In early January 2019, adjustments to royalty payments and PPL's Class D Exchange Multiplier were made based on the actual performance of the eight Pizza 73 restaurants added to the Royalty Pool on January 1, 2018. As a result of the adjustments, the Class D Exchange Multiplier is 21.27782 and Class D Units can be exchanged for 2,127,782 Shares effective January 1, 2018.

### b) 2019 Royalty Pool Adjustment – Class B Exchanged Multiplier

On January 1, 2019, eight net Pizza Pizza restaurants were added to the Royalty Pool as a result of 18 new restaurants opening and 10 closing from January 1, 2018 to December 31, 2018. The total number of Pizza Pizza restaurants in the Royalty Pool has increased to 660. The additional system sales from the 18 new restaurants are estimated at \$5,860 annually, less sales of \$2,135 from 10 permanently closed Pizza Pizza restaurants, resulting in net estimated Pizza Pizza sales of \$3,725 added to the Royalty Pool. The yield of the shares was determined to be 9.5% calculated using \$9.05 as a weighted average share price. Weighted average share price is calculated based on the market price of the shares traded on the Toronto Stock Exchange during the period of twenty consecutive days ending on the fifth trading day before January 1, 2019. As a result of the contribution of the additional net sales to the Royalty Pool, the Class B Exchange Multiplier increased fractionally by 80% of the total adjustment or 0.059961; the new Class B Multiplier is 2.060652. This adjustment will also increase the entitlement of the holders of the Class B units to distributions of cash and allocations of income from the Partnership. The second adjustment to the Class B Exchange Multiplier will be adjusted to be effective January 1, 2019, once the actual performance of the new restaurants is determined in early 2020.

### c) 2019 Royalty Pool Adjustment – Class D Exchange Multiplier

On January 1, 2019, six net Pizza 73 restaurants were added to the Royalty Pool as a result of seven new restaurants opening between September 2, 2017 and September 1, 2018 and one restaurant closing between January 1, 2018 and December 31, 2018. The forecasted additional system sales from the seven new restaurants are estimated at \$2,472 annually, less \$161 in system sales attributable to the one closed Pizza 73 restaurant. The net estimated sales were further reduced by \$1,438 in system sales attributable to certain restaurants previously added to the Royalty Pool whose territory adjusted a previously existing restaurant; resulting in overall net estimated Pizza 73 sales of \$873 added to the Royalty Pool. The total number of Pizza 73 restaurants in the Royalty Pool has increased to 112. The yield of the shares was determined to be 9.5% calculated using \$9.05 as a weighted average share price. Weighted average share price is calculated based on the market price of the shares traded on the Toronto Stock Exchange during the period of twenty consecutive days ending on the fifth trading day before January 1, 2019. As a result of the contribution of the additional net sales to the Royalty Pool, the Class D Exchange Multiplier increased fractionally by 80% of the total adjustment or 0.52925; the new Class D Multiplier is 21.80706. This adjustment will also increase the entitlement of the holders of the Class D units to distributions of cash and allocations of income from the Partnership. The second adjustment to the Class D Exchange Multiplier will be adjusted to be effective January 1, 2019, once the actual performance of the new restaurants is determined in early 2020.

## Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 39-week periods ended September 29, 2019 and September 30, 2018

(in thousands of Canadian dollars except common shares, special voting shares and number of share)

### d) PPRC Outstanding Shares

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

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

After giving effect to PPL's entitlement to additional equivalent Shares at January 1, 2019, PPL owns equivalent Shares representing 23.0% of the PPRC's fully diluted Shares through the Partnership's Class B and Class D Exchange Multipliers.

## 4. Investment in Jointly Controlled Companies

Jointly-controlled companies are joint ventures, consisting of PPL's 50% interest in 80 Pizza 73 restaurants (December 30, 2018 – 81 Pizza 73 restaurants). Jointly-controlled restaurants are companies, owned and operated as an independent business, equally owned by PPL and an Owner/Operator. Licensing, consulting and other agreements govern the relationship of PPL and the Owner/Operator as shareholders of these jointly-controlled restaurants, and establish a framework under which each restaurant is operated.

The financial statements of all jointly controlled companies have a floating year-end of the Saturday immediately preceding July 31 and all operations are continuing.

The table below reconciles the balance of PPL's investment in the jointly controlled companies, which is accounted for using equity accounting.

|  | For the 39-week<br>period ended<br>September 29, 2019 | For the 52-week<br>period ended<br>December 30, 2018 |
|--|---|--|
| Balance – beginning of period                        | 18,624  | 18,929   |
| Equity income from jointly controlled companies      | 3,000   | 4,553  |
| Dividends received from jointly controlled companies | (3,123)   | (4,858)  |
| <b>Balance – end of period</b>                       | <b>18,501</b>   | <b>18,624</b>  |

A breakdown of PPL's share in jointly-controlled companies' comprehensive income is as follows:

|  | For the 13-<br>week period<br>ended<br>September<br>29, 2019 | For the 13-<br>week period<br>ended<br>September<br>30, 2018 | For the 39-<br>week period<br>ended<br>September<br>29, 2019 | For the 39-<br>week period<br>ended<br>September<br>30, 2018 |
|--|--|--|--|--|
| Revenues                               | 9,714  | 9,998  | 29,898   | 30,008   |
| Expenses                               | (8,713)  | (9,040)  | (26,981)   | (26,626)   |
| <b>Income for the period after tax</b> | <b>1,001</b>   | <b>958</b>   | <b>3,000</b>   | <b>3,382</b>   |

## Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 39-week periods ended September 29, 2019 and September 30, 2018

(in thousands of Canadian dollars except common shares, special voting shares and number of share)

### 5. Borrowings

|  | As at<br>September 29, 2019 | As at<br>December 30, 2018 |
|--|-----------------------------|----------------------------|
| Notes payable, bearing interest from 5.0% to 7.5%, repayable in varying monthly principal amounts, maturing between 2019 and 2022 These notes were secured by specific company –owned restaurant assets. The effective interest rate as at September 29, 2019 was 5.7% (September 30, 2018 – 6.2%) | 462                         | 692                        |
|  | <b>462</b>                  | <b>692</b>                 |
| Less: current portion  | (179)                       | (220)                      |
| <b>Total non-current borrowings</b>  | <b>283</b>                  | <b>472</b>                 |

### 6. Food sales

Food sales include the following:

|                                | For the 13-<br>week period<br>ended<br>September<br>29, 2019 | For the 13-<br>week period<br>ended<br>September<br>30, 2018 | For the 39-<br>week period<br>ended<br>September<br>29, 2019 | For the 39-<br>week period<br>ended<br>September<br>30, 2018 |
|--------------------------------|--|--|--|--|
| Food sales                     | 41,629   | 40,406   | 123,490  | 124,434  |
| Company-owned restaurant sales | 3,661  | 3,650  | 10,669   | 10,789   |
| <b>Total food sales</b>        | <b>45,290</b>  | <b>44,056</b>  | <b>134,159</b>   | <b>135,223</b>   |

### 7. Royalties, franchise fees and other revenue

Royalties, franchise fees and other revenue include the following:

|  | For the 13-<br>week period<br>ended<br>September<br>29, 2019 | For the 13-<br>week period<br>ended<br>September<br>30, 2018 | For the 39-<br>week period<br>ended<br>September<br>29, 2019 | For the 39-<br>week period<br>ended<br>September<br>30, 2018 |
|--|--|--|--|--|
| Royalties  | 6,271  | 6,461  | 18,748   | 18,808   |
| Initial and renewal franchise fees                       | 406  | 174  | 1,433  | 1,353  |
| Construction fees  | 228  | 369  | 694  | 1,113  |
| Administration and accounting fees                       | 581  | 812  | 1,791  | 2,022  |
| <b>Total royalties, franchise fees and other revenue</b> | <b>7,486</b>   | <b>7,816</b>   | <b>22,666</b>  | <b>23,296</b>  |

## Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 39-week periods ended September 29, 2019 and September 30, 2018

(in thousands of Canadian dollars except common shares, special voting shares and number of share)

### 8. Store service contributions and expenditures

Store service contributions include the following:

|                                    | For the 13-<br>week period<br>ended<br>September<br>29, 2019 | For the 13-<br>week period<br>ended<br>September<br>30, 2018 | For the 39-<br>week period<br>ended<br>September<br>29, 2019 | For the 39-<br>week period<br>ended<br>September<br>30, 2018 |
|------------------------------------|--|--|--|--|
| Advertising services               | 7,585  | 7,478  | 23,894   | 25,434   |
| Order processing services          | 3,431  | 3,652  | 10,859   | 11,349   |
| Commissary food services           | 7,985  | 8,630  | 24,835   | 25,488   |
| <b>Store service contributions</b> | <b>19,001</b>  | <b>19,760</b>  | <b>59,588</b>  | <b>62,271</b>  |

Store service expenditures include the following:

|                                   | For the 13-<br>week period<br>ended<br>September<br>29, 2019 | For the 13-<br>week period<br>ended<br>September<br>30, 2018 | For the 39-<br>week period<br>ended<br>September<br>29, 2019 | For the 39-<br>week period<br>ended<br>September<br>30, 2018 |
|-----------------------------------|--|--|--|--|
| Advertising services              | 7,744  | 6,999  | 22,487   | 22,843   |
| Order processing services         | 3,587  | 3,796  | 11,352   | 11,405   |
| Commissary food services          | 8,239  | 8,689  | 25,619   | 25,348   |
| <b>Store service expenditures</b> | <b>19,570</b>  | <b>19,484</b>  | <b>59,458</b>  | <b>59,596</b>  |

### 9. Expenses by nature

The following table summarizes significant general and administrative expenses:

|   | For the 13-<br>week period<br>ended<br>September<br>29, 2019 | For the 13-<br>week period<br>ended<br>September<br>30, 2018 | For the 39-<br>week period<br>ended<br>September<br>29, 2019 | For the 39-<br>week period<br>ended<br>September<br>30, 2018 |
|---|--|--|--|--|
| Depreciation of property, plant and equipment | 983  | 918  | 3,399  | 3,164  |
| Amortization of intangible assets             | 69   | 321  | 207  | 577  |
| Operating leases payments                     | 967  | 804  | 2,635  | 2,430  |
| Company store expenses                        | 2,946  | 2,881  | 8,766  | 8,701  |
| Employee benefit expense                      | 4,170  | 4,374  | 12,249   | 14,816   |

## Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 39-week periods ended September 29, 2019 and September 30, 2018

(in thousands of Canadian dollars except common shares, special voting shares and number of share)

### 10. Related party transactions

The following table summarizes PPL's transactions with related parties in the normal course of business:

Store service contributions include the following:

|   | For the 13-<br>week period<br>ended<br>September<br>29, 2019 | For the 13-<br>week period<br>ended<br>September<br>30, 2018 | For the 39-<br>week period<br>ended<br>September<br>29, 2019 | For the 39-<br>week period<br>ended<br>September<br>30, 2018 |
|---|--|--|--|--|
| Rent expense <sup>(i)</sup>                               | 629  | 584  | 1,887  | 1,743  |
| Food purchases <sup>(i)</sup>                             | 3,019  | 3,236  | 9,117  | 9,012  |
| Recovery of expenses <sup>(i)</sup>                       | 150  | 150  | 450  | 450  |
| Administration and accounting fee revenue <sup>(ii)</sup> | 660  | 664  | 2,026  | 2,022  |

<sup>(i)</sup> Transactions with commonly controlled companies

<sup>(ii)</sup> Transactions with jointly-controlled companies

As at September 29, 2019, PPL has trade payables of \$810 (as at December 30, 2018 - \$650) payable to a company under common management control. As at September 29, 2019, trade and other payables includes amounts payable of \$2,874 (as at December 30, 2018 - \$2,463) to the Partnership, which were paid subsequent to the end of the period.

In addition, PPL has the following advances to and from related parties:

|  | September 29,<br>2019 | As at December 30,<br>2018 |
|--|-----------------------|----------------------------|
| Receivable from jointly-controlled companies | 2,625                 | 3,517                      |
| Advances from related party                  | (3,949)               | (13,548)                   |

Advances from related party are due to the parent company. Advances from related party and receivables from jointly-controlled companies are non-interest bearing, have no specified terms of repayment and are unsecured. The related party has waived the right to demand repayment prior to September 29, 2020. Accordingly, the advances from related party have been classified as long-term.

### 11. Statements of cash flow information

|  | For the 39-week<br>period ended<br>September 29, 2019 | For the 39-week<br>period ended<br>September 30, 2018 |
|--|---|---|
| Trade and other receivables                                      | 5,070   | (8,581)   |
| Inventories  | 2,741   | (304)   |
| Income tax receivable  | 7   | 1,466   |
| Receivables from jointly-controlled companies                    | 892   | 454   |
| Trade and other payables   | (8,417)   | (6,287)   |
| Income taxes payable   | 35  | -   |
| Deposits from franchisees  | 570   | 681   |
| <b>Changes in non-cash operating elements of working capital</b> | <b>898</b>  | <b>(12,571)</b>                                       |

## Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 39-week periods ended September 29, 2019 and September 30, 2018

(in thousands of Canadian dollars except common shares, special voting shares and number of share)

### 12. Financial risk management

PPL's objective is to minimize risk with respect to financial instruments by monitoring the performance of its franchisees and jointly-controlled companies, maintaining restaurants in different geographic regions and having the ability to assume the operations of franchisees for inadequate financial performance and/or default under the franchise agreement.

#### Fair Values

The carrying amounts of cash and cash equivalents, trade, other receivables and prepayments and trade and other payables approximate fair values given the short-term maturity of these instruments and are Level 3 instruments.

A reasonable estimate of fair value could not be made for receivables from jointly-controlled companies, advances from related party, recoverable franchisee expenses, renovation funds and deposits from franchisees as there are no fixed terms of repayment.

The fair value of the non-current notes receivable is based on the estimated future discounted cash flows using a comparable market rate of interest as at September 29, 2019 of 5.6% (December 30, 2018 – 5.10%).

The fair value of the borrowings is based on the estimated future discounted cash flows using a comparable market rate of interest as at September 29, 2019 of prime plus a spread varying by loan (December 30, 2018 - prime plus a spread varying by loan). The Company has no plans to prepay these instruments prior to maturity. The fair value of the borrowings was determined using Level 2 inputs, which are observable inputs or inputs that can be corroborated by observable market data for substantially the full term of the asset or liability.

The carrying value and fair value of PPL's financial instruments are as follows:

|                             | Category | As at September 29,<br>2019 |               | As at December 30,<br>2018 |               |
|-----------------------------|----------|-----------------------------|---------------|----------------------------|---------------|
|                             |          | Carrying<br>value           | Fair<br>value | Carrying<br>value          | Fair<br>value |
| Cash and cash equivalents   | L&R      | 6,720                       | 6,720         | 4,818                      | 4,818         |
| Trade and other receivables | L&R      | 19,669                      | 19,669        | 24,739                     | 24,739        |
| Notes receivable            | L&R      | 5,152                       | 4,567         | 13,607                     | 12,755        |
| Trade and other payables    | OFL      | 40,278                      | 40,278        | 48,694                     | 48,694        |
| Borrowings                  | OFL      | 462                         | 411           | 692                        | 614           |

Financial instruments category guide:

- L&R Loans and receivables
- OFL Other financial liabilities

The different fair value hierarchy levels are as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical financial assets or financial liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the financial asset or financial liability, either directly or indirectly; and
- Level 3: Inputs for the financial asset or financial liability that are not based on observable market data.

#### Credit Risk

PPL is exposed to credit risk as all of the franchisees and jointly-controlled companies operate within the same segment: commercial food service. PPL is also exposed to credit risk in the event of non-payment by its franchisees and jointly-controlled companies of its trade receivables, recoverable franchisee expenses, notes receivable,



## Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 39-week periods ended September 29, 2019 and September 30, 2018

(in thousands of Canadian dollars except common shares, special voting shares and number of share)

receivables from jointly-controlled companies and renovation funds receivable. PPL's credit risk is mitigated by the large number of franchisees and jointly-controlled companies operating in different geographical markets and by PPL's ultimate ability to assume operations of the franchisees if there is inadequate financial performance and/or default under the franchisee agreement.

The aging of trade receivable balances that are past due, but not impaired are as follows:

|   | As at September 29,<br>2019 | As at December 30,<br>2018 |
|---|-----------------------------|----------------------------|
| Past due 0-30 days  | 783                         | 1,180                      |
| Past due 31-120 days                                      | 896                         | 504                        |
| <b>Total trade receivables past due, but not impaired</b> | <b>1,679</b>                | <b>1,684</b>               |

### Liquidity Risk

PPL is subject to liquidity risk with respect to the items outlined in the table below. The risk is mitigated as the majority of PPL's revenue is earned from franchisees and jointly-controlled companies, which have agreements with PPL and whose activities are closely monitored by PPL. In the case of franchisees, the majority of PPL's business, PPL is able to assume operations of the franchises if there is inadequate financial performance and/or default under the franchise agreement. Liquidity requirements are monitored by PPL's head office functions in order to guarantee effective access to financial resources.

Management believes that currently available funds and credit facilities, apart from those that will be generated by operating and financing activities, will allow PPL to satisfy its requirements for investment, working capital management, and borrowing repayment at maturity.

The following are the contractual undiscounted cash flows of financial liabilities as at September 29, 2019:

|                             | Carrying<br>amount | 0 to 12<br>months | 1 to 2<br>years | 2 to 5<br>years | More than<br>5 years |
|-----------------------------|--------------------|-------------------|-----------------|-----------------|----------------------|
| Trade and other payables    | 40,278             | 40,278            | -               | -               | -                    |
| Deposits from franchisees   | 2,080              | 2,080             | -               | -               | -                    |
| Borrowings                  | 462                | 179               | 67              | 204             | 12                   |
| Advances from related party | 3,949              | -                 | 3,949           | -               | -                    |

### Interest Rate Risk

PPL is exposed to interest rate risk from its borrowings. All borrowings are based on floating interest rates.