

PIZZA PIZZA LIMITED

Consolidated Annual Financial Statements
For the 52-week period ended January 2, 2022 and
the 53-week period ended January 3, 2021



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Pizza Pizza Limited

Opinion

We have audited the consolidated financial statements of Pizza Pizza Limited (the "Entity"), which comprise:

- the consolidated statement of financial position as at January 2, 2022;
- the consolidated statement of income (loss) for the year then ended;
- the consolidated statement of comprehensive income (loss) for the year then ended;
- the consolidated statement of changes in shareholders' deficiency for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at January 2, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.



Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada
March 2, 2022

Pizza Pizza Limited
Consolidated Statements of Financial Position
As at January 2, 2022 and January 3, 2021
(Expressed in thousands of Canadian dollars)

	January 2, 2022 \$	January 3, 2021 \$
Assets		
Current assets		
Cash and cash equivalents	7,748	8,723
Short-term investment	7,509	8,511
Trade, other receivables and prepayments (note 3)	10,884	11,232
Inventories	7,921	6,290
Lease receivable (note 10)	4,722	5,815
Receivables from jointly-controlled companies (note 23)	1,874	1,800
Total current assets	40,658	42,371
Non-current assets		
Property, plant and equipment (note 4)	7,578	8,788
Notes receivable (note 5)	1,585	1,209
Renovation funds (note 6)	8,603	7,637
Receivables from jointly-controlled companies (note 23)	1,264	1,151
Advances to related party (note 23)	343	1,085
Investment in Pizza Pizza Royalty Limited Partnership (note 7)	23,276	23,029
Investment in jointly-controlled companies (note 8)	17,668	18,377
Deferred tax asset (note 15)	54,282	52,817
Lease receivable (note 10)	15,650	8,520
Right-of-use asset (note 11)	67,751	65,485
Intangible assets (note 9)	1,851	2,699
Total non-current assets	199,851	190,797
Total assets	240,509	233,168
Liabilities and shareholders' deficiency		
Current liabilities		
Trade and other payables (note 12)	48,107	45,966
Deposits from franchisees	2,022	2,552
Borrowings (note 13)	204	291
Lease liability (note 10)	21,435	21,973
Total current liabilities	71,768	70,782
Non-current liabilities		
Borrowings (note 13)	940	867
Deferred franchise fees	1,921	1,715
Unearned vendor allowances	2,564	3,428
Renovation funds (note 6)	3,939	4,313
Lease liability (note 10)	72,650	62,885
Deferred gain (note 14)	192,229	194,559
Total non-current liabilities	274,243	267,767
Shareholders' deficiency		
Common shares and special voting shares (note 17)	-	-
Accumulated other comprehensive loss	(18)	(756)
Deficit	(105,484)	(104,625)
Total shareholders' deficiency attributable to the shareholders	(105,502)	(105,381)
Total liabilities and shareholders' deficiency	240,509	233,168
Commitments and contingencies (note 16)		

The accompanying notes are an integral part of these consolidated financial statements.
Approved by the Directors on March 2, 2022

Pizza Pizza Limited**Consolidated Statements of Income (Loss)****For the 52-week period ended January 2, 2022 and the 53-week period ended January 3, 2021
(Expressed in thousands of Canadian dollars)**

	January 2, 2022 \$	January 3, 2021 ¹ \$
Revenue		
Food sales (note 19)	151,370	152,457
Royalties, franchise fees and other revenue (note 20)	39,855	36,983
Store service contributions (note 21)	70,586	74,352
Total revenue	261,811	263,792
Cost of food sales	(122,267)	(121,308)
Store service expenditures (note 21)	(73,270)	(75,854)
General and administrative expenses (note 22)	(46,670)	(51,297)
Royalty payments	(31,919)	(31,789)
Reversal of (loss on) impairment of lease receivable (note 10)	70	(759)
Equity income from Pizza Pizza Royalty Limited Partnership (note 7)	6,625	6,726
Equity income from jointly-controlled companies (note 8)	3,139	4,694
Gain (loss) on sale of Company-owned restaurants	568	(46)
Operating loss	(1,913)	(5,841)
Interest and other income	250	218
Amortization of deferred gain (note 14)	2,330	2,330
Interest expense on borrowings and other liabilities	(3,257)	(3,131)
Loss for the period before income taxes	(2,590)	(6,424)
Deferred tax recovery (note 15)	1,731	2,589
Loss for the period attributable to the shareholders of Pizza Pizza Limited	(859)	(3,835)

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

¹ Certain comparative figures have been restated to conform with current year presentation.

Pizza Pizza Limited

Consolidated Statements of Comprehensive Income (Loss)

For the 52-week period ended January 2, 2022 and the 53-week period ended January 3, 2021

(Expressed in thousands of Canadian dollars)

Loss for the period	(859)	(3,835)
Other comprehensive income (loss)		
<i>Items that may be reclassified subsequently to net income:</i>		
Share of other comprehensive income (loss) of the Pizza Pizza Royalty Limited Partnership (note 7)	478	(620)
Deferred tax impact of share of other comprehensive income of Pizza Pizza Royalty Limited Partnership	(127)	145
<i>Items that will not be reclassified subsequently to net income:</i>		
Actuarial gain (loss) on employee benefits	526	(170)
Deferred tax impact of employee benefits	(139)	45
Total comprehensive loss attributable to shareholders	(121)	(4,435)

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

Pizza Pizza Limited

Consolidated Statements of Changes in Shareholders' Deficiency

For the 52-week period ended January 2, 2022 and the 53-week period ended January 3, 2021

(Expressed in thousands of Canadian dollars)

	Common shares and special voting shares \$	Accumulated other comprehensive income (loss) \$	Deficit \$	Total \$
As at January 3, 2021	-	(756)	(104,625)	(105,381)
Comprehensive income (loss)				
Loss for the 52-week period ended January 2, 2022	-	-	(859)	(859)
Employee benefits	-	526	-	526
Tax effect of employee benefits	-	(139)	-	(139)
Share of other comprehensive income on Pizza Pizza Royalty limited Partnership's cash flow hedge	-	478	-	478
Tax effect of cash flow hedge	-	(127)	-	(127)
Total comprehensive income (loss)	-	738	(859)	(121)
As at January 2, 2022	-	(18)	(105,484)	(105,502)
As at December 29, 2019	-	(156)	(100,790)	(100,946)
Comprehensive income (loss)				
Loss for the 53-week period ended January 3, 2021	-	-	(3,835)	(3,835)
Employee benefits	-	(170)	-	(170)
Tax effect of employee benefits	-	45	-	45
Share of other comprehensive income on Pizza Pizza Royalty limited Partnership's cash flow hedge	-	(620)	-	(620)
Tax effect of cash flow hedge	-	145	-	145
Total comprehensive income (loss)	-	(600)	(3,835)	(4,435)
As at January 3, 2021	-	(756)	(104,625)	(105,381)

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

Pizza Pizza Limited
Consolidated Statements of Cash Flows
For the 52-week period ended January 2, 2022 and the 53-week period ended January 3, 2021
(Expressed in thousands of Canadian dollars)

	January 2, 2022 \$	January 3, 2021 \$
Operating activities		
Loss for the period	(859)	(3,835)
Depreciation of property, plant and equipment (note 4)	2,320	3,561
Depreciation of right-of-use asset (note 11)	16,044	15,747
Amortization of intangible assets (note 9)	848	1,374
Amortization of unearned vendor allowances	(864)	(935)
Amortization of deferred franchise fees (note 2)	207	(207)
Amortization of deferred gain (note 14)	(2,330)	(2,330)
Loss on (reversal of) impairment of lease receivable (note 10)	(70)	759
Net provision for notes receivable (note 5)	(8)	155
(Gain) loss on sale of Company-owned restaurants	(568)	46
(Gain) loss on remeasurement of lease modification (note 10)	(790)	-
Equity income from Pizza Pizza Royalty Limited Partnership (note 7)	(6,625)	(6,726)
Equity income from jointly-controlled companies (note 8)	(3,139)	(4,694)
Interest expense on leases, net (note 10)	3,209	3,082
Deferred income tax expense (note 15)	(1,731)	(2,589)
	5,644	3,408
Changes in non-cash operating elements of working capital (note 24)	254	12,673
Cash provided by operating activities	5,898	16,081
Investing activities		
Additions to property, plant and equipment (note 4)	(1,870)	(1,600)
Additions to intangible assets (note 9)	-	(15)
Proceeds from sale of Company-owned restaurants	1,987	980
Distributions from Pizza Pizza Royalty Limited Partnership (note 7)	6,856	6,481
Dividends from jointly-controlled companies (note 8)	3,848	4,894
Repayment of notes receivable	521	469
Issuance of notes receivable	(1,004)	(1,223)
Contributions to renovation funds	12,005	11,434
Disbursement from renovation funds	(13,328)	(14,936)
Withdrawals from (additions to) short-term investments	1,002	(3,502)
Rent payments collected on lease receivables - principal (note 10)	6,435	7,414
Rent payments collected on lease receivables - interest (note 10)	717	794
Cash provided by investing activities	17,169	11,190
Financing activities		
Repayments of borrowings	(373)	(94)
Lease payments – principal (note 10)	(20,486)	(21,614)
Lease payments – interest, net (note 10)	(3,926)	(3,876)
Repayment of advances from related party (note 23)	(6,495)	(3,351)
Advances from related party (note 23)	7,238	5,199
Cash used in financing activities	(24,042)	(23,736)
Increase (decrease) in cash and cash equivalents	(975)	3,535
Cash and cash equivalents, beginning of period	8,723	5,188
Cash and cash equivalents, end of period	7,748	8,723

See supplementary cash flow information (note 24)

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

Pizza Pizza Limited

Notes to the Consolidated Financial Statements

For the 52-week period ended January 2, 2022 and 53-week period ended January 3, 2021

(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 (Canada) on December 27, 1989, operates in the food service industry throughout Canada 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.

In November 2021, the Partnership and the Company entered into a licence and royalty agreement for international operations, under which the Company may be granted licences to use the Pizza Pizza Rights in connection with the business of franchising, licensing and/or operating restaurants dedicated to the sale of pizza and related products in designated territories outside of Canada, initially in Mexico. In consideration of the licence for Mexico, the Company is required to pay the Partnership, commencing with the first calendar month that is 18 months following the opening of the first traditional restaurant in Mexico, a fee calculated as 12.5% of the royalty received by the Company under the Master Franchise Agreement (without any deduction for withholding or any other taxes). The international licence and royalty agreement provides only for a cash royalty payment, and openings and closings of restaurants in Mexico will not result in changes to the Royalty Pool nor to the Class B and Class D Exchange Multipliers.

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:

	January 2, 2022	January 3, 2021
Franchisees and licensees	626	622
Jointly-controlled restaurants	80	79
Company-owned and managed restaurants	21	25

2. Significant Accounting Policies

The significant accounting policies applied in the preparation of these 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 consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The policies applied in these consolidated financial statements are based on IFRS standards, which have been applied consistently to all periods presented, unless otherwise stated. These consolidated financial statements were issued and effective as of March 2, 2022, the date the Directors approved the consolidated financial statements.

Pizza Pizza Limited

Notes to the Consolidated Financial Statements

For the 52-week period ended January 2, 2022 and 53-week period ended January 3, 2021

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

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

Interbank Offered Rates (“IBORs”) reform is the market-wide reform of interest rate benchmarks in which some IBORs are replaced with alternative risk-free rates. Consistent with global efforts, in Canada, benchmark reform initiatives are being led by the Canadian Alternative Reference Rate Committee (“CARR”), a group of financial sector firms and public sector institutions. CARR is tasked with promoting the use of the Canadian Overnight Repo Rate Average as a key risk-free interest rate benchmark as well as analyzing the current status of the Canadian Dollar Offered Rate (“CDOR”). As of May 17, 2021, the 6-month and 12-month CDOR tenors were discontinued on account of their minimal use. The 1-month, 2-month and 3-month CDOR tenors will continue to be published, though its relevance may decline or may ultimately be discontinued as well.

To address the impact IBOR reform has on financial reporting, in August 2020, the IASB issued Interest Rate Benchmark Reform—Phase 2, which amends IFRS 9, Financial Instruments, IAS 39, Financial Instruments: Recognition and Measurement, IFRS 7, Financial Instruments: Disclosures, IFRS 4, Insurance Contracts and IFRS 16, Leases. These amendments became effective for annual periods beginning on or after January 1, 2021.

Phase 2 amendments provide certain practical reliefs related to modifications of financial instruments or hedging relationships triggered by a replacement of a benchmark interest rate in a contract with a new alternative benchmark rate.

The Company assessed the impacts of the IBOR reform on its financial instruments and hedging relationships. As a result, the Company is not immediately impacted by the IBOR reform. The Company will continue to monitor future developments of CDOR and other applicable benchmark interest rates, and will elect the practical reliefs relating to financial instruments and hedges when applicable.

e) Basis of consolidation

These consolidated financial statements incorporate the assets and liabilities of the Company and its subsidiaries as at January 2, 2022 and January 3, 2021 and the results of these entities for the 52-week and 53-week periods ended, 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.

Pizza Pizza Limited

Notes to the Consolidated Financial Statements

For the 52-week period ended January 2, 2022 and 53-week period ended January 3, 2021

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

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 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 consolidated statements of income.

f) Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Company operates (the functional currency). These consolidated financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency.

g) Financial assets and liabilities

The classification of debt financial assets is based on two criteria: the Company's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion'). Based on the Company's assessment, cash and cash equivalents, short-term investments, trade and other receivables, lease receivables, receivables from jointly controlled companies, notes receivable and renovation fund receivables are carried at amortized cost, as these financial assets are held within a business model with the objective to hold the financial assets in order to collect the contractual cash flows that meet the SPPI criterion.

For financial liabilities, the Company measures its borrowings, trade and other payables, renovation fund liabilities, lease liabilities, and advances from related party at amortized cost.

h) Impairment of financial assets

IFRS 9 requires the Company to record an allowance for expected credit losses (ECLs) for all debt financial instruments held at amortized cost or fair value through other comprehensive income.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade and other receivables and receivables from jointly controlled companies, the Company has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Company has established a provision matrix that is based on the Company's historical credit loss experience, adjusted for

Pizza Pizza Limited

Notes to the Consolidated Financial Statements

For the 52-week period ended January 2, 2022 and 53-week period ended January 3, 2021

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

forward-looking factors specific to the debtors and the economic environment.

For all other financial assets of the Company that are held at amortized cost, the Company has applied the general approach and has calculated the expected credit losses at initial recognition by considering the outcomes and probabilities of potential defaults over the next 12 months. The Company will continue to apply this method until a significant increase in credit risk has occurred, at which point an allowance is measured based on lifetime ECLs. Cash equivalents and short-term investments are high grade investments that are held with reputable highly rated financial institutions. As such these assets are considered to be low credit risk investments. It is the Company's policy to measure such instruments on a 12-month ECL basis. In all cases, the Company will consider that there has been an increase in credit risk when contractual payments are more than 30 days past due. The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.

The ECL also includes the probability of default ("PD") incorporating loss given default and exposure at default. PD estimates represent a point in time PD, updated quarterly based on the Company's historical experience, current conditions, relevant forward-looking expectations over the expected life of the exposure to determine the PD curve. Forward-looking expectations include relevant macroeconomic variables. The ECL is measured over the period the Company is exposed to credit risk.

i) Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term deposits with a maturity at acquisition of less than 90 days.

j) Short-term investment

The short-term investment includes amounts invested in a Guaranteed Investment Certificate with a maturity at acquisition between 90 and 365 days.

k) Trade, other receivables and prepayments

Trade and other receivables are amounts due from the sale of goods to franchises and jointly-controlled entities, overnight settlement of credit card sales and prepayments on behalf of our franchisees. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade and other receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

l) Inventories

Inventories consist of food, supplies, and construction materials available to be sold to restaurants. Inventories are valued at the lower of cost and net realizable value. Cost is determined on the first-in, first-out basis.

m) Notes receivable

Notes receivable are amounts due from franchisees, with most bearing interest at agreed interest rates. Notes are classified as non-current taking into consideration their nature and management's intention with respect to timing of recovery of these balances.

Notes receivable are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

Pizza Pizza Limited

Notes to the Consolidated Financial Statements

For the 52-week period ended January 2, 2022 and 53-week period ended January 3, 2021

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

n) Property, plant and equipment

Owned assets

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses, if any. Historical cost includes expenditures that are directly attributable to the acquisition or construction of items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Company and the cost can be measured reliably. The carrying amount of any replaced part is derecognized. All other repairs and maintenance are charged to the consolidated statements of income during the period in which they are incurred.

Depreciation

Depreciation is calculated on a straight-line or declining balance basis to allocate the cost of the asset, less any residual value, over its estimated useful life. The depreciation method and range of estimated useful lives for each class of property, plant and equipment are as follows

On the declining balance method -

Equipment	20%
Furniture and fixtures	20%
Vehicles	30%

On the straight-line method -

Leasehold improvements	5 years
Computer - software	3 years
- hardware	4 years
Company-owned restaurant assets	5 years

The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant components and depreciates each component separately. Residual values, method of depreciation and useful lives of items of property, plant and equipment are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of general and administrative expenses in the consolidated statements of income.

o) Leases

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 subsequently measured at amortized cost using the effective interest method. It is remeasured

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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 included renewal options in the measurement of lease liabilities when it is reasonably certain to exercise the renewal 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. If the applicable criteria of transferring the majority of risks and rewards to the sublessee is met, the Company derecognizes the right-of-use asset relating to the head lease that it transfers to the sublessee, recognizes a corresponding lease receivable, and the lease liability relating to the head lease is retained. For the leases where the majority of risks and rewards to the sublessee is not met, the Company will retain the right-of-use asset relating to the asset and recognize revenue on the rental income. Similar to right-of-use assets, the lease receivable is periodically reduced by impairment losses, if any, and adjusted for certain lease renewals or modifications.

p) Intangible assets

Intangible assets are assets acquired that lack physical substance and that meet the specified criteria for recognition. Intangible assets with a finite life are recorded at cost and are amortized over the period of expected future benefit on the straight-line method:

Software

3 and 10 years

q) Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Specifically, assets are grouped at the cash-generating unit ("CGU") level, namely Pizza Pizza restaurants and Pizza 73 restaurants. In determining fair value less costs to sell, recent market transactions are taken into account, if available. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment losses are recognized in the consolidated statements of income.

The Company bases its impairment calculation on detailed budgets that are prepared for each of the CGUs and generally cover a period of one year. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the one-year period.

An assessment is made at each reporting date whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of income.

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r) Renovation funds

The Company maintains a long-term renovation program whereby franchisees contribute towards future restaurant renovations and upgrades. The franchise owner acknowledges that the renovation fund contribution may be used by PPL, without interest or other compensation to the franchise owner, to fund the renovation, expansion or relocation of other Pizza Pizza outlets until such time as the funds are required by the franchise owner for renovation, expansion or relocation of the franchised outlet.

s) Income taxes

Income tax expense for the period is composed of current and deferred tax. Income taxes are recognized in the consolidated statements of income except to the extent it relates to items recognized directly in equity.

Current income taxes

Current income tax expense is based on the income for the period as adjusted for items that are not taxable or not deductible. Current income taxes are calculated using tax rates and tax laws that were substantively enacted at the end of the reporting periods. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred taxes

Deferred taxes are recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred taxes are determined using tax rates (and tax laws) that have been enacted or substantively enacted by the consolidated statement of financial position dates and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled. The measurement of deferred tax assets and liabilities reflect the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets are recognized only to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current taxes and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority where there is an intention to settle the balances on a net basis.

t) Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less.

u) Borrowings

Borrowings are initially recognized at fair value net of any financing fees. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for more than 12 months. After initial recognition, borrowings are carried at amortized cost with any difference between the proceeds (net of financing fees) and the redemption value recognized in the consolidated statements of income over the period of the borrowing using the effective interest method.

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v) Provisions

Provisions represent liabilities to the Company for which the amount or timing is uncertain. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized in the consolidated statements of income.

w) Unearned vendor allowances

Unearned vendor allowances relate to an allowance received from a supplier in consideration of the achievement of certain volume and time commitments. The unearned vendor allowances are being amortized based on the proportion of volume commitments met during each period.

x) Common shares and special voting shares

Common shares and special voting shares are classified as equity. Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction, net of income taxes, from the proceeds.

y) Revenue recognition

The Company recognizes revenue on the following basis:

- Food sales are recognized when the products are delivered to the franchised and jointly-controlled restaurants. Pizza Pizza franchisees and joint ventures are required to purchase from Pizza Pizza, at an agreed markup on cost, all of the raw materials and supplies used and sold in their Pizza Pizza restaurants. Payment for materials and supplies are due within seven days.
- Company-owned and managed restaurant retail sales are recognized when the services are rendered and the products are sold to the public. Payment by the public is immediate.
- Franchise royalties are recognized as earned and are based on a percentage of the franchisees' sales as provided for in individual franchise agreements. Royalties are due within seven days.
- A portion of the initial and all the renewal franchise fees are amortized over the initial and renewal term of the franchise agreement, respectively. The initial franchise fee is payable, in full, at the commencement of the agreement and is non-refundable. The renewal fee is charged to franchisees upon renewal of their franchise agreement, which is typically five years from the initial agreement.
- Construction fees are recognized when the costs are incurred. Fees are generated by the Company acting as general contractor as per the franchise agreement.
- Interest and other income is recognized and accrued when earned. Interest income is derived from notes receivable with franchisees and investments in cash equivalents that have maturity dates less than 90 days.
- Administration and accounting fees are based on a percentage of retail sales as provided for in the individual contractual agreements for both franchisee and joint venture partners. Revenue is recognized over time using the right to invoice practical expedient. Payment is generally due in seven days, as such a receivable is recognized as the consideration is unconditional and only the passage of time is required before payment is collected.
- Rental income is recognized when the Company leases a premise to a franchisee under an operating lease

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z) Employee Benefits

Expenses relating to employee benefits are included in general and administrative expenses. Liabilities relating to employee benefits, including post-employment benefits, are included in trade and other payables. Changes in the liabilities due to changes in actuarial assumptions and experience adjustments are recognized in other comprehensive income.

aa) Gift Cards

The Company administers a gift card program on behalf of its franchisees as part of its advertising activities. The purpose of the program is to expand the brand through increased exposure, as well as to increase system-wide sales. The liability related to the gift cards represent the prepaid amounts not yet redeemed by customers and is recorded within trade and other payables.

Income is recognized as store service contributions when breakage is recorded. Breakage is estimated and recorded based on historical experience of redemption patterns.

bb) Critical accounting estimates and judgments

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Significant estimates and judgements made by management in the application of IFRS that have a significant effect on the amounts recognized in the consolidated financial statements are as follows:

Impairment of investment in Pizza Pizza Royalty Limited Partnership

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

The value-in-use calculation requires the Company to estimate the future cash flows expected to arise from the Partnership and a suitable discount rate in order to calculate present value. In measuring future cash flows, the Company makes assumptions about future sales and terminal growth rates that are based on historical experience and expected future performance. Determining the applicable discount rate also involves estimating appropriate adjustments to market risk and the Company's specific risk factors. The two most sensitive assumptions are pre-tax discount rates and terminal growth rates.

Impairment of investment in jointly-controlled companies

The Company, at each period-end, identifies impairment indicators and assesses 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 charged to the consolidated statements of income.

The value-in-use calculation requires the Company to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. In measuring future cash flows, The Company makes assumptions about future sales, tax rates, and terminal growth rates that were based on historical experience and expected future performance. Determining the applicable discount rate also involves estimating appropriate adjustments to market risk and the Company's specific risk factors. The two most sensitive assumptions used are pre-tax discount rates and terminal growth rates.

Impairment of non-trade assets

The Company, at each period-end, identifies impairment indicators and assesses whether there is any objective evidence that its non-trade assets are impaired. If impaired, the carrying value of these assets is written down to its

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estimated recoverable amount, and charged to the consolidated statements of income.

cc) Critical judgments

Consolidation

Determining which entities are to be consolidated by the Company requires judgment on the definition of control. The definition of control under IFRS 10, *Consolidated Financial Statements* ("IFRS 10"), states that an investor controls an investee when it has power over the investee, 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. Based on an assessment of the activities of the Partnership and the franchisees, it was concluded that the Company does not control these entities, and therefore shall not consolidate their operations. The Partnership is consolidated by Pizza Pizza Royalty Corp ("PPRC"), formerly Pizza Pizza Royalty Income Fund (the "Fund").

Identification of CGUs

For the purposes of identifying CGUs, assets are grouped at the lowest levels for which there are separately identifiable cash flows. The Company concludes there are interdependencies of cash flows between Pizza 73 restaurants and the Company and therefore, the investment in jointly-controlled Pizza 73 restaurants is considered a single CGU. The Company's assets pertaining to Pizza Pizza operations are classified as a separate CGU group.

3. Trade, other receivables and prepayments

	As at January 2, 2022	As at January 3, 2021
Trade receivables	3,076	3,098
Less: provision for impairment of trade receivables	(206)	(415)
Trade receivables less provision for impairment	2,870	2,683
Overnight settlement of credit card sales	3,678	2,966
Other receivables	2,928	3,317
Prepayments	1,408	2,266
Total trade, other receivables and prepayments	10,884	11,232

	For the 52-week period ended January 2, 2022	For the 53-week period ended January 3, 2021
Movements in the provision for impairment of trade receivables		
Opening balance	415	478
Provisions made during the period	58	201
Utilization of the impairment provision	(267)	(264)
Closing balance	206	415

The establishment and release of the provision for impaired trade receivables have been included within general and administrative expenses in the consolidated statements of income. Amounts charged to the provision are based on the Company's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and their economic environment. The other receivables within trade, other receivables and prepayments contain impaired assets and accordingly \$1,547 was provided for (January 3, 2021 - \$1,236).

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4. Property, plant and equipment

	Equipment	Furniture and fixtures	Vehicles	Leasehold improvements	Computer hardware and software	Company-owned restaurant assets	Total
52-week period ended January 2, 2022							
Opening net book value	1,057	173	419	456	327	6,356	8,788
Additions ⁽¹⁾	182	11	-	29	364	1,665	2,251
Disposals	-	-	-	-	-	(1,141)	(1,141)
Depreciation charge	(261)	(41)	(126)	(199)	(136)	(1,557)	(2,320)
Closing net book value	978	143	293	286	555	5,323	7,578
Cost	13,373	1,162	1,288	7,940	15,892	24,117	63,772
Accumulated depreciation	(12,395)	(1,019)	(995)	(7,654)	(15,337)	(18,794)	(56,194)
Net book value	978	143	293	286	555	5,323	7,578

	Equipment	Furniture and fixtures	Vehicles	Leasehold improvements	Computer hardware and software	Company-owned restaurant assets ¹	Total
53-week period ended January 3, 2021							
Opening net book value	1,195	219	599	599	466	7,927	11,005
Additions	156	-	-	144	-	2,221	2,521
Disposals	-	-	-	-	-	(1,177)	(1,177)
Depreciation charge	(294)	(46)	(180)	(287)	(139)	(2,615)	(3,561)
Closing net book value	1,057	173	419	456	327	6,356	8,788
Cost	13,191	1,151	1,292	7,912	15,528	25,877	64,951
Accumulated depreciation	(12,134)	(978)	(873)	(7,456)	(15,201)	(19,521)	(56,163)
Net book value	1,057	173	419	456	327	6,356	8,788

(1) Additions to Company-owned restaurant assets include \$376 (January 3, 2021 - \$921) of assets that were acquired in exchange for borrowings assumed (note 13).

Depreciation in the amount of \$173 for the 52-week period ended January 2, 2022 (53-week period ended January 3, 2021 - \$147) has been recovered from franchisees. Accumulated depreciation of \$2,287 on disposals (January 3, 2021 - \$1,856) has been removed from accumulated depreciation on property plant and equipment as at January 2, 2022.

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5. Notes receivable

	As at January 2, 2022	As at January 3, 2021
From franchisees, bearing interest from 5% to 10% (January 3, 2021 – 6% to 9%)	1,385	1,246
From franchisees, non-interest bearing	347	118
Less: provision for impairment of notes receivable	(147)	(155)
Total notes receivable	1,585	1,209

The notes receivable from franchisees are unsecured and are repayable in varying monthly principal amounts. The effective interest rate on the notes receivable as at January 2, 2022 is 5.82% (January 3, 2021 – 6.43%).

	For the 52-week period ended January 2, 2022	For the 53-week period ended January 3, 2021
Movements in the provision for impairment of notes receivable		
Opening balance	155	-
Derecognition of provisions made during the period	(8)	-
Provisions made during the period	-	155
Closing balance	147	155

6. Renovation funds

The renovation funds are non-interest bearing and are collected from franchisees on a weekly basis at amounts based on a percentage of sales. A provision of \$715 was recorded for impaired renovation fund receivables (January 3, 2021 - \$730).

7. Investment in Pizza Pizza Royalty Limited Partnership

The Company owns Class B and Class D Partnership Units that are exchangeable for PPRC shares based on the Exchange Multiplier applicable at the exchange date and represent an effective 23.5% interest in the Partnership as at January 2, 2022 (January 3, 2021 – 23.5%).

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

	For the 52-week period ended January 2, 2022	For the 53-week period ended January 3, 2021
Balance – beginning of period	23,029	23,404
Equity income of the Partnership	6,625	6,726
Distributions received from Partnership	(6,856)	(6,481)
Share of Partnership other comprehensive income	478	(620)
Balance – end of period	23,276	23,029

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

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

	As at January 2, 2022	As at January 3, 2021
Total assets	367,534	365,587
Total liabilities	79,496	81,437
	For the 52-week period ended January 2, 2022	For the 53-week period ended January 3, 2021
Revenue	31,919	31,789
Profit for the period	30,005	30,433

a. 2020 Royalty Pool Adjustment

In early January 2021 a second adjustment was made to the royalty payments and PPL'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 PPL'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 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 PPL 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

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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 PPL 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. 2021 Royalty Pool Adjustment

In early January 2022 a second adjustment was made to the royalty payments and PPL's Class B Exchange Multiplier based on the actual performance of the nine new restaurants added to the Royalty Pool on January 1, 2021. The final 2021 Pizza Pizza Royalty Pool adjustment confirmed that a Make-Whole Payment for 2021 is to be paid and calculated as a percentage of \$14,476 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, 2021.

In early January 2022, a second adjustment was made to the royalty payments and PPL's Class D Exchange Multiplier based on the actual performance of the one Pizza 73 restaurant added to the Royalty Pool on January 1, 2021. The final 2021 Pizza 73 Royalty Pool adjustment confirmed that a Make-Whole Payment for 2021 is to be paid and calculated as a percentage of \$649 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, 2021.

e. 2022 Royalty Pool Adjustment – Class B Exchange Multiplier

On January 1, 2022, two net Pizza Pizza restaurants were added from the Royalty Pool as a result of 34 new restaurants opening and 32 closing from January 1, 2021 to December 31, 2021. The total number of Pizza Pizza restaurants in the Royalty Pool has increased to 624. The additional system sales from the 34 new restaurants are estimated at \$13,312 annually, less sales of \$3,263 from the 32 permanently closed Pizza Pizza restaurants. As a result, \$10,049 net, estimated Pizza Pizza sales were added to the Royalty Pool and applied against the \$15,257

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Make-Whole Carryforward Amount, reducing the Estimated Determined Amount to zero for January 1, 2022. The remaining Make-Whole Carryover Amount of \$5,208 will be carried over, and a royalty 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.

The yield of the shares was determined to be 5.8% calculated using \$11.76 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, 2022. 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, 2022, once the actual performance of the new restaurant is determined in early 2023.

f. 2021 Royalty Pool Adjustment – Class D Exchange Multiplier

On January 1, 2022, the Pizza 73 Royalty Pool remained unchanged as a result of three new restaurants opening between September 2, 2020 and September 1, 2021 and three restaurants closing between January 1, 2021 and December 31, 2021. The forecasted additional system sales from the three new restaurant is estimated at \$1,118 annually, less \$254 in system sales attributable to the three closed Pizza 73 restaurants. As a result, \$864 net, estimated Pizza 73 sales were added to the Royalty Pool. The net estimated sales were further reduced by \$455 in system sales attributable to certain restaurants previously added to the Royalty Pool whose territory adjusted a previously existing restaurant. The \$864 of Pizza 73 sales added to the Royalty Pool are applied against the \$1,341 Make-Whole Carryover Amount, reducing the Estimated Determined Amount to zero for January 1, 2022. The remaining Make-Whole Carryover Amount of \$477 will be carried over, and continue to be paid for subsequent years, until on an Adjustment Date, additional system sales of additional restaurants are sufficient to offset the Pizza 73 system sales attributable to all closed Pizza 73 restaurants.

The yield of the shares was determined to be 5.8% calculated using \$11.76 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, 2022. 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, 2022, once the actual performance of the new restaurant is determined in early 2023.

g. Pizza Pizza Royalty Corp. Outstanding Shares

PPL's Class B and Class D equivalent Share entitlement is unchanged for 2022, as the January 1, 2022 forecasted system sales are less than the Make-Whole Carryforward Amount. 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 2022 due to the Make-Whole Carryover Amount, no increase or decrease in the Exchange Multiplier is made. PPL will only have a Class B or D equivalent Share entitlement for 2022 if the actual sales performance of the new restaurants exceeds the Make-Whole Carryforward Amount when the actual sales performance is known with certainty in early 2023.

After giving effect to PPL's entitlement to additional equivalent Shares at January 1, 2022, PPL owns equivalent Shares representing 23.5% of the Company's fully diluted shares.

The chart below shows the shares that would be outstanding if all of the Class B and Class D Units held by the Company were converted to PPRC shares after accounting for their respective multipliers and adjustments as described below, after the impact of the January 1, 2022 Adjustment Date.

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

Shares outstanding & issuable on January 1, 2022		
Shares outstanding		24,618,392
Class B equivalent Shares held by PPL at December 31, 2021	5,313,909	
PPL additional Class B Equivalent Shares - True-up Holdback as at December 31, 2021	-	
Additional PPL Class B equivalent Shares as of January 1, 2022	-	5,313,909
Class D equivalent Shares held by PPL at December 31, 2021	2,244,975	
PPL additional Class D Equivalent Shares - True-up Holdback as at December 31, 2021	-	
Additional PPL Class D equivalent Shares as of January 1, 2022	-	2,244,975
Number of fully diluted shares		32,177,276
		23.5%

8. 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 PPL's investment in the jointly-controlled companies, which is accounted for using equity accounting.

	For the 52-week period ended January 2, 2022	For the 53-week period ended January 3, 2021
Balance – beginning of period	18,377	18,577
Equity income from jointly-controlled companies	3,139	4,694
Dividends received from jointly-controlled companies	(3,848)	(4,894)
Balance – end of period	17,668	18,377

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

	For the 52-week period ended January 2, 2022	For the 53-week period ended January 3, 2021
Revenue	34,391	39,356
Expenses	(31,252)	(34,662)
Income for the period after income taxes	3,139	4,694

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9. Intangible assets

	For the 52-week period ended January 2, 2022	For the 53-week period ended January 3, 2021
Opening net book value	2,699	4,058
Additions	-	15
Amortization charge	(848)	(1,374)
Closing net book value	1,851	2,699
Cost	6,065	6,065
Accumulated amortization	(4,214)	(3,366)
Net book value	1,851	2,699

Amortization in the amount of \$458 for the 52-week period ended January 2, 2022 has been recovered from franchisees (53-week period ended January 3, 2021 - \$914).

10. Leases

Lease receivable	As at January 2, 2022	As at January 3, 2021
Opening balance	14,335	21,548
Lease additions and remeasurements	12,403	960
Reversal of (loss on) impairment of lease receivable	70	(759)
Rent payments collected	(7,153)	(8,208)
Interest income	717	794
Total lease receivable	20,372	14,335
Less: current portion	(4,722)	(5,815)
Total non-current lease receivable	15,650	8,520

Undiscounted lease receivables mature over the following periods:

	2022	2023	2024	2025	2026	Thereafter
Lease payments to be received	5,843	6,210	4,564	3,101	1,864	2,378
Less: unearned finance interest income	(1,121)	(1,023)	(570)	(387)	(233)	(254)
Total finance lease receivable	4,722	5,187	3,994	2,714	1,631	2,124

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 an expected credit loss recovery (provision) on lease receivables of \$70 for the 52-week period ended January 2, 2022 (53-week period ended January 3, 2021 – (\$759)).

The Company remeasured lease liabilities for an increase of \$29.7 million, offset by amortization of \$20.5 million in the period.

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Lease Liability	As at January 2, 2022	As at January 3, 2021
Opening balance	84,858	95,455
Lease additions and remeasurements	29,713	11,017
Lease payments	(24,412)	(25,490)
Accretion of interest expense	3,926	3,876
Total lease liability	94,085	84,858
Less: current portion	(21,435)	(21,973)
Total non-current lease liability	72,650	62,885

Lease obligations were measured at the present value of remaining lease payments at the commencement date, discounted at the Company's incremental borrowing rate. Costs not included in the measurement of the lease obligation for the 52 weeks ended January 2, 2022 are as follows:

	For the 52-week period ended January 2, 2022	For the 53-week period ended January 3, 2021
Expenses related to low-value leases	80	91

Lease liabilities mature over the following periods:

	2022	2023	2024	2025	2026	Thereafter
Lease liabilities	22,819	19,239	16,263	12,764	8,420	25,037

11. Right-of-Use Asset

	As at January 2, 2022	As at January 3, 2021
Opening balance	65,485	71,269
Lease additions and remeasurements	18,310	9,963
Depreciation of right-of-use asset	(16,044)	(15,747)
Total right-of-use asset	67,751	65,485

The Company recognized rental income for the 52-week period ended January 2, 2022 of \$12,220 (53-week period ended January 3, 2021 - \$11,049)¹, including \$2,471 of rental income relating to variable lease payments that do not depend on an index or rate (53-week period ended January 3, 2021 - \$2,095)¹.

¹ Certain comparative figures have been restated to conform with current year presentation.

12. Trade and other payables

	As at January 2, 2022	As at January 3, 2021
Trade payables and accruals	35,549	31,076
Sales tax payable	7,920	7,842
Other payables	4,638	7,048
Total trade and other payables	48,107	45,966

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13. Borrowings

	As at January 2, 2022	As at January 3, 2021
Notes payable, bearing interest from 4.45% to 6.55%, repayable in varying monthly principal amounts, maturing between 2022 and 2031. These notes were secured by specific company-owned restaurant assets. The effective interest rate as at January 2, 2022 was 5.41% (January 3, 2021 – 4.69%).	1,144	1,158
Less: current portion	(204)	(291)
Total non-current borrowings	940	867

14. Deferred gain

The deferred gain arose following the sale of the Pizza Pizza Rights and Marks to the Partnership following the initial public offering of the Fund. Concurrent with the sale, the Company entered into a 99-year License and Royalty Agreement with the Partnership, whereby the Company has the right to use the Rights and Marks and pays a royalty equal to 6% of the total system sales of restaurants in the Royalty Pool. The deferred gain is being amortized on a straight-line basis over the term of the License and Royalty Agreement.

The movement in the deferred gain balance during each period is as follows:

	For the 52-week period ended January 2, 2022	For the 53-week period ended January 3, 2021
Balance – beginning of period	194,559	196,889
Amortization for the period	(2,330)	(2,330)
Balance – end of period	192,229	194,559

A summary of the deferred gain and accumulated amortization at the end of each period is as follows:

	As at January 2, 2022	As at January 3, 2021
Deferred gain	230,675	230,675
Accumulated amortization	(38,446)	(36,116)
Balance – end of period	192,229	194,559

15. Income taxes

The components of the income tax (expense) recovery are as follows:

	For the 52-week period ended January 2, 2022	For the 53-week period ended January 3, 2021
Deferred tax recovery (expense)	1,731	2,589

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The reconciliation to the statutory tax rate is as follows:

	For the 52-week period ended January 2, 2022	For the 53-week period ended January 3, 2021
Income (loss) for the period before income taxes	(2,590)	(6,424)
Combined Canadian federal and provincial rates	26.31%	26.35%
Computed expected income tax recovery (expense)	681	1,693
Equity income from jointly-controlled companies	826	1,237
Rate differential	42	(322)
Permanent adjustments	(12)	(19)
Prior year adjustments	281	(1)
Change in unrecognized deferred tax asset	(87)	-
Other	-	1
Income tax recovery (expense)	1,731	2,589

The deferred tax asset arises as a result of the temporary difference between the accounting and tax basis as shown below.

	As at January 2, 2022	As at January 3, 2021 ¹
Deferred gain	50,575	51,165
Lease liability	24,024	22,316
Non-capital losses carried forward	12,078	9,681
Unearned vendor allowance	674	901
IFRS 15 Adjustments	505	451
Ontario Corporate Minimum Tax	493	487
Provisions and other	177	433
Employee benefits	130	269
Share of cash flow hedge of Pizza Pizza Royalty Limited Partnership	6	126
Donations	-	78
Intangible assets	(487)	(710)
Property, plant and equipment	(1,335)	(1,444)
Lease receivable	(4,994)	(3,770)
Investment in Pizza Pizza Royalty Limited Partnership	(10,103)	(9,945)
Right-of-use asset	(17,461)	(17,221)
Deferred tax asset	54,282	52,817

¹ Certain comparative figures have been restated to conform with current year presentation.

16. Non-lease commitments and contingencies

The Company is a party to various legal proceedings, mainly related to claims brought against it by former franchisees. It is not possible at this time to determine the outcome of these proceedings and, accordingly, no provisions have been made in these consolidated financial statements.

The Company has entered into an agreement with certain lenders to establish a line of credit of \$34,780 (January 3, 2021 – \$34,780) for the purpose of providing certain equipment and leasehold improvement loans to its franchisees. As security under these lines of credit facilities, the Company has provided certain guarantees as described in the agreement including a letter of credit in the amount of \$3,478 (January 3, 2021 – \$3,478). The Company has the right to increase the limit under these credit facilities by providing additional letters of credit.

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As security for repayment of a borrowing facility held by the Partnership to the amount of \$47,000, the Company has granted a continuing, general security interest, subject to certain exceptions, in all present and acquired property of the Company, which may not be assigned without the prior consent of the Company. With respect to the Partnership's borrowing facility, the Company must comply with certain financial covenants. As at January 2, 2022, the Company was in compliance with these financial covenants.

The Company's future minimum payments for marketing sponsorships is \$13,342, maturing over the following periods:

	2022	2023	2024	2025	2026
Sponsorship commitments	3,555	2,787	2,630	2,709	1,661

17. Common shares and special voting shares

	As at January 2, 2022	As at January 3, 2021
Authorized without limit as to number -		
Common shares (with no par value)		
Special voting shares, non-participating, entitling the holder to one vote per share (with no par value)		
Issued and paid -		
100 common shares	100	100
100,000 special voting shares	100	100
Total common shares and special voting shares	200	200

18. Capital disclosures

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for the shareholder and benefits for other stakeholders and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Company evaluates its capital as all components of shareholders' deficiency, other than amounts in accumulated other comprehensive loss related to the Company's share of the Partnership's cash flow hedge.

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, The Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

19. Food sales

Food sales include the following:

	For the 52-week period ended January 2, 2022	For the 53-week period ended January 3, 2021
Food sales	136,799	136,024
Company-owned restaurant sales	14,571	16,433
Total food sales	151,370	152,457

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20. Royalties, franchise fees and other revenue

Royalties, franchise fees and other revenue include the following:

	For the 52-week period ended January 2, 2022	For the 53-week period ended January 3, 2021 ¹
Royalties	21,292	21,306
Rental income	12,220	11,049
Initial and renewal franchise fees	2,632	1,862
Construction fees	1,336	453
Administration and accounting fees	2,375	2,313
Total royalties, franchise fees and other revenue	39,855	36,983

¹ Certain comparative figures have been restated to conform with current year presentation.

21. Store service contributions and expenditures

	For the 52-week period ended January 2, 2022	For the 53-week period ended January 3, 2021
Advertising services	27,009	28,218
Order processing services	12,524	13,438
Commissary food services	31,053	32,696
Total store service contributions	70,586	74,352

Store service expenditures include the following:

	For the 52-week period ended January 2, 2022	For the 53-week period ended January 3, 2021
Advertising services	27,753	29,109
Order processing services	13,549	13,736
Commissary food services	31,968	33,009
Total store service expenditures	73,270	75,854

The Company provides advertising and order processing services to Pizza Pizza restaurants. Commissary food services are provided to Pizza 73 restaurants in addition to advertising and order processing services. Expenses related to the provision of these services are administered and paid by the Company. The Company recovers advertising expenses based on a percentage of individual restaurant retail sales, order processing service expenses based on the number of orders directed to the restaurant, and commissary services at an agreed upon mark up on cost.

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22. Expenses by nature

The following table summarizes significant general and administrative expenses:

	For the 52-week period ended January 2, 2022	For the 53-week period ended January 3, 2021
Depreciation of property, plant and equipment	2,145	3,561
Depreciation of right-of-use asset	16,044	15,747
Amortization of intangible assets	391	331
Company store expenses	7,551	7,417
Employee benefit expense ⁽ⁱ⁾	14,409	16,363

(i) The Company recognized government grants as a reduction of the related expense that the grant was intended to offset. The Company received \$935 for the 52-week period ended January 2, 2022 (53-week period ended January 3, 2021 - \$2,264).

23. Related party transactions

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

	For the 52-week period ended January 2, 2022	For the 53-week period ended January 3, 2021
Lease payments ⁽ⁱ⁾	2,484	2,111
Food purchases ⁽ⁱ⁾	11,143	10,406
Recovery of expenses ⁽ⁱ⁾	600	600
Administration and accounting fee revenue ⁽ⁱⁱ⁾	2,387	2,612

⁽ⁱ⁾ Transactions with commonly controlled companies

⁽ⁱⁱ⁾ Transactions with jointly-controlled companies

As at January 2, 2022, the Company has trade payables of \$936 (as at January 3, 2021 - \$705) payable to a company under common management control. As at January 2, 2022, trade and other payables includes amounts payable of \$2,307 (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 January 2, 2022	As at January 3, 2021
Receivables from jointly-controlled companies	3,138	2,951
Advances to related party	343	1,085

Advances to related party are due to the parent company. The majority of 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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Key management compensation

The compensation expense or amounts payable to management, including officers and directors, is shown below:

	For the 52-week period ended January 2, 2022	For the 53-week period ended January 3, 2021
Salaries, severance and other short-term employee benefits	1,375	4,449
Other long-term benefits	351	13
Total key management compensation	1,726	4,462

24. Statements of cash flows information

Changes in non-cash working capital are as follows:

	For the 52-week period ended January 2, 2022	For the 53-week period ended January 3, 2021
Trade and other receivables	348	8,485
Inventories	(1,631)	(32)
Receivables from jointly-controlled companies	(74)	(46)
Trade and other payables	2,141	3,645
Deposits from franchisees	(530)	656
Changes in non-cash operating elements of working capital	254	12,673
Interest paid	52	50

25. 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 January 2, 2022 of 5.82% (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 January 2, 2022 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

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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 January 2, 2022		As at January 3, 2021	
		Carrying value	Fair value	Carrying value	Fair value
Notes receivable	AC	1,585	1,517	1,364	1,058
Borrowings	AC	1,144	959	1,158	979

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.

Please refer to note 2 for PPL's accounting policy on impairment of the receivables. Additionally, a reconciliation of the provision for impairment of trade, other receivables and prepayments is shown in note 3 and a reconciliation of the provision for notes receivable is shown in note 5.

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

	As at January 2, 2022	As at January 3, 2021
Past due 0-30 days	679	291
Past due 31-120 days	925	786
Total trade receivables past due, but not impaired	1,604	1,077

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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 January 2, 2022:

	Carrying amount	0 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
Trade and other payables	48,107	48,107	-	-	-
Deposits from franchisees	2,022	2,022	-	-	-
Borrowings	1,144	204	183	179	578

Interest Rate Risk

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

26. Seasonality

PPL's revenue follows the seasonality of system sales. Historically, system sales experience a decrease in the first calendar quarter when compared to the fourth quarter, which has historically been the strongest quarter.