



## **PIZZA PIZZA LIMITED**

**Unaudited Interim Condensed Consolidated Financial Statements  
For the 13 and 39 weeks ended October 2, 2022**

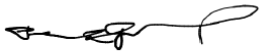
**Pizza Pizza Limited**  
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**NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

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

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



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Paul Goddard  
Chief Executive Officer



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Christine D'Sylva  
Chief Financial Officer

**Pizza Pizza Limited**  
**Unaudited Interim Consolidated Statements of Financial Position**  
**As at October 2, 2022 and January 2, 2022**  
**(Expressed in thousands of Canadian dollars)**

	October 2, 2022 \$	January 2, 2022 \$
<b>Current assets</b>		
Cash and cash equivalents	6,847	7,748
Short-term investment	9,995	7,509
Trade, other receivables and prepayments	8,933	10,884
Inventories	7,609	7,921
Lease receivable (note 6)	4,595	4,722
Receivables from jointly-controlled companies (note 12)	1,501	1,874
<b>Total current assets</b>	<b>39,480</b>	<b>40,658</b>
<b>Non-current assets</b>		
Property, plant and equipment	6,291	7,578
Notes receivable	2,116	1,585
Renovation funds	9,459	8,603
Receivables from jointly-controlled companies (note 12)	1,391	1,264
Advances to related party (note 12)	-	343
Investment in Pizza Pizza Royalty Limited Partnership (note 3)	23,732	23,276
Investment in jointly-controlled companies (note 4)	17,184	17,668
Deferred tax asset	54,765	54,282
Lease receivable (note 6)	21,549	15,650
Right-of-use asset (note 5)	70,556	67,751
Intangible assets	1,501	1,851
<b>Total non-current assets</b>	<b>208,544</b>	<b>199,851</b>
<b>Total assets</b>	<b>248,024</b>	<b>240,509</b>
<b>Liabilities and shareholders' deficiency</b>		
<b>Current liabilities</b>		
Trade and other payables	46,893	48,107
Deposits from franchisees	1,987	2,022
Borrowings (note 7)	177	204
Lease liability (note 6)	21,728	21,435
<b>Total current liabilities</b>	<b>70,785</b>	<b>71,768</b>
<b>Non-current liabilities</b>		
Advances from related party (note 12)	3,147	-
Borrowings (note 7)	900	940
Deferred franchise fees	2,059	1,921
Unearned vendor allowances	1,824	2,564
Renovation funds	3,617	3,939
Lease liability (note 6)	83,494	72,650
Deferred gain	190,481	192,229
<b>Total non-current liabilities</b>	<b>285,522</b>	<b>274,243</b>
<b>Shareholders' deficiency</b>		
Common shares and special voting shares	-	-
Accumulated other comprehensive loss	434	(18)
Deficit	(108,717)	(105,484)
<b>Total shareholders' deficiency attributable to the shareholders</b>	<b>(108,283)</b>	<b>(105,502)</b>
<b>Total liabilities and shareholders' deficiency</b>	<b>248,024</b>	<b>240,509</b>

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.  
Approved by the Directors on November 7, 2022.

**Pizza Pizza Limited**  
**Unaudited Interim Consolidated Statements of Income (Loss)**  
**For the 13-week and 39-week periods ended October 2, 2022 and October 3, 2021**  
**(Expressed in thousands of Canadian dollars)**

	For the 13- week period ended October 2, 2022 \$	For the 13- week period ended October 3, 2021 \$	For the 39- week period ended October 2, 2022 \$	For the 39- week period ended October 3, 2021 \$
<b>Revenue</b>				
Food sales (note 8)	45,704	39,674	127,787	109,190
Royalties, franchise fees and other revenue (note 9)	11,847	9,960	33,588	27,226
Store service contributions (note 10)	18,687	17,671	55,158	51,239
<b>Total revenue</b>	<b>76,238</b>	<b>67,305</b>	<b>216,533</b>	<b>187,655</b>
Cost of food sales	(37,220)	(31,700)	(103,689)	(88,014)
General and administrative expenses (note 11)	(14,858)	(11,128)	(42,730)	(32,525)
Store service expenditures (note 10)	(19,105)	(15,565)	(54,012)	(51,397)
Royalty payments	(9,547)	(8,335)	(26,603)	(23,025)
Reversal of (loss on) impairment of lease receivable (note 6)	(56)	5	(262)	360
Equity income from Pizza Pizza Royalty Limited Partnership (note 3)	2,033	1,887	5,604	4,766
Equity income from jointly-controlled companies (note 4)	742	435	1,889	2,300
Gain (loss) on sale of Company-owned restaurants	(143)	(284)	(55)	175
<b>Operating income (loss)</b>	<b>(1,916)</b>	<b>2,620</b>	<b>(3,325)</b>	<b>295</b>
Interest and other income	99	72	255	216
Amortization of deferred gain	583	583	1,748	1,748
Interest on borrowings and other liabilities	(901)	(856)	(2,557)	(2,411)
<b>Income (loss) for the period before income taxes</b>	<b>(2,135)</b>	<b>2,419</b>	<b>(3,879)</b>	<b>(152)</b>
Deferred tax recovery (expense)	455	(835)	646	(363)
<b>Income (loss) for the period attributable to the shareholders of Pizza Pizza Limited</b>	<b>(1,680)</b>	<b>1,584</b>	<b>(3,233)</b>	<b>(515)</b>

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

**Pizza Pizza Limited**  
**Unaudited Interim Consolidated Statements of Comprehensive Income (Loss)**  
**For the 13-week and 39-week periods ended October 2, 2022 and October 3, 2021**  
**(Expressed in thousands of Canadian dollars)**

	For the 13- week period ended October 2, 2022 \$	For the 13- week period ended October 3, 2021 \$	For the 39- week period ended October 2, 2022 \$	For the 39- week period ended October 3, 2021 \$
<b>Income (loss) for the period</b>	<b>(1,680)</b>	<b>1,584</b>	<b>(3,233)</b>	<b>(515)</b>
<b>Other comprehensive income (loss)</b>				
<i>Items that may be reclassified subsequently to net income:</i>				
Share of other comprehensive income of the Pizza Pizza Royalty Limited Partnership (note 3)	95	45	615	321
Deferred tax impact of share of other comprehensive income of Pizza Pizza Royalty Limited Partnership	(25)	(12)	(163)	(85)
<b>Total comprehensive income (loss) attributable to shareholders</b>	<b>(1,610)</b>	<b>1,617</b>	<b>(2,781)</b>	<b>(279)</b>

**Pizza Pizza Limited**  
**Unaudited Interim Consolidated Statements of Changes in Shareholders' Deficiency**  
**For the 39-week periods ended October 2, 2022 and October 3, 2021**  
**(Expressed in thousands of Canadian dollars)**

	Common shares and special voting shares \$	Accumulated other comprehensive loss \$	Deficit \$	Total \$
<b>As at January 2, 2022</b>	-	<b>(18)</b>	<b>(105,484)</b>	<b>(105,502)</b>
<b>Comprehensive income (loss)</b>				
Loss for the 39-week period ended October 2, 2022	-	-	(3,233)	(3,233)
Share of other comprehensive income on Pizza Pizza Royalty limited Partnership's cash flow hedge	-	615	-	615
Tax effect of cash flow hedge	-	(163)	-	(163)
<b>Total comprehensive income (loss)</b>	-	<b>452</b>	<b>(3,233)</b>	<b>(2,781)</b>
<b>As at October 2, 2022</b>	-	<b>434</b>	<b>(108,717)</b>	<b>(108,283)</b>
<b>As at January 3, 2021</b>	-	<b>(756)</b>	<b>(104,625)</b>	<b>(105,381)</b>
<b>Comprehensive income (loss)</b>				
Loss for the 39-week period ended October 3, 2021	-	-	(515)	(515)
Share of other comprehensive income on Pizza Pizza Royalty limited Partnership's cash flow hedge	-	321	-	321
Tax effect of cash flow hedge	-	(85)	-	(85)
<b>Total comprehensive income (loss)</b>	-	<b>236</b>	<b>(515)</b>	<b>(279)</b>
<b>As at October 3, 2021</b>	-	<b>(520)</b>	<b>(105,140)</b>	<b>(105,660)</b>

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

**Pizza Pizza Limited**  
**Unaudited Interim Consolidated Statements of Cash Flows**  
**For the 39-week periods ended October 2, 2022 and October 3, 2021**  
**(Expressed in thousands of Canadian dollars)**

	October 2, 2022 \$	October 3, 2021 \$
<b>Operating activities</b>		
Loss for the period	(3,233)	(515)
Depreciation of property, plant and equipment	1,525	1,625
Depreciation of right-of-use asset (note 5)	14,108	13,016
Amortization of intangible assets	350	636
Amortization of unearned vendor allowances	(740)	(829)
Amortization of deferred franchise fees	138	225
Amortization of deferred gain	(1,748)	(1,748)
Loss on (reversal of) impairment of lease receivable (note 6)	262	(360)
Loss (gain) on sale of Company-owned restaurants	55	(175)
Equity income from Pizza Pizza Royalty Limited Partnership (note 3)	(5,604)	(4,766)
Equity income from jointly-controlled companies (note 4)	(1,889)	(2,300)
Interest expense on leases, net (note 6)	2,418	2,370
Deferred income tax expense (recovery)	(646)	363
	4,996	7,542
Changes in non-cash operating elements of working capital (note 13)	1,386	(7,207)
<b>Cash provided by operating activities</b>	<b>6,382</b>	<b>335</b>
<b>Investing activities</b>		
Additions to property, plant and equipment	(2,761)	(781)
Proceeds from sale of Company-owned restaurants	2,275	1,262
Distributions from Pizza Pizza Royalty Limited Partnership (note 3)	5,764	5,076
Dividends from jointly-controlled companies (note 4)	2,372	3,120
Repayment of notes receivable	810	443
Issuance of notes receivable	(1,341)	(585)
Contributions to renovation funds	10,159	9,391
Disbursement from renovation funds	(11,337)	(9,602)
Withdrawals from (additions to) short-term investments	(2,486)	507
Rent payments collected on lease receivables - principal (note 6)	3,830	4,214
Rent payments collected on lease receivables - interest (note 6)	525	446
<b>Cash provided by investing activities</b>	<b>7,810</b>	<b>13,491</b>
<b>Financing activities</b>		
Repayments of borrowings	(251)	(323)
Lease payments – principal (note 6)	(15,647)	(14,975)
Lease payments – interest, net (note 6)	(2,942)	(2,816)
Advances from related party (note 12)	3,747	113
<b>Cash used in financing activities</b>	<b>(15,093)</b>	<b>(18,001)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(901)</b>	<b>(4,175)</b>
Cash and cash equivalents, beginning of period	7,748	8,723
<b>Cash and cash equivalents, end of period</b>	<b>6,847</b>	<b>4,548</b>

See supplementary cash for information (note 13).

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

# Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 39-week periods ended October 2, 2022 and October 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:

	October 2, 2022	October 3, 2021
Franchisees and licensees	631	627
Jointly-controlled restaurants	80	80
Company-owned and operated restaurants	17	24

## 2. Significant Accounting Policies

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

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

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

### b) Statement of compliance

The Company prepares its unaudited interim condensed consolidated financial statements in accordance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting* (“IAS 34”). Accordingly, these unaudited interim condensed consolidated financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the annual consolidated financial statements of the Company as at and for the year ended January 2, 2022.

The Company’s preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the unaudited interim condensed consolidated financial statements, were the same as those that

## Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 39-week periods ended October 2, 2022 and October 3, 2021

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

applied to the Company's consolidated financial statements as at and for the year ended January 2, 2022.

The accounting policies adopted in the preparation of these unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements as at and for the year ended January 2, 2022.

These unaudited interim condensed consolidated financial statements were authorized for issue by the Board of the Directors on November 7, 2022.

### 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) Basis of consolidation

These unaudited interim condensed consolidated financial statements incorporate the assets and liabilities of the Company and its subsidiaries as at October 2, 2022 and January 2, 2022 and the results of these entities for the 13-week and 39-week periods ended October 2, 2022 and October 3, 2021, 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 2, 2022 – 23.5%) share interest in the Pizza Pizza Royalty Limited Partnership (the "Partnership") as an investment in an associate and applies equity accounting whereby the Company's investment is increased by its 23.5% share of income for the period of the Partnership and reduced for distributions received during the Partnership's fiscal period. The Partnership's financial and fiscal periods differ from the Company's, as the Partnership operates on a calendar year-end.

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

#### *Investments in joint ventures*

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

The Company accounts for its 50% share interest in the 80 jointly controlled companies (January 2, 2022 – 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.



## Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 39-week periods ended October 2, 2022 and October 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 joint ventures is impaired. If impaired, the carrying value of the Company's share of the underlying assets of the joint ventures is written down to its estimated recoverable amount, being the higher of fair value less cost to sell and value in use, and the write-down is charged to the unaudited interim consolidated statements of income.

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

The Company owns Class B and Class D Partnership Units that are exchangeable for Pizza Pizza Royalty Corp. ("PPRC") Shares based on the exchange multiplier applicable at the exchange date and represent an effective 23.5% interest in the Partnership as at October 2, 2022 (January 2, 2022 – 23.5%).

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

	For the 39-week period ended October 2, 2022	For the 52-week period ended January 2, 2022
Balance – beginning of period	23,276	23,029
Equity income of the Partnership	5,604	6,625
Distributions received from Partnership	(5,764)	(6,856)
Share of Partnership other comprehensive income (loss)	616	478
<b>Balance – end of period</b>	<b>23,732</b>	<b>23,276</b>

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

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

	As at September 30, 2022	As at December 31, 2021
Total assets	368,465	367,534
Total liabilities	77,110	79,496

	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Revenues	9,547	8,335	26,603	23,025
Profit for the period	9,106	7,865	25,205	21,640

#### a. 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.

## Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 39-week periods ended October 2, 2022 and October 3, 2021

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

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.

### b. 2022 Royalty Pool Adjustment – Class B Exchange Multiplier

On January 1, 2022, two net Pizza Pizza restaurants were added to 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 2020 and 2021 Make-Whole Carryover Amount of \$15,257, 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, 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.

### c. 2022 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 restaurants are 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 a Step-Out Adjustment of \$455 in system sales attributable to certain restaurants previously added to the Royalty Pool whose territory adjusted an existing restaurant. The \$864 of Pizza 73 sales added to the Royalty Pool are applied against the 2020 and 2021 Make-Whole Carryover Amount of \$1,341, 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.

### d. 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 Carryover Amount. In any year that the forecasted system sales (less

## Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 39-week periods ended October 2, 2022 and October 3, 2021

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

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 Carryover 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.

#### 4. Investment in Jointly Controlled Companies

Jointly-controlled companies are joint ventures, consisting of the Company's 50% interest in 80 Pizza 73 restaurants (January 2, 2022 – 80 Pizza 73 restaurants). Jointly-controlled restaurants are companies, owned and operated as an independent business, equally owned by the Company and an Owner/Operator. Licensing, consulting and other agreements govern the relationship of the Company and the Owner/Operator as shareholders of these jointly-controlled restaurants, and establish a framework under which each restaurant is operated.

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

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

	For the 39-week period ended October 2, 2022	For the 52-week period ended January 2, 2022
Balance – beginning of period	17,668	18,377
Equity income from jointly controlled companies	1,888	3,139
Dividends received from jointly controlled companies	(2,372)	(3,848)
<b>Balance – end of period</b>	<b>17,184</b>	<b>17,668</b>

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

	For the 13-week period ended October 2, 2022	For the 13-week period ended October 3, 2021	For the 39-week period ended October 2, 2022	For the 39-week period ended October 3, 2021
Revenues	8,343	8,242	25,187	25,382
Expenses	(7,602)	(7,806)	(23,299)	(23,082)
<b>Income for the period after tax</b>	<b>741</b>	<b>436</b>	<b>1,888</b>	<b>2,300</b>

#### 5. Right-of-Use Asset

	As at October 2, 2022	As at January 2, 2022
Opening balance	67,751	65,485
Lease additions and remeasurements	16,913	18,310
Depreciation of right-of-use asset	(14,108)	(16,044)
<b>Total right-of-use asset</b>	<b>70,556</b>	<b>67,751</b>

## Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 39-week periods ended October 2, 2022 and October 3, 2021

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

### 6. Leases

<b>Lease receivable</b>	As at October 2, 2022	As at January 2, 2022
Opening balance	20,372	14,335
Lease additions and remeasurements	9,864	12,403
Reversal of (loss on) impairment of lease receivable	(262)	70
Rent payments collected	(4,355)	(7,153)
Interest income	525	717
<b>Total lease receivable</b>	<b>26,144</b>	<b>20,372</b>
Less: current portion	(4,595)	(4,722)
<b>Total non-current lease receivable</b>	<b>21,549</b>	<b>15,650</b>

Lease receivables are reviewed for impairment based on expected losses at each balance sheet date in accordance with IFRS 9 – Financial Instruments. An impairment loss is recorded when the credit risk is assessed to have increased for the lease receivables. The Company has developed a probability-weighted model that is used to assess the credit risk of lease receivables. The Company recorded an expected credit loss provision on lease receivables of \$56 and \$262 for the 13-week and 39-week periods ended October 2, 2022, respectively (13-week and 39-week periods ended October 3, 2021 – \$5 and \$360 loss recovery, respectively).

The Company remeasured lease liabilities for an increase of \$26,784 offset by amortization of \$15,647 in the period.

<b>Lease Liability</b>	As at October 2, 2022	As at January 2, 2022
Opening balance	94,085	84,858
Lease additions and remeasurement	26,784	29,713
Lease payments	(18,589)	(24,412)
Accretion of interest expense	2,942	3,926
<b>Total lease liability</b>	<b>105,222</b>	<b>94,085</b>
Less: current portion	(21,728)	(21,435)
<b>Total non-current lease liability</b>	<b>83,494</b>	<b>72,650</b>

### 7. Borrowings

	As at October 2, 2022	As at January 2, 2022
Notes payable, bearing interest from 4.45% to 6.55%, repayable in varying monthly principal amounts, maturing between 2023 and 2031. These notes were secured by specific company-owned restaurant assets. The effective interest rate as at October 2, 2022 was 5.84% (October 3, 2021 – 5.11%).	1,077	1,144
Less: current portion	(177)	(204)
<b>Total non-current borrowings</b>	<b>900</b>	<b>940</b>

### 8. Food sales

Food sales include the following:

	For the 13-week period ended October 2, 2022	For the 13-week period ended October 3, 2021	For the 39-week period ended October 2, 2022	For the 39-week period ended October 3, 2021
Food sales	42,669	35,924	118,964	98,555
Company-owned restaurant sales	3,035	3,750	8,823	10,635
<b>Total food sales</b>	<b>45,704</b>	<b>39,674</b>	<b>127,787</b>	<b>109,190</b>

## Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 39-week periods ended October 2, 2022 and October 3, 2021

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

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

Royalties, franchise fees and other revenue include the following:

	For the 13-week period ended October 2, 2022	For the 13-week period ended October 3, 2021	For the 39-week period ended October 2, 2022	For the 39-week period ended October 3, 2021
Royalties	6,725	5,604	18,742	15,359
Rental income	3,637	2,895	10,498	7,751
Initial and renewal franchise fees	643	423	1,608	1,310
Construction fees	262	396	995	1,049
Administration and accounting fees	580	642	1,745	1,757
<b>Total royalties, franchise fees and other revenue</b>	<b>11,847</b>	<b>9,960</b>	<b>33,588</b>	<b>27,226</b>

### 10. Store service contributions and expenditures

Store service contributions include the following:

	For the 13-week period ended October 2, 2022	For the 13-week period ended October 3, 2021	For the 39-week period ended October 2, 2022	For the 39-week period ended October 3, 2021
Advertising services	7,665	7,037	21,960	19,471
Order processing services	2,940	3,042	9,125	9,275
Commissary food services	8,082	7,592	24,073	22,493
<b>Store service contributions</b>	<b>18,687</b>	<b>17,671</b>	<b>55,158</b>	<b>51,239</b>

Store service expenditures include the following:

	For the 13-week period ended October 2, 2022	For the 13-week period ended October 3, 2021	For the 39-week period ended October 2, 2022	For the 39-week period ended October 3, 2021
Advertising services	7,458	4,705	19,697	19,077
Order processing services	3,541	3,285	10,423	9,690
Commissary food services	8,106	7,575	23,892	22,630
<b>Store service expenditures</b>	<b>19,105</b>	<b>15,565</b>	<b>54,012</b>	<b>51,397</b>

### 11. Expenses by nature

The following table summarizes significant general and administrative expenses:

	For the 13-week period ended October 2, 2022	For the 13-week period ended October 3, 2021	For the 39-week period ended October 2, 2022	For the 39-week period ended October 3, 2021
Depreciation of property, plant and equipment	446	465	1,405	2,710
Depreciation of right-of-use asset	6,420	4,817	14,108	10,622
Amortization of intangible assets	79	98	236	207
Company store expenses	1,716	1,978	5,021	6,082
Employee benefit expense <sup>(i)</sup>	4,461	3,488	15,039	10,020

## Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 39-week periods ended October 2, 2022 and October 3, 2021

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

- (i) The Company recognized government grants as a reduction of the related expense that the grant was intended to offset. The Company received nil and nil for the 13-week and 39-week periods ended October 2, 2022 (13-week and 39-week periods ended October 3, 2021 - \$239 and \$951, respectively).

### 12. Related party transactions

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

	For the 13-week period ended October 2, 2022	For the 13-week period ended October 3, 2021	For the 39-week period ended October 2, 2022	For the 39-week period ended October 3, 2021
Rent expense <sup>(i)</sup>	624	622	1,995	1,862
Food purchases <sup>(i)</sup>	-	2,989	1,864	7,844
Recovery of expenses <sup>(i)</sup>	150	150	450	450
Administration and accounting fee <sup>(ii)</sup>	579	572	1,745	1,722

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

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

As at October 2, 2022, the Company has trade payables of nil (as at January 2, 2022 - \$936) payable to a company under common management control. As at October 2, 2022, trade and other payables includes amounts payable of \$2,424 (as at January 2, 2022 - \$2,307) 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 October 2, 2022	As at January 2, 2022
Receivable from jointly-controlled companies	2,892	3,138
Advances to (from) related party	(3,147)	343

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

### 13. Statements of cash flow information

	For the 39-week period ended October 2, 2022	For the 39-week period ended October 3, 2021
Trade and other receivables	1,951	(1,231)
Inventories	312	548
Receivables from jointly-controlled companies	373	32
Trade and other payables	(1,215)	(3,138)
Deposits from franchisees	(35)	(237)
<b>Changes in non-cash operating elements of working capital</b>	<b>1,386</b>	<b>(4,026)</b>

## Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 39-week periods ended October 2, 2022 and October 3, 2021

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

### 14. Financial risk management

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

#### Fair Values

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

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

The fair value of the non-current notes receivable is based on the estimated future discounted cash flows using a comparable market rate of interest as at October 2, 2022 of 4.36% (January 2, 2022 – 5.82%).

The fair value of the borrowings is based on the estimated future discounted cash flows using a comparable market rate of interest as at October 2, 2022 of prime plus a spread varying by loan (January 2, 2022 - prime plus a spread varying by loan). The Company has no plans to prepay these instruments prior to maturity. The fair value of the borrowings was determined using Level 2 inputs, which are observable inputs or inputs that can be corroborated by observable market data for substantially the full term of the asset or liability.

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

	Category	As at October 2, 2022		As at January 2, 2022	
		Carrying value	Fair value	Carrying value	Fair value
Notes receivable	AC	2,116	1,968	1,585	1,517
Borrowings	AC	1,077	908	1,144	959

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

## Pizza Pizza Limited

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the 13-week and 39-week periods ended October 2, 2022 and October 3, 2021

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

COVID-19 Economic Response Plan, including the Canadian Emergency Wage Subsidy (“CEWS”) and Canada Emergency Business Account (“CEBA”). The financial assistance will improve the liquidity of franchisees and thus allow the Company to continue to collect on its trade receivables. The Company has temporarily extended repayment terms of its franchisees, and therefore has not taken any additional impairment on the past due trade receivables.

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

	As at October 2, 2022	As at January 2, 2022
Past due 0-30 days	808	679
Past due 31-120 days	779	925
<b>Total trade receivables past due, but not impaired</b>	<b>1,587</b>	<b>1,604</b>

### Liquidity Risk

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

The medium and long-term impact to the Company from the COVID-19 pandemic will depend on consumer behavior with the economy fully reopened, and the macro impact on the overall economy, in particular, household debt and levels of disposable income, inflation and rising interest rates.

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 October 2, 2022:

	Carrying amount	0 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
Trade and other payables	46,893	46,893	-	-	-
Deposits from franchisees	1,987	1,987	-	-	-
Borrowings	1,077	177	452	438	10

### Interest Rate Risk

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