



PIZZA PIZZA LIMITED

Unaudited Interim Condensed Consolidated Financial Statements
For the 13-weeks ended March 31, 2024

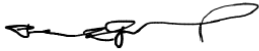
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NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 March 31, 2024 and December 31, 2023
(Expressed in thousands of Canadian dollars)

	March 31, 2024	December 31, 2023
	\$	\$
Current assets		
Cash and cash equivalents	7,718	11,158
Short-term investment	800	6,500
Trade, other receivables and prepayments	11,062	12,110
Inventories	7,538	7,340
Lease receivable (note 5)	11,266	10,114
Receivables from jointly-controlled companies (note 12)	3,636	3,800
Total current assets	42,020	51,022
Non-current assets		
Property, plant and equipment	9,024	9,158
Notes receivable	2,511	2,200
Renovation funds	9,391	8,899
Receivables from jointly-controlled companies (note 12)	1,975	1,982
Advances to related party (note 12)	935	958
Investment in Pizza Pizza Royalty Limited Partnership (note 3)	22,816	23,495
Investment in jointly-controlled companies (note 4)	16,131	16,251
Deferred tax asset	54,662	54,548
Lease receivable (note 5)	17,009	14,483
Right-of-use asset (note 6)	64,098	70,697
Intangible assets	1,085	1,154
Total non-current assets	199,637	203,825
Total assets	241,657	254,847
Liabilities and shareholders' deficiency		
Current liabilities		
Trade and other payables	38,032	48,344
Deposits from franchisees	1,713	1,343
Borrowings (note 7)	139	148
Lease liability (note 5)	24,645	23,029
Total current liabilities	64,529	72,864
Non-current liabilities		
Advances from related party (note 12)	8,022	8,082
Borrowings (note 7)	316	346
Deferred franchise fees	2,101	2,179
Renovation funds	3,869	3,749
Lease liability (note 5)	77,748	81,998
Deferred gain	186,986	187,569
Total non-current liabilities	279,042	283,923
Shareholders' deficiency		
Common shares and special voting shares	-	-
Accumulated other comprehensive income	543	555
Deficit	(102,457)	(102,495)
Total shareholders' deficiency attributable to the shareholders	(101,914)	(101,940)
Total liabilities and shareholders' deficiency	241,657	254,847

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.
Approved by the Directors on May 9, 2024.

Pizza Pizza Limited
Unaudited Interim Consolidated Statements of Income (Loss)
For the 13-week period ended March 31, 2024 and April 2, 2023
(Expressed in thousands of Canadian dollars)

	March 31, 2024	April 2, 2023
	\$	\$
Revenue		
Food sales (note 8)	41,115	44,136
Royalties, franchise fees and other revenue (note 9)	10,994	10,329
Store service contributions (note 10)	19,658	18,298
Total revenue	71,767	72,763
Cost of food sales	(33,601)	(36,073)
General and administrative expenses (note 11)	(11,356)	(11,865)
Store service expenditures (note 10)	(21,107)	(18,137)
Royalty payments	(9,552)	(9,135)
Gain (loss) on impairment of lease receivable (note 5)	226	(142)
Gain on lease remeasurement	438	-
Equity income from Pizza Pizza Royalty Limited Partnership (note 3)	2,209	1,985
Equity income from jointly-controlled companies (note 4)	532	326
Gain (loss) on sale of Company-owned restaurants	351	(483)
Operating loss	(93)	(761)
Interest and other income	201	262
Amortization of deferred gain	583	583
Interest expense on borrowings and other liabilities	(762)	(728)
Loss for the period before income taxes	(71)	(644)
Deferred tax recovery	109	224
Income (loss) for the period attributable to the shareholders of Pizza Pizza Limited	38	(420)

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 period ended March 31, 2024 and April 2, 2023

(Expressed in thousands of Canadian dollars)

	March 31, 2024	April 2, 2023
	\$	\$
Income (loss) for the period	38	(420)
Other comprehensive income (loss)		
<i>Items that may be reclassified subsequently to net income:</i>		
Share of other comprehensive loss of the Pizza Pizza Royalty Limited Partnership (note 3)	(16)	(96)
Deferred tax impact of share of other comprehensive income of Pizza Pizza Royalty Limited Partnership	4	26
Total comprehensive income attributable to shareholders	26	917

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

Pizza Pizza Limited
Unaudited Interim Consolidated Statements of Changes in Shareholders' Deficiency
For the 13-week period ended March 31, 2024 and April 2, 2023
(Expressed in thousands of Canadian dollars)

	Common shares and special voting shares \$	Accumulated other comprehensive income (loss) \$	Deficit \$	Total \$
As at December 31, 2023	-	555	(102,495)	(101,940)
Comprehensive income (loss)				
Income for the 13-week period ended March 31, 2024	-	-	38	38
Share of other comprehensive loss on Pizza Pizza Royalty Limited Partnership's cash flow hedge	-	(16)	-	(16)
Tax effect of cash flow hedge	-	4	-	4
Total comprehensive income (loss)	-	(8)	38	26
As at March 31, 2024	-	543	(102,457)	(101,914)
As at January 1, 2023	-	732	(105,317)	(104,585)
Comprehensive income (loss)				
Loss for the 13-week period ended April 2, 2023	-		(420)	(420)
Share of other comprehensive loss on Pizza Pizza Royalty Limited Partnership's cash flow hedge	-	(98)	-	(98)
Tax effect of cash flow hedge	-	26	-	26
Total comprehensive income (loss)	-	(72)	(420)	(492)
As at April 2, 2023	-	660	(105,737)	(105,077)

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 13-week period ended March 31, 2024 and April 2, 2023
(Expressed in thousands of Canadian dollars)

	March 31, 2024 \$	April 2, 2023 \$
Operating activities		
Income (loss) for the period	38	(420)
Depreciation of property, plant and equipment	328	338
Depreciation of right-of-use asset (note 6)	3,811	3,457
Amortization of intangible assets	70	70
Amortization of deferred franchise fees	(78)	(27)
Amortization of deferred gain	(583)	(583)
(Gain) loss on sale of Company-owned restaurants	(351)	483
(Gain) loss on impairment of lease receivable (note 5)	(226)	142
Gain on remeasurement of lease modification (note 5)	(438)	-
Equity income from Pizza Pizza Royalty Limited Partnership (note 3)	(2,209)	(1,985)
Equity income from jointly-controlled companies (note 4)	(532)	(326)
Interest expense on leases, net (note 5)	746	678
Deferred income tax recovery	(109)	(224)
	467	1,603
Changes in non-cash operating elements of working capital (note 13)	(8,921)	(6,056)
Cash used in operating activities	(8,454)	(4,453)
Investing activities		
Additions to property, plant and equipment	(888)	(40)
Proceeds from sale of Company-owned restaurants	1,045	70
Distributions from Pizza Pizza Royalty Limited Partnership (note 3)	2,872	2,176
Dividends from jointly-controlled companies (note 4)	652	855
Repayment of notes receivable	321	316
Issuance of notes receivable	(632)	(100)
Contributions to renovation funds	3,005	2,975
Disbursement from renovation funds	(3,377)	(2,232)
Withdrawals from (additions to) short-term investments	5,700	1,038
Rent payments collected on lease receivables - principal (note 5)	3,228	2,351
Rent payments collected on lease receivables - interest (note 5)	355	278
Cash provided by investing activities	12,281	7,687
Financing activities		
Repayments of borrowings	(39)	(513)
Lease payments – principal (note 5)	(6,088)	(5,333)
Lease payments – interest, net (note 5)	(1,102)	(956)
Repayment of advances from related party (note 12)	(803)	(13,149)
Advances from related party (note 12)	765	13,020
Cash used in financing activities	(7,267)	(6,931)
Decrease in cash and cash equivalents	(3,440)	(3,697)
Cash and cash equivalents, beginning of period	11,158	6,237
Cash and cash equivalents, end of period	7,718	2,540

See supplementary cash flow 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 period ended March 31, 2024

(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:

	March 31, 2024	April 2, 2023
Franchisees and licensees	695	659
Jointly-controlled restaurants	80	81
Company-owned and managed restaurants	4	9
International Restaurants	2	-

2. Material Accounting Policies

The material 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 IFRS Accounting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and International Accounting Standard (“IAS”) 34, *Interim Financial Reporting* (“IAS 34”). Accordingly, these unaudited interim condensed consolidated financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the annual consolidated financial statements of the Company as at and for the year ended December 31, 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 judgement in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the unaudited interim condensed consolidated financial statements, were the same as those that applied to the Company’s consolidated financial statements as at and for the year ended December 31, 2023.

The policies applied in these unaudited interim condensed consolidated financial statements are based on IFRS standards and are consistent with those followed in the preparation of the Company’s annual consolidated financial statements as at and for the year ended December 31, 2023.

Pizza Pizza Limited

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week period ended March 31, 2024

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

These unaudited interim condensed consolidated financial statements were issued and effective as of May 9, 2024, the date the Directors approved the consolidated financial statements.

- c) Accounting standards and amendments issued and adopted

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

On January 23, 2020, the IASB issued Presentation of Financial Statements (Amendments to IAS 1) and on October 31, 2022, the IASB issued Non-current Liabilities with Covenants (Amendments to IAS 1). The amendments are effective for annual periods beginning on or after January 1, 2024. These amendments clarify the classification of liabilities as current or non-current and improve the information a company provides about long-term debt with covenants. For the purposes of non-current classification, the amendments remove the requirement for a right to defer settlement or rollover of a liability for at least twelve months to be unconditional. Instead, such a right must exist at the end of the reporting period and have substance. In addition, covenants with which a company must comply after the reporting date do not affect the liability's classification at the reporting date. The Company has done an assessment of these amendments and there is no impact on the Company's business, financial statements or disclosure. The Company adopted these amendments in its consolidated financial statements for the annual period beginning January 1, 2024.

- d) 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.

- e) Basis of consolidation

These consolidated financial statements incorporate the assets and liabilities of the Company and its subsidiaries as at March 31, 2024 and December 31, 2023 and the results of these entities for the 13-week periods ended March 31, 2024 and April 2, 2023.

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 25.2% (December 31, 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 25.2% 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.

Pizza Pizza Limited

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week period ended March 31, 2024

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

Investments in joint ventures

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

The Company accounts for its 50% (December 31, 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.

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 25.2% interest in the Partnership as at March 31, 2024 (December 31, 2023 – 23.9%).

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.

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

	For the 13-week period ended March 31, 2024	For the 52-week period ended December 31, 2023
Balance – beginning of period	23,495	23,767
Equity income of the Partnership	2,209	9,047
Distributions received from Partnership	(2,872)	(9,117)
Share of Partnership other comprehensive income (loss)	(16)	(202)
Balance – end of period	22,816	23,495

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

	As at March 31, 2024	As at December 31, 2023
Total assets	380,507	374,962
Total liabilities	49,971	50,988

Pizza Pizza Limited

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week period ended March 31, 2024

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

	For the three months ended March 31, 2024	For the three months ended March 31, 2023
Revenue	9,552	9,135
Profit for the period	9,219	8,768

a. 2023 Royalty Pool Adjustment

In early January 2024 a second adjustment was made to the royalty payments and PPL's Class B Exchange Multiplier based on the actual performance of the 43 new restaurants added to the Royalty Pool on January 1, 2023. As a result of the adjustments, the Class B Exchange Multiplier is 2.296438 and Class B Units can be exchanged for 5,760,014 shares effective January 1, 2023.

In early January 2024, a second adjustment was made to the royalty payments and PPL's Class D Exchange Multiplier based on the actual performance of the two Pizza 73 restaurants added to the Royalty Pool on January 1, 2023. The final 2023 Pizza 73 Royalty Pool adjustment confirmed that a Make-Whole Payment for 2023 is to be paid and calculated as a percentage of \$1,497 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, 2023.

b. 2024 Royalty Pool Adjustment – Class B Exchange Multiplier

On January 1, 2024, 28 net Pizza Pizza restaurants were added to the Royalty Pool as a result of 41 new restaurants opening and 13 closing from January 1, 2023 to December 31, 2023. The total number of Pizza Pizza restaurants in the Royalty Pool has increased to 672. The additional system sales from the 41 new restaurants are estimated at \$14,243 annually, less sales of \$6,721 from the 13 permanently closed Pizza Pizza restaurants. As a result, \$7,522 net, estimated Pizza Pizza sales were added to the Royalty Pool, resulting in an Estimated Determined Amount of \$5,115 added to the Royalty Pool.

The yield of the shares was determined to be 6.19% calculated using \$14.34 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, 2024. 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 0.113725; the new Class B Multiplier is 2.410163. 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, 2024, once the actual performance of the new restaurants is determined in early 2025.

c. 2024 Royalty Pool Adjustment – Class D Exchange Multiplier

On January 1, 2024, three net Pizza 73 restaurants were added to the Royalty Pool as a result of four new restaurants opening between September 2, 2022 and September 1, 2023 and one restaurant closing between January 1, 2023 and December 31, 2023. The forecasted additional system sales from the four new restaurants are estimated at \$1,714 annually, less \$690 in system sales attributable to the one closed Pizza 73 restaurant. As a result, \$1,024 net, estimated Pizza 73 sales were added to the Royalty Pool and applied against the \$1,497 Make-Whole Carryover Amount.

The cumulative Make-Whole Carryover Amount of \$473 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 Pizza Limited

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week period ended March 31, 2024

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

73 system sales attributable to all closed Pizza 73 restaurants. The total number of Pizza 73 restaurants in the Royalty Pool has increased to 102.

The yield of the shares was determined to be 6.19% calculated using \$14.34 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, 2024. 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, 2024, once the actual performance of the new restaurant is determined in early 2025.

d. Pizza Pizza Royalty Corp. Outstanding Shares

In exchange for adding the forecasted Pizza Pizza system sales to the Royalty Pool, PPL has received 285,250 additional equivalent Shares (through the change to the Class B Exchange Multiplier). These represent 80% of the forecasted equivalent Shares entitlement to be received (356,563 equivalent Shares represent 100%), with the final equivalent Shares entitlement to be determined when the new restaurants' 2024 actual sales performance is known with certainty in early 2025.

PPL's Class D equivalent Share entitlement is unchanged for 2024. 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 2024 no increase or decrease in the Exchange Multiplier is made. PPL will only have an increased Class D equivalent Share entitlement for 2024 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 2025.

After giving effect to PPL's entitlement to additional equivalent Shares at January 1, 2024, PPL owns equivalent Shares representing 25.2% of PPRC's fully diluted shares.

4. Investment in Jointly Controlled Companies

Jointly-controlled companies are joint ventures, consisting of the Company's 50% interest in 80 Pizza 73 restaurants (December 31, 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 following table reconciles the balance of the Company's investment in the jointly controlled companies, which is accounted for using equity accounting.

	For the 13-week period ended March 31, 2024	For the 52-week period ended December 31, 2023
Balance – beginning of period	16,251	17,205
Equity income from jointly-controlled companies	532	2,002
Dividends received from jointly-controlled companies	(652)	(2,956)
Balance – end of period	16,131	16,251

Pizza Pizza Limited

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week period ended March 31, 2024

(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 March 31, 2024	For the 13-week period ended April 2, 2023
Revenue	9,293	8,264
Expenses	(8,761)	(7,938)
Income for the period after income taxes	532	326

5. Leases

Lease receivable	As at March 31, 2024	As at December 31, 2023
Opening balance	24,597	22,085
Lease additions and remeasurements	6,680	14,119
Reversal of (loss on) impairment of lease receivable	226	(198)
Rent payments collected	(3,583)	(12,808)
Interest income	355	1,399
Total lease receivable	28,275	24,597
Less: current portion	(11,266)	(10,114)
Total non-current lease receivable	17,009	14,483

Lease receivables are reviewed for impairment based on expected losses at each balance sheet date in accordance with IFRS 9 – Financial Instruments. An impairment loss is recorded when the credit risk is assessed to have increased for the lease receivables. The Company has developed a probability-weighted model that is used to assess the credit risk of lease receivables. The Company recorded a reversal of the expected credit loss provision on lease receivables of \$226 for the 13-week period ended March 31, 2024 (13-week period ended April 2, 2023 – loss of \$142).

Lease Liability	As at March 31, 2024	As at December 31, 2023
Opening balance	105,027	97,294
Lease additions and remeasurement	3,453	29,856
Lease payments	(7,189)	(26,590)
Accretion of interest expense	1,102	4,467
Total lease liability	102,393	105,027
Less: current portion	(24,645)	(23,029)
Total non-current lease liability	77,748	81,998

6. Right-of-Use Asset

	As at March 31, 2024	As at December 31, 2023
Opening balance	70,697	67,549
Lease additions and remeasurements	(2,788)	15,989
Depreciation of right-of-use asset	(3,811)	(12,841)
Total right-of-use asset	64,098	70,697

Pizza Pizza Limited

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week period ended March 31, 2024

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

7. Borrowings

	As at March 31, 2024	As at December 31, 2023
Notes payable, bearing interest from 5.81% to 9.20%, repayable in varying monthly principal amounts, maturing between 2024 and 2029. These notes were secured by specific company-owned restaurant assets. The effective interest rate as at March 31, 2024 was 7.38% (April 2, 2023 – 7.13%).	455	494
Less: current portion	(139)	(148)
Total non-current borrowings	316	346

8. Food sales

Food sales include the following:

	For the 13-week period ended March 31, 2024	For the 13-week period ended April 2, 2023
Food sales	40,375	42,604
Company-owned restaurant sales	740	1,532
Total food sales	41,115	44,136

9. Royalties, franchise fees and other revenue

Royalties, franchise fees and other revenue include the following:

	For the 13-week period ended March 31, 2024	For the 13-week period ended April 2, 2023
Royalties	7,126	6,775
Rental income	2,614	2,389
Initial and renewal franchise fees	473	454
Construction fees	223	136
Administration and accounting fees	558	575
Total royalties, franchise fees and other revenue	10,994	10,329

10. Store service contributions and expenditures

Store service contributions include the following:

	For the 13-week period ended March 31, 2024	For the 13-week period ended April 2, 2023
Advertising services	8,025	7,567
Order processing services	3,204	2,988
Commissary food services	8,429	7,743
Total store service contributions	19,658	18,298

Pizza Pizza Limited

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week period ended March 31, 2024

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

Store service expenditures include the following:

	For the 13-week period ended March 31, 2024	For the 13-week period ended April 2, 2023
Advertising services	9,937	6,788
Order processing services	2,915	3,503
Commissary food services	8,255	7,846
Total store service expenditures	21,107	18,137

11. Expenses by nature

The following table summarizes significant general and administrative expenses:

	For the 13-week period ended March 31, 2024	For the 13-week period ended April 2, 2023
Depreciation of property, plant and equipment	274	338
Depreciation of right-of-use asset	3,811	3,457
Amortization of intangible assets	69	69
Company store expenses	570	1,088
Employee benefit expense	4,851	5,098

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 March 31, 2024	For the 13-week period ended April 2, 2023
Lease payments ⁽ⁱ⁾	755	725
Recovery of expenses ⁽ⁱ⁾	150	150
Administration and accounting fee revenue ⁽ⁱⁱ⁾	558	574

⁽ⁱ⁾ Transactions with commonly controlled companies

⁽ⁱⁱ⁾ Transactions with jointly-controlled companies

As at March 31, 2023, trade and other payables includes amounts payable of \$3,380 (as at December 31, 2023 - \$3,689) 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 March 31, 2024	As at December 31, 2023
Receivable from jointly-controlled companies	5,611	5,782
Advances to related party	935	958
Advances from related party	8,022	8,082

Pizza Pizza Limited

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week period ended March 31, 2024

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

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 13-week period ended March 31, 2024	For the 13-week period ended April 2, 2023
Trade and other receivables	1,048	(1,979)
Inventories	(198)	463
Receivables from jointly-controlled companies	171	(482)
Trade and other payables	(10,312)	(4,247)
Deposits from franchisees	370	189
Changes in non-cash operating elements of working capital	(8,921)	(6,056)

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 March 31, 2024 of 6.62% (December 31, 2023 - 6.69%).

The fair value of the borrowings is based on the estimated future discounted cash flows using a comparable market rate of interest as at March 31, 2024 of prime plus a spread varying by loan (December 31, 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.

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

	Category	As at March 31, 2024		As at December 31, 2023	
		Carrying value	Fair value	Carrying value	Fair value
Notes receivable	AC	2,511	2,493	2,200	2,208
Borrowings	AC	455	367	494	398

Pizza Pizza Limited

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week period ended March 31, 2024

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

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 March 31, 2024	As at December 31, 2023
Past due 0-30 days	504	1,060
Past due 31-120 days	319	441
Total trade receivables past due, but not impaired	823	1,501

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, 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 March 31, 2024:

	Carrying amount	0 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
Trade and other payables	38,032	38,032	-	-	-
Deposits from franchisees	1,713	1,713	-	-	-
Borrowings	455	139	90	138	88

Pizza Pizza Limited

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week period ended March 31, 2024

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

Interest Rate Risk

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