



PIZZA PIZZA LIMITED

**Unaudited Interim Condensed Consolidated Financial Statements
For the thirteen and twenty-six weeks ended June 28, 2020**

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 June 28, 2020 and December 29, 2019
(Expressed in thousands of Canadian dollars)

	June 28, 2020	December 29, 2019
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	960	5,188
Short-term investment	9,925	5,009
Trade, other receivables and prepayments	14,164	19,877
Inventories	5,094	6,258
Lease receivable (note 6)	16,137	-
Receivables from jointly-controlled companies (note 12)	2,626	2,905
Total current assets	48,906	39,237
Non-current assets		
Property, plant and equipment	9,342	11,005
Notes receivable	1,233	611
Renovation funds	9,210	6,022
Deferred tax asset	49,747	50,037
Investment in Pizza Pizza Royalty Limited Partnership (note 3)	23,577	23,404
Investment in jointly-controlled companies (note 4)	18,624	18,577
Advances to related party	2,092	2,953
Right-of-use asset (note 5)	18,267	-
Lease receivable (note 6)	41,042	-
Intangible assets	3,372	4,058
Total non-current assets	176,506	116,667
Total assets	225,412	155,904
Liabilities and shareholders' deficiency		
Current liabilities		
Trade and other payables	39,620	43,521
Deposits from franchisees	1,508	1,896
Borrowings (note 7)	151	100
Lease liability (note 6)	21,716	-
Provisions	-	1,729
Total current liabilities	62,995	47,246
Non-current liabilities		
Borrowings (note 7)	172	230
Deferred franchise fees	1,768	1,922
Unearned vendor allowances	3,788	4,363
Renovation funds	5,424	6,200
Lease liability (note 6)	57,922	-
Deferred gain	195,724	196,889
Total non-current liabilities	264,798	209,604
Shareholders' deficiency		
Common shares and special voting shares	-	-
Accumulated other comprehensive loss	409	(156)
Deficit	(102,790)	(100,790)
Total shareholders' deficiency attributable to the shareholders	(102,381)	(100,946)
Total liabilities and shareholders' deficiency	225,412	155,904

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

Approved by the Directors on August 12, 2020.

Pizza Pizza Limited

Unaudited Interim Consolidated Statements of Income (Loss)

For the 13-week and 26-week periods ended June 28, 2020 and June 30, 2019

(Expressed in thousands of Canadian dollars)

	For the 13- week period ended June 28, 2020 \$	For the 13- week period ended June 30, 2019 \$	For the 26- week period ended June 28, 2020 \$	For the 26- week period ended June 30, 2019 \$
Revenue				
Food sales (note 8)	34,986	45,332	74,397	88,869
Royalties, franchise fees and other revenue (note 9)	5,675	7,443	12,631	15,180
Store service contributions (note 10)	17,962	19,704	36,643	40,587
Total revenue	58,623	72,479	123,671	144,636
Cost of food sales	(27,606)	(37,193)	(59,454)	(72,968)
General and administrative expenses (note 11)	(7,437)	(10,540)	(17,062)	(21,146)
Royalty payments	(7,452)	(8,717)	(15,615)	(17,438)
Store service expenditures (note 10)	(16,875)	(18,045)	(36,989)	(39,888)
Loss on impairment of lease receivable (note 6)	(1,928)	-	(2,946)	-
Equity income from Pizza Pizza Royalty Limited Partnership (note 3)	1,539	1,796	3,251	3,594
Equity income from jointly-controlled companies (note 4)	1,640	1,011	2,575	1,998
Gain (loss) on sale of Company-owned restaurants	74	(174)	119	5
Operating income (loss)	578	617	(2,450)	(1,207)
Interest and other income	38	209	137	462
Amortization of deferred gain	583	583	1,165	1,165
Interest on borrowings and other liabilities	(235)	(30)	(460)	(38)
Income (loss) for the period before income taxes	964	1,379	(1,608)	382
Deferred tax recovery (expense)	(651)	(479)	(408)	137
Income (loss) for the period attributable to the shareholders of Pizza Pizza Limited	313	900	(2,016)	519

Pizza Pizza Limited**Unaudited Interim Consolidated Statements of Comprehensive Income
For the 13-week and 26-week periods ended June 28, 2020 and June 30, 2019
(Expressed in thousands of Canadian dollars)**

	For the 13- week period ended June 28, 2020 \$	For the 13- week period ended June 30, 2019 \$	For the 26- week period ended June 28, 2020 \$	For the 26- week period ended June 30, 2019 \$
Income (loss) for the period	313	900	(2,016)	519
Other comprehensive income (loss)				
<i>Items that may be reclassified subsequently to net income:</i>				
Share of other comprehensive income of the Pizza Pizza Royalty Limited Partnership (note 3)	316	(5)	447	(44)
Deferred tax impact of share of other comprehensive income of Pizza Pizza Royalty Limited Partnership	84	(1)	118	(13)
Total comprehensive income attributable to shareholders	713	894	(1,451)	462

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 26-week periods ended June 28, 2020 and June 30, 2019)

(Expressed in thousands of Canadian dollars)

	Common shares and special voting shares \$	Accumulated other comprehensive income (loss) \$	Deficit \$	Total \$
As at December 29, 2019	-	(156)	(100,790)	(100,946)
Comprehensive income				
Change in accounting policy (note 2)	-	-	16	16
Income for the 26-week period ended June 28, 2020	-	-	(2,016)	(2,016)
Share of other comprehensive income on Pizza Pizza Royalty limited Partnership's cash flow hedge	-	447	-	447
Tax effect of cash flow hedge	-	118	-	118
Total comprehensive income	-	565	(2,000)	(1,435)
As at June 28, 2020	-	409	(102,790)	(102,381)
As at December 30, 2018	-	112	(103,279)	(103,167)
Comprehensive income				
Income for the 26-week period ended June 30, 2019	-	-	519	519
Share of other comprehensive income on Pizza Pizza Royalty limited Partnership's cash flow hedge	-	(44)	-	(44)
Tax effect of cash flow hedge	-	(13)	-	(13)
Total comprehensive income	-	55	519	462
As at June 30, 2019	-	55	(102,760)	(102,705)

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 26-week periods ended June 28, 2020 and June 30, 2019
(Expressed in thousands of Canadian dollars)

	June 28, 2020 \$	June 30, 2019 \$
Operating activities		
Income for the period	(2,016)	519
Depreciation of property, plant and equipment	1,932	2,492
Depreciation of right-of-use asset (note 5)	2,379	-
Amortization of intangible assets	686	593
Amortization of unearned vendor allowances	(576)	(504)
Amortization of deferred franchise fees	(153)	69
Amortization of deferred gain	(1,165)	(1,165)
Loss on impairment of lease receivables (note 6)	2,946	-
Net provisions during the period	-	673
Gain on sale of Company-owned restaurants	(119)	(5)
Equity income from Pizza Pizza Royalty Limited Partnership (note 3)	(3,251)	(3,594)
Equity income from jointly-controlled companies (note 4)	(2,575)	(1,998)
Deferred income tax expense/(recovery)	408	(137)
	(1,504)	(3,057)
Changes in non-cash operating elements of working capital (note 13)	2,868	(2,530)
Cash provided by (used in) operating activities	1,364	(5,587)
Investing activities		
Additions to property, plant and equipment	(271)	(2,649)
Proceeds from sale of Company-owned restaurants	120	920
Distributions from Pizza Pizza Royalty Limited Partnership (note 3)	3,525	3,901
Dividends from jointly-controlled companies (note 4)	2,528	2,292
Repayment of notes receivable	222	6,550
Issuance of notes receivable	(844)	(3,473)
Contributions to renovation funds	4,616	13,523
Disbursement from renovation funds	(8,581)	(10,338)
Contribution to short-term investments	(4,916)	(2,615)
Cash provided by (used in) investing activities	(3,601)	8,111
Financing activities		
Proceeds from borrowings	31	248
Repayments of borrowings	(38)	(206)
Operating lease payments (note 6)	(3,278)	-
Financing expense on leases, net (note 6)	431	-
Repayment of (advances to) related party (note 12)	863	(4,081)
Cash used in financing activities	(1,991)	(4,039)
Decrease in cash and cash equivalents	(4,228)	(1,515)
Cash and cash equivalents, beginning of period	5,188	4,818
Cash and cash equivalents, end of period	960	3,303

See supplementary cash for information (note 13)

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 26-week periods ended June 28, 2020 and June 30, 2019

(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. The Company derives revenue from franchises through the sale of franchise restaurants, food and beverages and royalties. The Company also derives revenue from Company-owned and managed restaurants through the sale of food products to retail customers.

The Company is incorporated and domiciled in Canada and the address of its registered office is 500 Kipling Avenue, Toronto, Ontario, Canada. The ultimate parent of the Company 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:

	June 28, 2020	June 30, 2019
Franchisees and licensees	635	670
Jointly-controlled restaurants	79	80
Company-owned and operated restaurants	18	11

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

The Company 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) Statement of compliance

The Company prepares its unaudited interim condensed consolidated financial statements in accordance with International Accounting Standard (“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 annual consolidated financial statements of the Company as at and for the year ended December 29, 2019.

The Company's 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 consolidated financial statements as at and for the year ended December 29, 2019.

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 consolidated financial statements as at and for the year ended December 29, 2019, except for the adoption of IFRS 16, Leases (“IFRS 16”).

These unaudited interim condensed consolidated financial statements were authorized for issue by the Board of the Directors on August 12, 2020.

Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 26-week periods ended June 28, 2020 and June 30, 2019

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

c) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of the interest rate swap to fair value through the consolidated statement of comprehensive income.

d) Changes in accounting policies and disclosure

IFRS 16, Leases ("IFRS 16")

The Company has adopted IFRS 16, with a date of initial application of December 30, 2019, using a modified retrospective approach. Under the modified retrospective approach, the cumulative effect of initial application has been recognized in retained earnings at December 30, 2019, and comparative information has not been restated and continues to be reported under IAS 17, Leases.

The adoption of this standard replaces the dual model for lessee accounting which classified leases as either finance or operating with a single accounting model which requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Under IFRS 16, lessor accounting for operating and finance leases has remained substantially unchanged.

The Company determines lease existence and classification at the lease inception date. Leases are identified when an agreement conveys the right to control the identified property for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date, which is the possession date of the asset. The right-of-use asset is initially measured based on the initial measurement of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received, and excludes all sales taxes. Right-of-use assets are depreciated to the earlier of the end of the useful life of the asset or the lease term using the straight-line method. The lease term may include periods associated with options to extend or exclude periods associated with options to terminate the lease when it is reasonably certain that management will exercise these options. Additionally, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurement of the lease liability.

The lease liability is initially measured at the present value of the lease payments over the lease term. The lease payments are discounted using the interest rate implicit in the lease; if that cannot be readily determined, the Company uses its incremental borrowing rate. The incremental borrowing rate is the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value, in a similar economic environment, and with similar terms and conditions. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Where the Company acts as an intermediate lessor, it classifies a sublease as a finance lease by reference to the right-of-use asset arising from the head lease. The Company derecognizes the right-of-use asset relating to the head lease that it transfers to the sublessee and recognizes a corresponding lease receivable, and the lease liability relating to the head lease is retained. Similar to right-of-use assets, the lease receivable is periodically reduced by impairment losses, if any, and adjusted for certain remeasurement of the lease liability.

On adoption, the standard had a material impact on the Company's consolidated balance sheet, but did not have a

Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 26-week periods ended June 28, 2020 and June 30, 2019

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

significant impact on its consolidated statement of income. The impact of the adoption as at December 30, 2019 was as follows:

(in thousands of dollars)	Balance as of December 29, 2019	Impact of IFRS 16 Adoption	Balance as of December 30, 2019
Assets			
Lease receivable	-	67,901	67,901
Right-of-use asset	-	19,509	19,509
Liabilities			
Lease liability	-	89,123	89,123
Provision for onerous lease	1,729	(1,729)	-
Shareholders' Deficiency	(100,790)	16	(100,774)

e) Basis of consolidation

These unaudited interim condensed consolidated financial statements incorporate the assets and liabilities of the Company and its subsidiaries as at June 28, 2020 and December 29, 2019 and the results of these entities for the 13-week and 26-week periods ended June 28, 2020 and June 30, 2019, respectively.

The Company 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 the Company 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.

The Company accounts for its 23.5% (December 29, 2019 – 23.0%) share interest in the Pizza Pizza Royalty Limited Partnership (the “Partnership”) as an investment in an associate and applies equity accounting whereby the Company’s investment is increased by its 23.5% 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 the Company’s, as the Partnership operates on a calendar year-end.

The Company 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 the Company’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.

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.

The Company accounts for its 50% (December 29, 2019 – 50%) share interest in the 79 jointly controlled companies as an investment in joint ventures and applies equity accounting whereby the Company’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 the Company’s, as the joint ventures have a floating year-end of the Saturday immediately preceding July 31.

Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 26-week periods ended June 28, 2020 and June 30, 2019

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

The Company 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 the Company'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

The Company owns Class B and Class D Partnership Units that are exchangeable for Pizza Pizza Royalty Corp. ("PPRC") Shares based on the exchange multiplier applicable at the exchange date and represent an effective 23.5% interest in the Partnership as at June 28, 2020 (December 29, 2019 – 23.0%).

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

	For the 26-week period ended June 28, 2020	For the 52-week period ended December 29, 2019
Balance – beginning of period	23,404	23,514
Equity income of the Partnership	3,251	7,590
Distributions received from Partnership	(3,525)	(7,772)
Share of Partnership other comprehensive loss	447	72
Balance – end of period	23,557	23,404

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 the Company. Additionally, the Partnership will collect the royalty payable by the Company 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 June 28, 2020	As at December 29, 2019
Total assets	361,186	363,401
Total liabilities	78,755	79,533

	Three months ended June 28, 2020	Three months ended June 30, 2019	Six months ended June 28, 2020	Six months ended June 30, 2019
Revenues	7,452	8,717	15,614	17,438
Profit before income taxes for the period	7,000	8,261	14,739	16,534

a) 2019 Royalty Pool Adjustment

In early January 2020 a second adjustment was made to the royalty payments and the Company's Class B Exchange Multiplier based on the actual performance of the 18 new restaurants added to the Royalty Pool on

Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 26-week periods ended June 28, 2020 and June 30, 2019

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

January 1, 2019. As a result of the adjustments, the Class B Exchange Multiplier is 2.117969 and Class B Units can be exchanged for 5,312,373 shares effective January 1, 2019.

In early January 2020, a second adjustment was made to the royalty payments and the Company's Class D Exchange Multiplier based on the actual performance of the seven Pizza 73 restaurants added to the Royalty Pool on January 1, 2019. As a result of the adjustments, the Class D Exchange Multiplier is 22.44976 and Class D Units can be exchanged for 2,244,975 shares effective January 1, 2019.

b) 2020 Royalty Pool Adjustment – Class B Exchanged Multiplier

On January 1, 2020, 15 net Pizza Pizza restaurants were removed from the Royalty Pool as a result of 19 new restaurants opening and 34 closing from January 1, 2019 to December 31, 2019. The total number of Pizza Pizza restaurants in the Royalty Pool has decreased to 645. The additional system sales from the 19 new restaurants are estimated at \$8,725 annually, less sales of \$8,687 from 34 permanently closed Pizza Pizza restaurants, resulting in net estimated Pizza Pizza sales of \$38 added to the Royalty Pool. The yield of the shares was determined to be 9.0% calculated using \$9.54 as a weighted average share price. Weighted average share price is calculated based on the market price of the shares traded on the Toronto Stock Exchange during the period of twenty consecutive days ending on the fifth trading day before January 1, 2020. As a result of the contribution of the additional net sales to the Royalty Pool, the Class B Exchange Multiplier increased fractionally by 80% of the total adjustment or 0.000612; the new Class B Multiplier is 2.118582. This adjustment will also increase the entitlement of the holders of the Class B units to distributions of cash and allocations of income from the Partnership. The second adjustment to the Class B Exchange Multiplier will be adjusted to be effective January 1, 2020, once the actual performance of the new restaurants is determined in early 2021.

c) 2020 Royalty Pool Adjustment – Class D Exchange Multiplier

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

Since the system sales of the closed Pizza 73 restaurants exceeded the additional system sales of the additional restaurant added to the Pizza 73 Royalty Pool, the sales of the closed restaurants for the first 52-week year in which it was included in the Royalty Pool, multiplied by the royalty rate ("Make-Whole Payment"), paid by the Company to PPRLP will be carried over, and continue to be paid for subsequent years, until on an Adjustment Date, additional system sales of additional restaurants are sufficient to offset the Pizza 73 system sales attributable to all closed Pizza 73 restaurants.

The yield of the shares was determined to be 9.0% calculated using \$9.54 as a weighted average share price. Weighted average share price is calculated based on the market price of the shares traded on the Toronto Stock Exchange during the period of twenty consecutive days ending on the fifth trading day before January 1, 2020. As per the Pizza Pizza Royalty Limited Partnership agreement, whenever the Estimated Determined Amount is negative it shall be deemed to be zero. Accordingly, the Class D Exchange Multiplier remained unchanged at 22.44976. The second adjustment to the Class D Exchange Multiplier will be adjusted to be effective January 1, 2020, once the actual performance of the new restaurant is determined in early 2021.

d) Pizza Pizza Royalty Corp. Outstanding Shares

In exchange for adding the forecasted Pizza Pizza system sales to the Royalty Pool, the Company has received 1,536 additional equivalent Shares (through the change to the Class B Exchange Multiplier). These represent 80% of the forecasted equivalent Shares entitlement to be received (1,920 equivalent Shares represent 100%), with the

Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 26-week periods ended June 28, 2020 and June 30, 2019

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

final equivalent Shares entitlement to be determined when the new restaurants' 2020 actual sales performance is known with certainty in early 2021.

The Company's Class D equivalent Share entitlement is unchanged for 2020. In any year that the forecasted system sales (less closed restaurants sales and other adjustments) is negative, as was the case with the Class D equivalent Share entitlement calculation for 2020, no increase or decrease in the Exchange Multiplier is made. The Company will only have a Class D equivalent Share entitlement for 2020 if the actual sales performance of the one new Pizza 73 restaurant, less the sales of adjustment restaurants, significantly exceeds forecasted system sales and yields net, positive sales when the actual sales performance is known with certainty in early 2021.

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

4. Investment in Jointly Controlled Companies

Jointly-controlled companies are joint ventures, consisting of the Company's 50% interest in 79 Pizza 73 restaurants (December 29, 2019 – 79 Pizza 73 restaurants). Jointly-controlled restaurants are companies, owned and operated as an independent business, equally owned by the Company and an Owner/Operator. Licensing, consulting and other agreements govern the relationship of the Company 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 the Company's investment in the jointly controlled companies, which is accounted for using equity accounting.

	For the 26-week period ended June 28, 2020	For the 52-week period ended December 29, 2019
Balance – beginning of period	18,577	18,624
Equity income from jointly controlled companies	2,575	4,092
Dividends received from jointly controlled companies	(2,528)	(4,139)
Balance – end of period	18,624	18,577

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

	For the 13- week period ended June 28, 2020	For the 13- week period ended June 30, 2019	For the 26- week period ended June 28, 2020	For the 26- week period ended June 30, 2019
Revenues	9,757	9,914	19,172	20,184
Expenses	(8,117)	(8,903)	(16,597)	(18,186)
Income for the period after tax	1,640	1,011	2,575	1,998

5. Right-of-Use Asset

Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 26-week periods ended June 28, 2020 and June 30, 2019

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

The following table presents the right-of-use assets for the Company:

	As at June 28, 2020
Balance December 29, 2019 (note 2)	19,509
Remeasurement of lease liability	1,137
Depreciation	(2,379)
Balance June 28, 2020	18,267

6. Leases

The Company's leased assets include base rent for restaurant premises and office space. The Company is the head lessee for the majority of its franchised locations and enters into agreements whereby the Company licenses the premises to the franchisee, for which the Company receives a premises license fee. Under the license agreement, the franchisee is responsible for the obligations under the lease. IFRS 16 requires the Company, where it acts as the intermediate lessor, to recognize a lease receivable. The Company has included renewal options in the measurement of lease liabilities when it is reasonably certain to exercise the renewal option. Effective December 30, 2019, the Company adopted IFRS 16 as outlined in note 2, recognizing \$67.9 million of lease receivable, \$19.5 million of right-of-use assets, \$89.1 million of lease obligations, and the impact of adoption of \$16 recognized in retained earnings.

The Company remeasured certain lease liabilities throughout the period as there were adjustments in future lease payments arising from changes in rates, as well as the Company's assessment of whether it will exercise a purchase, extension or termination option. The Company remeasured lease liabilities for an additional \$3.2 million in the period.

	As at June 28, 2020
Current lease liability	21,716
Non-current lease liability	57,922
Total lease liability	79,638

Lease obligations were measured at the present value of remaining lease payments at the transition date, discounted at the Company's incremental borrowing rate. The weighted average rate applied at December 30, 2019 was 4.10%. Costs not included in the measurement of the lease obligation for the 26 weeks ended June 28, 2020 are as follows:

	For the 26-week period ended June 28, 2020
Financing expense on lease liability	1,784
Financing income on lease receivable	(1,353)
Expenses related to short-term leases	34
Expenses related to variable leases	2
Expenses related to low value leases	340

Lease receivables are reviewed for impairment based on expected losses at each balance sheet date in accordance with IFRS 9 – Financial Instruments. An impairment loss is recorded when the credit risk is assessed to have increased for the lease receivables. The Company has developed a probability-weighted matrix used to assess the credit risk of all head leases. The Company recorded an expected credit loss provision on long-term lease receivables of \$2,946 for the 26 weeks ended June 28, 2020.

7. Borrowings

Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 26-week periods ended June 28, 2020 and June 30, 2019

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

	As at June 28, 2020	As at December 29, 2019
Notes payable, bearing interest from 5.0% to 7.5%, repayable in varying monthly principal amounts, maturing between 2020 and 2022 These notes were secured by specific company –owned restaurant assets. The effective interest rate as at June 28, 2020 was 5.35% (June 30, 2019 – 5.3%)	323	330
	323	330
Less: current portion	(151)	(100)
Total non-current borrowings	172	230

8. Food sales

Food sales include the following:

	For the 13- week period ended June 28, 2020	For the 13- week period ended June 30, 2019	For the 26- week period ended June 28, 2020	For the 26- week period ended June 30, 2019
Food sales	31,365	41,696	66,938	81,861
Company-owned restaurant sales	3,621	3,636	7,459	7,008
Total food sales	34,986	45,332	74,397	88,869

9. Royalties, franchise fees and other revenue

Royalties, franchise fees and other revenue include the following:

	For the 13- week period ended June 28, 2020	For the 13- week period ended June 30, 2019	For the 26- week period ended June 28, 2020	For the 26- week period ended June 30, 2019
Royalties	4,645	6,159	10,293	12,477
Initial and renewal franchise fees	321	560	797	1,027
Construction fees	47	209	237	466
Administration and accounting fees	662	515	1,304	1,210
Total royalties, franchise fees and other revenue	5,675	7,443	12,631	15,180

10. Store service contributions and expenditures

Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 26-week periods ended June 28, 2020 and June 30, 2019

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

Store service contributions include the following:

	For the 13- week period ended June 28, 2020	For the 13- week period ended June 30, 2019	For the 26- week period ended June 28, 2020	For the 26- week period ended June 30, 2019
Advertising services	6,492	7,850	13,793	16,309
Order processing services	3,239	3,874	6,596	7,428
Commissary food services	8,231	8,550	16,254	16,850
Store service contributions	17,962	19,704	36,643	40,587

Store service expenditures include the following:

	For the 13- week period ended June 28, 2020	For the 13- week period ended June 30, 2019	For the 26- week period ended June 28, 2020	For the 26- week period ended June 30, 2019
Advertising services	5,768	5,771	14,253	14,743
Order processing services	2,852	3,749	6,471	7,765
Commissary food services	8,255	8,525	16,265	17,380
Store service expenditures	16,875	18,045	36,989	39,888

11. Expenses by nature

The following table summarizes significant general and administrative expenses:

	For the 13- week period ended June 28, 2020	For the 13- week period ended June 30, 2019	For the 26- week period ended June 28, 2020	For the 26- week period ended June 30, 2019
Depreciation of property, plant and equipment	737	1,122	1,859	2,416
Depreciation of right-of-use asset ⁽ⁱ⁾	988	-	2,379	-
Amortization of intangible assets	69	69	138	138
Operating leases payments ⁽ⁱ⁾	-	815	-	1,668
Company store expenses ⁽ⁱ⁾	2,322	2,903	4,146	5,820
Employee benefit expense	2,405	4,044	6,536	8,079

⁽ⁱ⁾ The Company recognized operating lease payments and company store expenses through the depreciation of right-of-use assets as a result of adopting IFRS 16 as outlined in note 2, whereas the comparable period lease payments are included in operating leases and store expenses.

12. Related party transactions

Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 26-week periods ended June 28, 2020 and June 30, 2019

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

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- week period ended June 28, 2020	For the 13- week period ended June 30, 2019	For the 26- week period ended June 28, 2020	For the 26- week period ended June 30, 2019
Rent expense ⁽ⁱ⁾	615	629	1,241	1,258
Food purchases ⁽ⁱ⁾	2,169	3,173	5,022	6,098
Recovery of expenses ⁽ⁱ⁾	150	150	300	300
Administration and accounting fee revenue ⁽ⁱⁱ⁾	662	672	1,304	1,367

⁽ⁱ⁾ Transactions with commonly controlled companies

⁽ⁱⁱ⁾ Transactions with jointly-controlled companies

As at June 28, 2020, the Company has trade payables of \$2,021 (as at December 29, 2019 - \$835) payable to a company under common management control. As at June 28, 2020, trade and other payables includes amounts payable of \$2,167 (as at December 29, 2019 - \$2,515) to the Partnership, which were paid subsequent to the end of the period.

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

	As at June 28, 2020	As at December 29, 2019
Receivable from jointly-controlled companies	2,626	2,905
Advances to (from) related party	2,092	2,953

Advances to related party are due to the parent company. Advances to related party and receivables from jointly-controlled companies are non-interest bearing, have no specified terms of repayment and are unsecured.

13. Statements of cash flow information

	For the 26-week period ended June 28, 2020	For the 26-week period ended June 30, 2019
Trade and other receivables	5,713	4,013
Inventories	1,164	2,337
Income tax recoverable	-	7
Receivables from jointly-controlled companies	279	197
Trade and other payables	(3,900)	(9,446)
Income taxes payable	-	35
Deposits from franchisees	(388)	327
Changes in non-cash operating elements of working capital	(2,868)	(2,530)

14. Financial risk management

Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 26-week periods ended June 28, 2020 and June 30, 2019

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

The Company'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 June 28, 2020 of 4.4% (December 29, 2019 – 5.5%).

The fair value of the borrowings is based on the estimated future discounted cash flows using a comparable market rate of interest as at June 28, 2020 of prime plus a spread varying by loan (December 29, 2019 - 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 the Company's financial instruments are as follows:

		As at June 28, 2020		As at December 29, 2019	
	Category	Carrying value	Fair value	Carrying value	Fair value
Notes receivable	AC	1,233	1,077	611	418
Borrowings	AC	323	285	330	283

Financial instruments category guide:

AC Amortized cost

FVOCI Fair value through other comprehensive income

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

The Company is exposed to credit risk as all of the franchisees and jointly-controlled companies operate within the same segment: commercial food service. The Company 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, receivables from jointly-controlled companies and renovation funds receivable. The Company's credit risk is mitigated by the large number of franchisees and jointly-controlled companies operating in different geographical markets and by the Company's ultimate ability to assume operations of the franchisees if there is inadequate financial performance and/or default under the franchisee agreement.

Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 26-week periods ended June 28, 2020 and June 30, 2019

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

The Company's franchisees, where qualified, have applied for financial assistance from the Government of Canada's COVID-19 Economic Response Plan, including the Canadian Emergency Wage Subsidy ("CEWS") and Canada Emergency Business Account ("CEBA"). The financial assistance will improve the liquidity of franchisees and thus allow the Company to continue to collect on its trade receivables. In the interim, and until funding has been received, the Company has temporarily extended repayment terms of its franchisees, and therefore has not taken any additional impairment on the past due trade receivables.

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

	As at June 28, 2020	As at December 29, 2019
Past due 0-30 days	1,335	1,275
Past due 31-120 days	68	41
Total trade receivables past due, but not impaired	1,403	1,316

Liquidity Risk

The Company is subject to liquidity risk with respect to the items outlined in the table below. The risk is mitigated as the majority of the Company's revenue is earned from franchisees and jointly-controlled companies, which have agreements with the Company and whose activities are closely monitored by the Company. In the case of franchisees, the majority of the Company's business, the Company 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 the Company's head office functions in order to guarantee effective access to financial resources.

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

Additionally, the Company took immediate action to reduce corporate operating expenses, payroll costs and defer capital expenditures. The Company also negotiated extended supplier payment terms where possible.

Management believes that currently available funds and credit facilities, apart from those that will be generated by operating and financing activities, will allow the Company 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 June 28, 2020:

	Carrying amount	0 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
Trade and other payables	39,620	39,621	-	-	-
Deposits from franchisees	1,508	1,508	-	-	-
Borrowings	323	151	172	-	-

Interest Rate Risk

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