



## **PIZZA PIZZA LIMITED**

**Unaudited Interim Condensed Consolidated Financial Statements  
For the 13 and 26 weeks ended July 4, 2021**

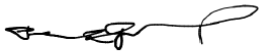
**Pizza Pizza Limited**  
500 Kipling Avenue  
Toronto, ON M8Z 5E5  
Phone: (416) 967-1010 Fax: (416) 967-5941

**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.



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Paul Goddard  
Chief Executive Officer



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Christine D'Sylva  
Chief Financial Officer

**Pizza Pizza Limited**  
**Unaudited Interim Consolidated Statements of Financial Position**  
**As at July 4, 2021 and January 3, 2021**  
*(Expressed in thousands of Canadian dollars)*

	July 4, 2021 \$	January 3, 2021 \$
<b>Current assets</b>		
Cash and cash equivalents	5,640	8,723
Short-term investment	7,218	8,511
Trade, other receivables and prepayments	12,481	11,232
Inventories	5,742	6,290
Lease receivable (note 6)	5,660	5,815
Receivables from jointly-controlled companies (note 12)	1,768	1,800
<b>Total current assets</b>	<b>38,509</b>	<b>42,371</b>
<b>Non-current assets</b>		
Property, plant and equipment	7,134	8,788
Notes receivable	1,432	1,209
Renovation funds	7,058	7,637
Receivables from jointly-controlled companies (note 12)	1,312	1,151
Advances to related party (note 12)	1,022	1,085
Investment in Pizza Pizza Royalty Limited Partnership (note 3)	22,850	23,029
Investment in jointly-controlled companies (note 4)	18,017	18,377
Deferred tax asset	53,217	52,817
Lease receivable (note 6)	6,303	8,520
Right-of-use asset (note 5)	70,081	65,485
Intangible assets	2,275	2,699
<b>Total non-current assets</b>	<b>190,701</b>	<b>190,797</b>
<b>Total assets</b>	<b>229,210</b>	<b>233,168</b>
<b>Liabilities and shareholders' deficiency</b>		
<b>Current liabilities</b>		
Trade and other payables	42,828	45,966
Deposits from franchisees	2,315	2,552
Borrowings (note 7)	185	291
Lease liability (note 6)	21,145	21,973
<b>Total current liabilities</b>	<b>66,473</b>	<b>70,782</b>
<b>Non-current liabilities</b>		
Borrowings (note 7)	718	867
Deferred franchise fees	1,873	1,715
Unearned vendor allowances	3,006	3,428
Renovation funds	3,977	4,313
Lease liability (note 6)	67,045	62,885
Deferred gain	193,394	194,559
<b>Total non-current liabilities</b>	<b>270,013</b>	<b>267,767</b>
<b>Shareholders' deficiency</b>		
Common shares and special voting shares	-	-
Accumulated other comprehensive loss	(553)	(756)
Deficit	(106,723)	(104,625)
<b>Total shareholders' deficiency attributable to the shareholders</b>	<b>(107,276)</b>	<b>(105,381)</b>
<b>Total liabilities and shareholders' deficiency</b>	<b>229,210</b>	<b>233,168</b>

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

Approved by the Directors on August 11, 2021.

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

**For the 13-week and 26-week periods ended July 4, 2021 and June 28, 2020**  
**(Expressed in thousands of Canadian dollars)**

	For the 13- week period ended July 4, 2021 \$	For the 13- week period ended June 28, 2020 \$	For the 26- week period ended July 4, 2021 \$	For the 26- week period ended June 28, 2020 <sup>1</sup> \$
<b>Revenue</b>				
Food sales (note 8)	36,399	34,986	69,516	74,397
Royalties, franchise fees and other revenue (note 9)	9,197	7,909	17,266	17,138
Store service contributions (note 10)	17,504	17,962	33,568	36,643
<b>Total revenue</b>	<b>63,100</b>	<b>60,857</b>	<b>120,350</b>	<b>128,178</b>
Cost of food sales	(29,558)	(27,606)	(56,314)	(59,454)
General and administrative expenses (note 11)	(10,654)	(9,585)	(21,397)	(20,987)
Store service expenditures (note 10)	(16,875)	(16,875)	(35,833)	(36,989)
Royalty payments	(7,656)	(7,452)	(14,690)	(15,615)
Reversal of (loss on) impairment of lease receivable (note 6)	277	(160)	356	(793)
Equity income from Pizza Pizza Royalty Limited Partnership (note 3)	1,575	1,539	2,879	3,251
Equity income from jointly-controlled companies (note 4)	1,013	1,640	1,865	2,575
Gain on sale of Company-owned restaurants	174	74	459	119
<b>Operating income (loss)</b>	<b>1,396</b>	<b>2,432</b>	<b>(2,325)</b>	<b>285</b>
Interest and other income	81	38	144	137
Amortization of deferred gain	583	583	1,165	1,165
Interest on borrowings and other liabilities	(785)	(585)	(1,554)	(1,196)
<b>Income (loss) for the period before income taxes</b>	<b>1,275</b>	<b>2,468</b>	<b>(2,570)</b>	<b>391</b>
Deferred tax recovery (expense)	(570)	(651)	472	(408)
<b>Income (loss) for the period attributable to the shareholders of Pizza Pizza Limited</b>	<b>705</b>	<b>1,817</b>	<b>(2,098)</b>	<b>(17)</b>

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



**Pizza Pizza Limited**  
**Unaudited Interim Consolidated Statements of Comprehensive Loss**  
**For the 13-week and 26-week periods ended July 4, 2021 and June 28, 2020**  
**(Expressed in thousands of Canadian dollars)**

	For the 13- week period ended July 4, 2021 \$	For the 13-week period ended June 28, 2020 \$	For the 26- week period ended July 4, 2021 \$	For the 26-week period ended June 28, 2020 <sup>1</sup> \$
<b>Income (loss) for the period</b>	<b>705</b>	<b>1,817</b>	<b>(2,098)</b>	<b>(17)</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 Pizza Royalty Limited Partnership (note 3)	28	316	276	447
Deferred tax impact of share of other comprehensive income of Pizza Pizza Royalty Limited Partnership	(7)	84	(73)	118
<b>Total comprehensive income (loss) attributable to shareholders</b>	<b>726</b>	<b>2,217</b>	<b>(1,895)</b>	<b>548</b>

**Pizza Pizza Limited**

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

**For the 26-week periods ended July 4, 2021 and June 28, 2020**  
**(Expressed in thousands of Canadian dollars)**

	Common shares and special voting shares \$	Accumulated other comprehensive loss \$	Deficit \$	Total \$
<b>As at January 3, 2021</b>	-	(756)	(104,625)	(105,381)
<b>Comprehensive income (loss)</b>				
Loss for the 26-week period ended July 4, 2021	-	-	(2,098)	(2,098)
Share of other comprehensive income on Pizza Pizza Royalty limited Partnership's cash flow hedge	-	276	-	276
Tax effect of cash flow hedge	-	(73)	-	(73)
<b>Total comprehensive income (loss)</b>	-	<b>203</b>	<b>(2,098)</b>	<b>(1,895)</b>
<b>As at July 4, 2021</b>	-	<b>(553)</b>	<b>(106,723)</b>	<b>(107,276)</b>
<b>As at December 29, 2019<sup>1</sup></b>	-	<b>(156)</b>	<b>(100,790)</b>	<b>(100,946)</b>
<b>Comprehensive income (loss)</b>				

Loss for the 13-week period ended June 28, 2020	-		(17)	(17)
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
<b>Total comprehensive income (loss)</b>	-	565	(17)	548
<hr/>				
<b>As at June 28, 2020</b>	-	<b>409</b>	<b>(100,807)</b>	<b>(100,398)</b>

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 July 4, 2021 and June 28, 2020  
(Expressed in thousands of Canadian dollars)**

	July 4, 2021 \$	June 28, 2020 \$
<b>Operating activities</b>		
Income (loss) for the period	(2,098)	(17)
Depreciation of property, plant and equipment	1,127	1,932
Depreciation of right-of-use asset (note 5)	8,199	7,160
Amortization of intangible assets	424	686
Amortization of unearned vendor allowances	(422)	(576)
Amortization of deferred franchise fees	158	(153)
Amortization of deferred gain	(1,165)	(1,165)
Loss on (reversal of) impairment of lease receivable (note 6)	(356)	793
Gain on sale of Company-owned restaurants	(459)	(119)
Equity income from Pizza Pizza Royalty Limited Partnership (note 3)	(2,879)	(3,251)
Equity income from jointly-controlled companies (note 4)	(1,865)	(2,575)
Interest expense on leases, net (note 6)	1,532	1,167
Deferred income tax (recovery) expense	(472)	408
	1,724	4,290
Changes in non-cash operating elements of working capital (note 13)	(4,026)	(1,275)
<b>Cash provided by (used in) operating activities</b>	<b>(2,302)</b>	<b>3,015</b>
<b>Investing activities</b>		
Additions to property, plant and equipment	(131)	(238)
Proceeds from sale of Company-owned restaurants	1,117	120
Distributions from Pizza Pizza Royalty Limited Partnership (note 3)	3,334	3,525
Dividends from jointly-controlled companies (note 4)	2,225	2,528
Repayment of notes receivable	299	222
Issuance of notes receivable	(522)	(844)
Contributions to renovation funds	5,893	4,616



Disbursement from renovation funds	(5,650)	(8,581)
Withdrawals from (additions to) short-term investments	1,293	(4,916)
Rent payments collected on lease receivables - principal (note 6)	3,133	3,690
Rent payments collected on lease receivables - interest (note 6)	325	435
<b>Cash provided by investing activities</b>	<b>11,316</b>	<b>557</b>
<b>Financing activities</b>		
Repayments of borrowings	(254)	(38)
Lease payments – principal (note 6)	(10,048)	(7,021)
Lease payments – interest, net (note 6)	(1,858)	(1,602)
Advances from (repayment of) related party (note 12)	63	863
<b>Cash used in financing activities</b>	<b>(12,097)</b>	<b>(7,798)</b>
<b>Decrease in cash and cash equivalents</b>	<b>(3,083)</b>	<b>(4,226)</b>
Cash and cash equivalents, beginning of period	8,723	5,188
<b>Cash and cash equivalents, end of period</b>	<b>5,640</b>	<b>962</b>

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 July 4, 2021 and June 28, 2020

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

### 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 (Ontario)* 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:

	July 4, 2021	June 28, 2020
Franchisees and licensees	637	635
Jointly-controlled restaurants	80	79
Company-owned and operated restaurants	21	18

### 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 January 3, 2021.

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 January 3, 2021.

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 January 3, 2021.

These unaudited interim condensed consolidated financial statements were authorized for issue by the Board of the Directors on August 11, 2021.

#### c) Basis of measurement

## Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 26-week periods ended July 4, 2021 and June 28, 2020

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

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) Basis of consolidation

These unaudited interim condensed consolidated financial statements incorporate the assets and liabilities of the Company and its subsidiaries as at July 4, 2021 and January 3, 2021 and the results of these entities for the 13-week and 26-week periods ended July 4, 2021 and June 28, 2020, 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% (January 3, 2021 – 23.5%) 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% (January 3, 2021 – 50%) share interest in the 80 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.

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

## Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 26-week periods ended July 4, 2021 and June 28, 2020

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

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 July 4, 2021 (January 3, 2021 – 23.5%).

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 July 4, 2021	For the 53-week period ended January 3, 2021
Balance – beginning of period	23,029	23,404
Equity income of the Partnership	2,879	6,726
Distributions received from Partnership	(3,334)	(6,481)
Share of Partnership other comprehensive income (loss)	276	(620)
<b>Balance – end of period</b>	<b>22,850</b>	<b>23,029</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 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 30, 2021	As at January 3, 2021
Total assets	366,131	365,587
Total liabilities	80,206	81,437

	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Revenues	7,656	7,452	14,691	15,614
Profit for the period	7,156	7,000	13,775	14,739

### a. 2020 Royalty Pool Adjustment

In early January 2021 a second adjustment was made to the royalty payments and the Company's Class B Exchange Multiplier based on the actual performance of the 19 new restaurants added to the Royalty Pool on January 1, 2020. The final 2020 Pizza Pizza Royalty Pool adjustment resulted in a Make-Whole Payment being made on \$781 of Royalty Pool sales. The Make-Whole Payment will continue to be paid for subsequent years, until on an Adjustment Date, additional system sales of additional restaurants are sufficient to offset the Pizza Pizza system sales attributable to all closed Pizza Pizza restaurants. As a result of the adjustments, the Class B Exchange Multiplier is unchanged at 2.118582 and Class B Units can be exchanged for 5,313,909 shares effective January 1, 2020.

In early January 2021, a second adjustment was made to the royalty payments and the Company's Class D Exchange Multiplier based on the actual performance of the one Pizza 73 restaurant added to the Royalty Pool on January 1, 2020. The final 2020 Pizza 73 Royalty Pool adjustment resulted in a Make-Whole Payment being

## Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 26-week periods ended July 4, 2021 and June 28, 2020

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

made on \$692 of Royalty Pool sales. The Make-Whole Payment will continue to be paid for subsequent years, until on an Adjustment Date, additional system sales of additional restaurants are sufficient to offset the Pizza Pizza system sales attributable to all closed Pizza 73 restaurants. As a result of the adjustments, the Class D Exchange Multiplier is unchanged at 22.44976 and Class D Units can be exchanged for 2,244,975 shares effective January 1, 2020.

### b. 2021 Royalty Pool Adjustment – Class B Exchange Multiplier

On January 1, 2021, 23 net Pizza Pizza restaurants were removed from the Royalty Pool as a result of nine new restaurants opening and 32 closing from January 1, 2020 to December 31, 2020. The total number of Pizza Pizza restaurants in the Royalty Pool has decreased to 622. The additional system sales from the nine new restaurants are estimated at \$4,056 annually, less sales of \$18,572 from the 32 permanently closed Pizza Pizza restaurants. As a result, a negative \$14,516 net, estimated Pizza Pizza sales were removed from the Royalty Pool.

Since the system sales of the closed Pizza Pizza restaurants exceeded the additional system sales of the additional restaurants added to the Pizza Pizza Royalty Pool, the Make-Whole Payment paid by the Company to the Partnership 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 Pizza system sales attributable to all closed Pizza Pizza restaurants.

The yield of the shares was determined to be 7.3% calculated using \$9.18 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, 2021. 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 B Exchange Multiplier remained unchanged at 2.118582. The second adjustment to the Class B Exchange Multiplier will be adjusted to be effective January 1, 2021, once the actual performance of the new restaurant is determined in early 2022.

### c. 2021 Royalty Pool Adjustment – Class D Exchange Multiplier

On January 1, 2021, one net Pizza 73 restaurant was removed from the Royalty Pool as a result of one new restaurant opening between September 2, 2019 and September 1, 2020 and two restaurants closing between January 1, 2020 and December 31, 2020. The forecasted additional system sales from the one new restaurant is estimated at \$520 annually, less \$1,054 in system sales attributable to the two closed Pizza 73 restaurants. As a result, a negative \$534 net, estimated Pizza 73 sales were removed from the Royalty Pool. The total number of Pizza 73 restaurants in the Royalty Pool has decreased to 103.

Since the system sales of the closed Pizza 73 restaurants exceeded the additional system sales of the additional restaurant added to the Pizza 73 Royalty Pool, the Make-Whole Payment paid by the Company to the Partnership 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 7.3% calculated using \$9.18 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, 2021. 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, 2021, once the actual performance of the new restaurant is determined in early 2022.

### d. Pizza Pizza Royalty Corp. Outstanding Shares

The Company's Class B and Class D equivalent Share entitlement is unchanged for 2021. In any year that the forecasted system sales (less closed restaurants sales and other adjustments) is negative, as was the case with the Class B and Class D equivalent Share entitlement calculation for 2021, no increase or decrease in the Exchange

## Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 26-week periods ended July 4, 2021 and June 28, 2020

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

Multiplier is made. The Company will only have a Class B or D equivalent Share entitlement for 2021 if the actual sales performance of the new restaurants, 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 2022. 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 80 Pizza 73 restaurants (January 3, 2021 – 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 July 4, 2021	For the 53-week period ended January 3, 2021
Balance – beginning of period	18,377	18,577
Equity income from jointly controlled companies	1,865	4,694
Dividends received from jointly controlled companies	(2,225)	(4,894)
<b>Balance – end of period</b>	<b>18,017</b>	<b>18,377</b>

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

	For the 13-week period ended July 4, 2021	For the 13-week period ended June 28, 2020	For the 26-week period ended July 4, 2021	For the 26-week period ended June 28, 2020
Revenues	8,821	9,757	17,141	20,184
Expenses	(7,809)	(8,117)	(15,276)	(18,186)
<b>Income for the period after tax</b>	<b>1,012</b>	<b>1,640</b>	<b>1,865</b>	<b>1,998</b>

### 5. Right-of-Use Asset

IFRS 16 defines a lease as a contract that conveys the right to use an asset for a period of time in exchange for consideration. On December 30, 2019, the initial commencement date of IFRS 16, the Company's right-of-use assets were recognized and calculated as the initial amount of the lease liability, plus any lease payment made before the commencement date, plus any initial direct costs incurred, minus any lease incentives received. Subsequent to initial recognition, the Company measures the right-of-use assets at cost less accumulated depreciation and impairment losses. The carrying value is also adjusted for any re-measurement of the lease liability.

The Company recognized rental income for the 13-week and 26 week periods ended July 4, 2021 of \$2,643 and \$4,856 (13-week and 26 week periods ended June 28, 2020 - \$2,234 and \$4,506, respectively).

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

## Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 26-week periods ended July 4, 2021 and June 28, 2020

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

	As at July 4, 2021	As at January 3, 2021
Opening balance	65,485	71,269
Lease additions and remeasurements	12,795	9,963
Depreciation of right-of-use asset	(8,199)	(15,747)
<b>Total right-of-use asset</b>	<b>70,081</b>	<b>65,485</b>

### 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 leases the premises to the franchisee, for which the Company receives rental income. 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 once the applicable criteria of transferring the majority of risk and rewards are met. In the instances where the applicable criteria are not met, the Company maintains ownership of the right-of-use asset and recognizes rental income. The Company has included renewal options in the measurement of lease liabilities when it is reasonably certain to exercise the renewal option.

The Company remeasured certain lease liabilities and the corresponding right-of-use asset or lease receivable during the period as there were adjustments in future lease payments arising from changes in rates. Remeasurement also occurred when there was a change in the Company's assessment of whether it will exercise a purchase, extension or termination option.

<b>Lease receivable</b>	As at July 4, 2021	As at January 3, 2021
Opening balance	14,335	21,548
Lease additions and remeasurements	406	960
Reversal of (loss on) impairment of lease receivable	356	(759)
Rent payments collected	(3,459)	(8,208)
Interest income	325	794
<b>Total lease receivable</b>	<b>11,963</b>	<b>14,335</b>
Less: current portion	(5,660)	(5,815)
<b>Total non-current lease receivable</b>	<b>6,303</b>	<b>8,520</b>

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 model that is used to assess the credit risk of lease receivables. The Company recorded a reversal of the expected credit loss of \$277 and \$356 for the 13-week and 26-week periods ended July 4, 2021, respectively (13-week and 26-week periods ended June 28, 2020 – expected credit loss of \$160 and \$793, respectively).

The Company had lease liability remeasurements and additions for an increase of \$13.4 million, offset by payments of \$10.1 million, net of interest expense, for the 26-week period ended July 4, 2021.

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Lease Liability	As at July 4, 2021	As at January 3, 2021
Opening balance	84,858	95,455
Lease additions and remeasurement	13,380	11,017
Lease payments	(11,906)	(25,490)
Accretion of interest expense	1,858	3,876
<b>Total lease liability</b>	<b>88,190</b>	<b>84,858</b>
Less: current portion	(21,145)	(21,973)
<b>Total non-current lease liability</b>	<b>67,045</b>	<b>62,885</b>

### 7. Borrowings

	As at July 4, 2021	As at January 3, 2021
Notes payable, bearing interest from 4.20% to 6.55%, repayable in varying monthly principal amounts, maturing between 2021 and 2030. These notes were secured by specific company-owned restaurant assets. The effective interest rate as at July 4, 2021 was 5.27% (June 28, 2020 – 5.35%)	903	1,158
Less: current portion	(185)	(291)
<b>Total non-current borrowings</b>	<b>718</b>	<b>867</b>

### 8. Food sales

Food sales include the following:

	For the 13-week period ended July 4, 2021	For the 13-week period ended June 28, 2020	For the 26-week period ended July 4, 2021	For the 26-week period ended June 28, 2020
Food sales	32,920	31,365	62,630	66,938
Company-owned restaurant sales	3,479	3,621	6,886	7,459
<b>Total food sales</b>	<b>36,399</b>	<b>34,986</b>	<b>69,516</b>	<b>74,397</b>



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

Royalties, franchise fees and other revenue include the following:

	For the 13-week period ended July 4, 2021	For the 13-week period ended June 28, 2020	For the 26-week period ended July 4, 2021	For the 26-week period ended June 28, 2020
Royalties	5,091	4,645	9,755	10,293
Rental income	2,643	2,234	4,856	4,506
Initial and renewal franchise fees	402	321	888	798
Construction fees	445	47	653	237
Administration and accounting fees	616	662	1,114	1,304
<b>Total royalties, franchise fees and other revenue</b>	<b>9,197</b>	<b>7,909</b>	<b>17,266</b>	<b>17,138</b>

### 10. Store service contributions and expenditures

Store service contributions include the following:

	For the 13-week period ended July 4, 2021	For the 13-week period ended June 28, 2020	For the 26-week period ended July 4, 2021	For the 26-week period ended June 28, 2020
Advertising services	6,563	6,492	12,434	13,793
Order processing services	3,147	3,239	6,233	6,596
Commissary food services	7,794	8,231	14,901	16,254
<b>Store service contributions</b>	<b>17,504</b>	<b>17,962</b>	<b>33,568</b>	<b>36,643</b>

Store service expenditures include the following:

	For the 13-week period ended July 4, 2021	For the 13-week period ended June 28, 2020	For the 26-week period ended July 4, 2021	For the 26-week period ended June 28, 2020
Advertising services	5,958	5,768	14,372	14,253
Order processing services	3,073	2,852	6,405	6,471
Commissary food services	7,844	8,255	15,056	16,265
<b>Store service expenditures</b>	<b>16,875</b>	<b>16,875</b>	<b>35,833</b>	<b>36,989</b>

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### 11. Expenses by nature

The following table summarizes significant general and administrative expenses:

	For the 13-week period ended July 4, 2021	For the 13-week period ended June 28, 2020	For the 26-week period ended July 4, 2021	For the 26-week period ended June 28, 2020 <sup>1</sup>
Depreciation of property, plant and equipment	499	737	1,029	1,859
Depreciation of right-of-use asset	4,126	3,574	8,199	7,160
Amortization of intangible assets	98	69	195	138
Company store expenses	1,767	2,322	3,613	4,146
Employee benefit expense (i)	3,484	2,405	6,852	6,536

- (i) The Company recognized government grants as a reduction of the related expense that the grant was intended to offset. The Company received \$272 and \$743 for the 13-week and 26 week periods ended July 4, 2021 (13-week and 26-week periods ended June 28, 2020 - \$1,229).

### 12. Related party transactions

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

	For the 13-week period ended July 4, 2021	For the 13-week period ended June 28, 2020	For the 26-week period ended July 4, 2021	For the 26-week period ended June 28, 2020
Rent expense (i)	621	615	1,240	1,241
Food purchases (i)	2,575	2,169	4,855	5,022
Recovery of expenses (i)	150	150	300	300
Administration and accounting	607	662	1,184	1,304

- (i) Transactions with commonly controlled companies

- (ii) Transactions with jointly-controlled companies

As at July 4, 2021, the Company has trade payables of \$1,360 (as at January 3, 2021 - \$705) payable to a company under common management control. As at July 4, 2021, trade and other payables includes amounts payable of \$1,862 (as at January 3, 2021 - \$2,104) 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 July 4, 2021	As at January 3, 2021
Receivable from jointly-controlled companies	3,080	2,951
Advances to (from) related party	1,022	1,085

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.

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### 13. Statements of cash flow information

	For the 26-week period ended July 4, 2021	For the 26-week period ended June 28, 2020
Trade and other receivables	(1,231)	5,713
Inventories	548	1,164
Receivables from jointly-controlled companies	32	279
Trade and other payables	(3,138)	(8,043)
Deposits from franchisees	(237)	(388)
<b>Changes in non-cash operating elements of working capital</b>	<b>(4,026)</b>	<b>(1,275)</b>

### 14. Financial risk management

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, short term investments, trade, other receivables and prepayments and trade and other payables approximate fair values given the short-term maturity of these instruments.

A reasonable estimate of fair value could not be made for receivables from jointly-controlled companies, advances from related party, 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 July 4, 2021 of 5.16% (January 3, 2021 – 6.43%).

The fair value of the borrowings is based on the estimated future discounted cash flows using a comparable market rate of interest as at July 4, 2021 of prime plus a spread varying by loan (January 3, 2021 - 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:

Category	As at July 4, 2021		As at January 3, 2021	
	Carrying value	Fair value	Carrying value	Fair value
Notes receivable	1,432	1,081	1,364	1,058
Borrowings	903	727	1,158	979

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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, notes receivable, receivables from jointly-controlled companies, lease receivables 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.

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. 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 July 4, 2021	As at January 3, 2021
Past due 0-30 days	202	291
Past due 31-120 days	666	786
<b>Total trade receivables past due, but not impaired</b>	<b>868</b>	<b>1,077</b>

### 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 the Company 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

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management, and borrowing repayment at maturity.

The following are the contractual undiscounted cash flows of financial liabilities as at July 4, 2021:

	Carrying amount	0 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
Trade and other payables	42,828	42,828			
Deposits from franchisees	2,315	2,315			
Borrowings	903	185	232	287	199

### Interest Rate Risk

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