



PIZZA PIZZA LIMITED

**Unaudited Interim Condensed Consolidated Financial Statements
For the 13 and 39 weeks ended October 1, 2023**

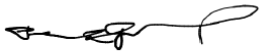
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NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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.



Paul Goddard
Chief Executive Officer



Christine D'Sylva
Chief Financial Officer

Pizza Pizza Limited
Unaudited Interim Consolidated Statements of Financial Position
As at October 1, 2023 and January 1, 2023
(Expressed in thousands of Canadian dollars)

	October 1, 2023	January 1, 2023
	\$	\$
Current assets		
Cash and cash equivalents	3,981	6,237
Short-term investment	9,000	9,065
Trade, other receivables and prepayments	16,276	11,805
Inventories	7,033	9,300
Lease receivable (note 5)	8,490	8,042
Receivables from jointly-controlled companies (note 12)	5,325	1,823
Total current assets	50,105	46,272
Non-current assets		
Property, plant and equipment	4,626	6,312
Notes receivable	1,931	2,025
Renovation funds	7,890	9,083
Receivables from jointly-controlled companies (note 12)	1,840	1,424
Advances to related party (note 12)	992	1,126
Investment in Pizza Pizza Royalty Limited Partnership (note 3)	23,528	23,767
Investment in jointly-controlled companies (note 4)	16,295	17,205
Deferred tax asset	55,714	54,779
Lease receivable (note 5)	11,431	14,043
Right-of-use asset (note 6)	65,463	67,549
Intangible assets	1,222	1,431
Total non-current assets	190,932	198,744
Total assets	241,037	245,016
Liabilities and shareholders' deficiency		
Current liabilities		
Trade and other payables	48,109	49,569
Deposits from franchisees	1,916	1,977
Borrowings (note 7)	194	327
Lease liability (note 5)	21,196	20,699
Total current liabilities	71,415	72,572
Non-current liabilities		
Advances from related party (note 12)	6,583	4,246
Borrowings (note 7)	386	890
Deferred franchise fees	2,149	2,164
Renovation funds	3,850	3,235
Lease liability (note 5)	72,712	76,595
Deferred gain	188,151	189,899
Total non-current liabilities	273,831	277,029
Shareholders' deficiency		
Common shares and special voting shares	-	-
Accumulated other comprehensive loss	736	732
Deficit	(104,945)	(105,317)
Total shareholders' deficiency attributable to the shareholders	(104,209)	(104,585)
Total liabilities and shareholders' deficiency	241,037	245,016

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.
Approved by the Directors on November 7, 2023.

Pizza Pizza Limited
Unaudited Interim Consolidated Statements of Income (Loss)
For the 13-week and 39-week periods ended October 1, 2023 and October 2, 2022
(Expressed in thousands of Canadian dollars)

	For the 13- week period ended October 1, 2023 \$	For the 13- week period ended October 2, 2022 \$	For the 39- week period ended October 1, 2023 \$	For the 39- week period ended October 2, 2022 \$
Revenue				
Food sales (note 8)	45,780	45,704	138,063	127,787
Royalties, franchise fees and other revenue (note 9)	12,228	11,847	35,203	33,588
Store service contributions (note 10)	20,614	18,687	58,855	55,158
Total revenue	78,622	76,238	232,121	216,533
Cost of food sales	(37,229)	(37,220)	(112,920)	(103,689)
General and administrative expenses (note 11)	(14,010)	(14,858)	(38,627)	(42,730)
Store service expenditures (note 10)	(21,854)	(19,105)	(59,271)	(54,012)
Royalty payments	(10,430)	(9,547)	(29,698)	(26,603)
Gain (loss) on impairment of lease receivable (note 5)	176	(56)	93	(262)
Equity income from Pizza Pizza Royalty Limited Partnership (note 3)	2,298	2,033	6,502	5,604
Equity income from jointly-controlled companies (note 4)	405	742	1,400	1,889
Gain (loss) on sale of Company-owned restaurants	85	(143)	(208)	(55)
Operating loss	(1,937)	(1,916)	(608)	(3,325)
Interest and other income	145	99	570	255
Amortization of deferred gain	583	583	1,748	1,748
Interest on borrowings and other liabilities	(714)	(901)	(2,274)	(2,557)
Loss for the period before income taxes	(1,923)	(2,135)	(564)	(3,879)
Deferred tax recovery	1,494	455	936	646
Income (loss) for the period attributable to the shareholders of Pizza Pizza Limited	(429)	(1,680)	372	(3,233)

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 1, 2023 and October 2, 2022
(Expressed in thousands of Canadian dollars)

	For the 13-week period ended October 1, 2023 \$	For the 13-week period ended October 2, 2022 \$	For the 39-week period ended October 1, 2023 \$	For the 39-week period ended October 2, 2022 \$
Income (loss) for the period	(429)	(1,680)	372	(3,233)
Other comprehensive income (loss)				
<i>Items that may be reclassified subsequently to net income:</i>				
Share of other comprehensive income of the Pizza Pizza Royalty Limited Partnership (note 3)	(33)	95	6	615
Deferred tax impact of share of other comprehensive income of Pizza Pizza Royalty Limited Partnership	9	(25)	(2)	(163)
Total comprehensive income (loss) attributable to shareholders	(453)	(1,610)	376	(2,781)

Pizza Pizza Limited
Unaudited Interim Consolidated Statements of Changes in Shareholders' Deficiency
For the 39-week periods ended October 1, 2023 and October 2, 2022
(Expressed in thousands of Canadian dollars)

	Common shares and special voting shares \$	Accumulated other comprehensive loss \$	Deficit \$	Total \$
As at January 1, 2023	-	732	(105,317)	(104,585)
Comprehensive income (loss)				
Income for the 39-week period ended October 1, 2023	-	-	372	372
Share of other comprehensive income (loss) on Pizza Pizza Royalty limited Partnership's cash flow hedge	-	6	-	6
Tax effect of cash flow hedge	-	(2)	-	(2)
Total comprehensive income (loss)	-	4	372	376
As at October 1, 2023	-	736	(105,235)	(104,499)
As at January 2, 2022	-	(18)	(105,484)	(105,502)
Comprehensive income (loss)				
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)
Total comprehensive income (loss)	-	452	(3,233)	(2,781)
As at October 2, 2022	-	434	(107,036)	(108,283)

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 1, 2023 and October 2, 2022
(Expressed in thousands of Canadian dollars)

	October 1, 2023 \$	October 2, 2022 \$
Operating activities		
Income (loss) for the period	372	(3,233)
Depreciation of property, plant and equipment	991	1,525
Depreciation of right-of-use asset (note 6)	10,160	14,108
Amortization of intangible assets	209	350
Amortization of unearned vendor allowances	-	(740)
Amortization of deferred franchise fees	(15)	138
Amortization of deferred gain	(1,748)	(1,748)
Loss (gain) on impairment of lease receivable (note 5)	(93)	262
Loss (gain) on sale of Company-owned restaurants	208	55
Equity income from Pizza Pizza Royalty Limited Partnership (note 3)	(6,504)	(5,604)
Equity income from jointly-controlled companies (note 4)	(1,400)	(1,889)
Interest expense on leases, net (note 5)	2,202	2,418
Deferred income tax recovery	(936)	(646)
	3,446	4,996
Changes in non-cash operating elements of working capital (note 13)	(6,626)	1,386
Cash provided by (used in) operating activities	(3,180)	6,382
Investing activities		
Additions to property, plant and equipment	(1,247)	(2,761)
Proceeds from sale of Company-owned restaurants	1,734	2,275
Distributions from Pizza Pizza Royalty Limited Partnership (note 3)	6,747	5,764
Dividends from jointly-controlled companies (note 4)	2,310	2,372
Repayment of notes receivable	822	810
Issuance of notes receivable	(732)	(1,341)
Contributions to renovation funds	9,297	10,159
Disbursement from renovation funds	(7,489)	(11,337)
Withdrawals from (investment in) short-term investments	65	(2,486)
Rent payments collected on lease receivables - principal (note 5)	5,774	3,830
Rent payments collected on lease receivables - interest (note 5)	738	525
Cash provided by investing activities	18,019	7,810
Financing activities		
Proceeds of borrowings	173	-
Repayments of borrowings	(810)	(251)
Lease payments – principal (note 5)	(15,993)	(15,647)
Lease payments – interest, net (note 5)	(2,940)	(2,942)
Repayment of advances from related party (note 12)	(3,115)	-
Advances from related party (note 12)	5,590	3,747
Cash used in financing activities	(17,095)	(15,093)
Decrease in cash and cash equivalents	(2,256)	(901)
Cash and cash equivalents, beginning of period	6,237	7,748
Cash and cash equivalents, end of period	3,981	6,847

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 Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week and 39-week periods ended October 1, 2023 and October 2, 2022

(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.

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 1, 2023	October 2, 2022
Franchisees and licensees	678	631
Jointly-controlled restaurants	80	80
Company-owned and managed restaurants	5	17

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 1, 2023.

The Company’s preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the unaudited interim condensed consolidated financial statements, were the same as those that applied to the Company’s consolidated financial statements as at and for the year ended January 1, 2023.

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 1, 2023.

These unaudited interim condensed consolidated financial statements were authorized for issue by the Board of the Directors on November 7, 2023.

Pizza Pizza Limited

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week and 39-week periods ended October 1, 2023 and October 2, 2022

(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) Basis of consolidation

These unaudited interim condensed consolidated financial statements incorporate the assets and liabilities of the Company and its subsidiaries as at October 1, 2023 and January 1, 2023 and the results of these entities for the 13 and 39-week periods ended October 1, 2023 and October 2, 2022, 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 23.9% (January 1, 2023 – 23.9%) 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 23.9% share of income for the period of the Partnership and reduced for distributions received during the Partnership’s fiscal period. The Partnership’s financial and fiscal periods differ from the Company’s, as the Partnership operates on a calendar year-end.

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

Investments in joint ventures

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

The Company accounts for its 50% (January 1, 2023 – 50%) share interest in the 80 jointly controlled companies as an investment in joint ventures and applies equity accounting whereby the Company’s investment is increased by its 50% share of income for the period of the joint ventures and reduced for distributions received during the joint ventures’ fiscal period. The jointly controlled companies’ financial and fiscal periods differ from the Company’s, as the joint ventures have a floating year-end of the Saturday immediately preceding July 31.

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

Pizza Pizza Limited

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week and 39-week periods ended October 1, 2023 and October 2, 2022

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

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 23.9% interest in the Partnership as at October 1, 2023 (January 1, 2023 – 23.9%).

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 1, 2023	For the 52-week period ended January 1, 2023
Balance – beginning of period	23,767	23,276
Equity income of the Partnership	6,502	7,694
Distributions received from Partnership	(6,747)	(7,823)
Share of Partnership other comprehensive income (loss)	6	620
Balance – end of period	23,528	23,767

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.

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.

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

	As at September 30, 2023	As at December 31, 2022
Total assets	372,009	369,202
Total liabilities	77,376	77,238

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Revenues	10,430	9,547	29,698	26,603
Profit for the period	10,079	9,106	28,590	25,205

Pizza Pizza Limited

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week and 39-week periods ended October 1, 2023 and October 2, 2022

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

a. 2022 Royalty Pool Adjustment

In early January 2023 a second adjustment was made to the royalty payments and PPL's Class B Exchange Multiplier based on the actual performance of the 34 new restaurants added to the Royalty Pool on January 1, 2022. The final 2022 Pizza Pizza Royalty Pool adjustment confirmed that the net additional system sales added to the Royalty Pool were \$12,531 and were applied against the opening Make-Whole Carryover Amount of \$15,257. As a result the Make-Whole Payment for 2022 is to be paid and calculated as a percentage of \$2,726 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, 2022.

In early January 2023, a second adjustment was made to the royalty payments and PPL's Class D Exchange Multiplier based on the actual performance of the three Pizza 73 restaurants added to the Royalty Pool on January 1, 2022. The final 2022 Pizza 73 Royalty Pool adjustment confirmed that the net additional system sales added to the Royalty Pool were \$885 and were applied against the opening Make-Whole Carryover Amount of \$1,341. As a result the Make-Whole Payment for 2022 is to be paid and calculated as a percentage of \$457 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 73 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, 2022.

b. 2023 Royalty Pool Adjustment – Class B Exchange Multiplier

On January 1, 2023, 20 net Pizza Pizza restaurants were added to the Royalty Pool as a result of 43 new restaurants opening and 23 closing from January 1, 2022 to December 31, 2022. The total number of Pizza Pizza restaurants in the Royalty Pool has increased to 644. The additional system sales from the 43 new restaurants are estimated at \$13,802 annually, less sales of \$7,282 from the 23 permanently closed Pizza Pizza restaurants. As a result, \$6,520 net, estimated Pizza Pizza sales were added to the Royalty Pool and applied against the \$2,726 Make-Whole Carryforward Amount, resulting in an Estimated Determined Amount of \$3,794 added to the Royalty Pool.

The yield of the shares was determined to be 5.9% calculated using \$13.60 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, 2023. As a result of the contribution of the additional net sales to the Royalty Pool, the Class B Exchange Multiplier increased fractionally by 80% of the total adjustment or 0.063911; the new Class B Multiplier is 2.182493. This adjustment will also increase the entitlement of the holders of the Class B units to distributions of cash and allocations of income from the Partnership. The second adjustment to the Class B Exchange Multiplier will be adjusted to be effective January 1, 2023, once the actual performance of the new restaurants is determined in early 2024.

c. 2023 Royalty Pool Adjustment – Class D Exchange Multiplier

On January 1, 2023, four net Pizza 73 restaurants were removed from the Royalty Pool as a result of two new restaurants opening between September 2, 2021 and September 1, 2022 and six restaurants closing between January 1, 2022 and December 31, 2022. The forecasted additional system sales from the two new restaurants are estimated at \$520 annually, less \$1,423 in system sales attributable to the six closed Pizza 73 restaurants. As a result, a negative \$903 net, estimated Pizza 73 sales were removed from the Royalty Pool.

The \$903 of Pizza 73 sales removed to the Royalty Pool are added to the \$457 Make-Whole Carryover Amount at the end of 2022. The cumulative Make-Whole Carryover Amount of \$1,360 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 total number of Pizza 73 restaurants in the Royalty Pool has decreased to 99.

The yield of the shares was determined to be 5.9% calculated using \$13.60 as a weighted average share price.

Pizza Pizza Limited

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week and 39-week periods ended October 1, 2023 and October 2, 2022

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

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, 2023. 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, 2023, once the actual performance of the new restaurant is determined in early 2024.

d. Pizza Pizza Royalty Corp. Outstanding Shares

In exchange for adding the forecasted Pizza Pizza system sales to the Royalty Pool, PPL has received 160,304 additional equivalent Shares (through the change to the Class B Exchange Multiplier). These represent 80% of the forecasted equivalent Shares entitlement to be received (200,380 equivalent Shares represent 100%), with the final equivalent Shares entitlement to be determined when the new restaurants' 2023 actual sales performance is known with certainty in early 2024.

PPL's Class D equivalent Share entitlement is unchanged for 2023. In any year that the forecasted system sales (less closed restaurants sales and other adjustments) is negative, as was the case with the Class D equivalent Share entitlement calculation for 2023 no increase or decrease in the Exchange Multiplier is made. PPL will only have a Class D equivalent Share entitlement for 2023 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 2024.

After giving effect to PPL's entitlement to additional equivalent Shares at January 1, 2023, PPL owns equivalent Shares representing 23.9% 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 1, 2023 – 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 1, 2023	For the 52-week period ended January 1, 2023
Balance – beginning of period	17,205	17,668
Equity income from jointly controlled companies	1,400	2,527
Dividends received from jointly controlled companies	(2,310)	(2,990)
Balance – end of period	16,295	17,205

Pizza Pizza Limited

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week and 39-week periods ended October 1, 2023 and October 2, 2022

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

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

	For the 13-week period ended October 1, 2023	For the 13-week period ended October 2, 2022	For the 39-week period ended October 1, 2023	For the 39-week period ended October 2, 2022
Revenues	8,107	8,343	26,250	25,187
Expenses	(7,702)	(7,602)	(24,850)	(23,299)
Income for the period after tax	405	741	1,400	1,888

5. Leases

Lease receivable	As at October 1, 2023	As at January 1, 2023
Opening balance	22,085	20,372
Lease additions and remeasurements	4,118	10,825
Loss on impairment of lease receivable	93	(266)
Rent payments collected	(7,113)	(9,926)
Interest income	738	1,080
Total lease receivable	19,921	22,085
Less: current portion	(8,490)	(8,042)
Total non-current lease receivable	11,431	14,043

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 on lease receivables of \$176 and \$93 for the 13-week and 39-week periods ended October 1, 2023 (13-week and 39-week periods ended October 2, 2022– \$56 and \$262 impairments, respectively).

The Company remeasured lease liabilities for an increase of \$12.6 million, offset by amortization of \$16.0 million in the period.

Lease Liability	As at October 1, 2023	As at January 1, 2023
Opening balance	97,294	94,085
Lease additions and remeasurement	12,607	24,439
Lease payments	(18,933)	(25,357)
Accretion of interest expense	2,940	4,127
Total lease liability	93,908	97,294
Less: current portion	(21,196)	(20,699)
Total non-current lease liability	72,712	76,595

Pizza Pizza Limited

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week and 39-week periods ended October 1, 2023 and October 2, 2022

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

6. Right-of-Use Asset

	As at October 1, 2023	As at January 1, 2023
Opening balance	67,549	67,751
Lease additions and remeasurements	8,074	13,616
Depreciation of right-of-use asset	(10,160)	(13,818)
Total right-of-use asset	65,463	67,549

7. Borrowings

	As at October 1, 2023	As at January 1, 2023
Notes payable, bearing interest from 5.81% to 9.20%, repayable in varying monthly principal amounts, maturing between 2023 and 2029. These notes were secured by specific company-owned restaurant assets. The effective interest rate as at October 1, 2023 was 7.78% (July 3, 2022 – 5.18%).	580	1,217
Less: current portion	(194)	(327)
Total non-current borrowings	386	890

8. Food sales

Food sales include the following:

	For the 13-week period ended October 1, 2023	For the 13-week period ended October 2, 2022	For the 39-week period ended October 1, 2023	For the 39-week period ended October 2, 2022
Food sales	45,267	42,669	135,163	118,964
Company-owned restaurant sales	513	3,036	2,900	8,823
Total food sales	45,780	45,704	138,063	127,787

9. Royalties, franchise fees and other revenue

Royalties, franchise fees and other revenue include the following:

	For the 13-week period ended October 1, 2023	For the 13-week period ended October 2, 2022	For the 39-week period ended October 1, 2023	For the 39-week period ended October 2, 2022
Royalties	7,543	6,725	21,802	18,742
Rental income	3,308	3,637	9,161	10,498
Initial and renewal franchise fees	613	643	1,683	1,608
Construction fees	149	262	747	995
Administration and accounting fees	615	580	1,810	1,745
Total royalties, franchise fees and other revenue	12,228	11,847	35,203	33,588

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10. Store service contributions and expenditures

Store service contributions include the following:

	For the 13-week period ended October 1, 2023	For the 13-week period ended October 2, 2022	For the 39-week period ended October 1, 2023	For the 39-week period ended October 2, 2022
Advertising services	8,321	7,665	24,363	21,960
Order processing services	2,931	2,940	8,954	9,125
Commissary food services	9,362	8,082	25,537	24,073
Store service contributions	20,614	18,687	58,855	55,158

Store service expenditures include the following:

	For the 13-week period ended October 1, 2023	For the 13-week period ended October 2, 2022	For the 39-week period ended October 1, 2023	For the 39-week period ended October 2, 2022
Advertising services	9,367	7,458	23,438	19,697
Order processing services	3,258	3,541	10,231	10,423
Commissary food services	9,229	8,106	25,602	23,892
Store service expenditures	21,854	19,105	59,271	54,012

11. Expenses by nature

The following table summarizes significant general and administrative expenses:

	For the 13-week period ended October 1, 2023	For the 13-week period ended October 2, 2022	For the 39-week period ended October 1, 2023	For the 39-week period ended October 2, 2022
Depreciation of property, plant and equipment	259	446	859	1,405
Depreciation of right-of-use asset	4,689	6,420	10,160	14,108
Amortization of intangible assets	67	79	206	236
Company store expenses	563	1,716	2,357	5,021
Employee benefit expense	4,623	4,461	16,791	15,039

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 1, 2023	For the 13-week period ended October 2, 2022	For the 39-week period ended October 1, 2023	For the 39-week period ended October 2, 2022
Rent expense ⁽ⁱ⁾	744	624	2,203	1,995
Food purchases ⁽ⁱ⁾	-	-	-	1,864
Recovery of expenses ⁽ⁱ⁾	150	150	450	450
Administration and accounting fee ⁽ⁱⁱ⁾	615	579	1,810	1,745

⁽ⁱ⁾ Transactions with commonly controlled companies

⁽ⁱⁱ⁾ Transactions with jointly-controlled companies

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As at July 2, 2023, trade and other payables includes amounts payable of \$879 (as at January 1, 2023 - \$2,565) 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 1, 2023	As at January 1, 2023
Receivable from jointly-controlled companies	5,325	3,247
Advances to related party	992	1,126
Advances from related party	6,583	4,246

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 1, 2023	For the 39-week period ended October 2, 2022
Trade and other receivables	(4,471)	1,951
Inventories	2,267	312
Receivables from jointly-controlled companies	(3,502)	373
Trade and other payables	(859)	(1,215)
Deposits from franchisees	(61)	(35)
Changes in non-cash operating elements of working capital	(6,626)	1,386

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 1, 2023 of 5.9% (January 1, 2023 – 6.36%).

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 1, 2023 of prime plus a spread varying by loan (January 1, 2023 - 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.

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

	Category	As at October 1, 2023		As at January 1, 2023	
		Carrying value	Fair value	Carrying value	Fair value
Notes receivable	AC	1,931	1,931	2,025	2,029
Borrowings	AC	580	580	1,217	1,018

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

	As at October 1, 2023	As at January 1, 2023
Past due 0-30 days	1,051	893
Past due 31-120 days	234	756
Total trade receivables past due, but not impaired	1,285	1,649

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.

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.

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The following are the contractual undiscounted cash flows of financial liabilities as at July 2, 2023:

	Carrying amount	0 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
Trade and other payables	48,109	-	-	-	-
Deposits from franchisees	1,916	-	-	-	-
Borrowings	580	194	194	192	-

Interest Rate Risk

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