PIZZA PIZZA ROYALTY CORP.

Interim Condensed Consolidated Financial Statements
(Unaudited)
For the three and six months ended June 30, 2024 and 2023

Pizza Pizza Royalty Corp.

Unaudited Interim Condensed Consolidated Statements of Financial Position
As at June 30, 2024 and December 31, 2023
(Expressed in thousands of Canadian dollars)

	June 30, 2024 $	December 31, 2023 $
Assets		
Current assets		
Cash	1,966	2,505
Short-term investments	4,500	6,000
Receivable from Pizza Pizza Limited (note 8)	3,475	3,689
Trade and other receivables	291	355
Total current assets	**10,232**	**12,549**
Non-current assets		
Derivative financial instruments (note 10)	1,113	1,647
Pizza Pizza Rights and Marks (note 3)	283,059	275,082
Pizza 73 Rights and Marks (note 3)	80,814	80,814
Total non-current assets	**364,986**	**357,543**
Total assets	**375,218**	**370,092**
Liabilities and shareholders' equity		
Current liabilities		
Trade and other payables	484	483
Payable to Pizza Pizza Limited (note 8)	1,047	1,001
Dividends payable to shareholders	1,908	1,908
Income taxes payable	25	921
Borrowings (note 4)	46,986	-
Total current liabilities	**50,450**	**4,313**
Non-current liabilities		
Borrowings (note 4)	-	46,976
Deferred tax liability	24,804	24,895
Total non-current liabilities	**24,804**	**71,871**
Shareholders' equity		
Share capital	242,030	242,030
Exchangeable Shares (note 5)	93,004	85,027
Accumulated other comprehensive earnings	896	1,324
Deficit	(35,966)	(34,473)
Total shareholders' equity	**299,964**	**293,908**
Total liabilities and shareholders' equity	**375,218**	**370,092**

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

Pizza Pizza Royalty Corp.

Unaudited Interim Condensed Consolidated Statements of Earnings
For the three and six months ended June 30, 2024 and 2023
(Expressed in thousands of Canadian dollars, except number of shares and per share amounts)

	Three months ended June 30, 2024 $	Three months ended June 30, 2023 $	Six months ended June 30, 2024 $	Six months ended June 30, 2023 $
Royalty income (note 7)	9,967	10,133	19,519	19,269
Administrative expenses	(194)	(148)	(321)	(291)
Operating earnings	**9,773**	**9,985**	**19,198**	**18,978**
Interest expense on borrowings (note 4)	(319)	(320)	(638)	(636)
Interest income	103	77	224	168
Earnings for the period before income taxes	**9,557**	**9,742**	**18,784**	**18,510**
Current tax expense	(1,712)	(1,766)	(3,358)	(3,335)
Deferred tax expense	(183)	(199)	(15)	(295)
Earnings for the period attributable to shareholders	**7,662**	**7,777**	**15,411**	**14,880**
Weighted average number of shares – basic and diluted (note 6)	32,908,631	32,337,580	32,908,631	32,337,580
Basic and diluted earnings per share (note 6)	**0.23**	**0.24**	**0.47**	**0.46**

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

Pizza Pizza Royalty Corp.

Unaudited Interim Condensed Consolidated Statements of Comprehensive Earnings
For the three and six months ended June 30, 2024 and 2023
(Expressed in thousands of Canadian dollars)

	Three months ended June 30, 2024 $	Three months ended June 30, 2023 $	Six months ended June 30, 2024 $	Six months ended June 30, 2023 $
Earnings for the period	**7,662**	**7,777**	**15,411**	**14,880**
Other comprehensive earnings (loss)				
Items that may be reclassified subsequently to net earnings:				
Cash flow hedges	(384)	582	(535)	164
Deferred tax impact of cash flow hedges	76	(118)	107	(33)
Total comprehensive earnings	**7,354**	**8,241**	**14,983**	**15,011**

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

Pizza Pizza Royalty Corp.

Unaudited Interim Condense Consolidated Statements of Changes in Shareholders' Equity
For the six months ended June 30, 2024 and 2023
(Expressed in thousands of Canadian dollars)

	Share capital $	Exchangeable Shares $	Accumulated other comprehensive earnings (loss) $	Deficit $	Total shareholders' equity $
At December 31, 2023	**242,030**	**85,027**	**1,324**	**(34,473)**	**293,908**
Comprehensive earnings					
Earnings for the period	-	-	-	15,411	15,411
Cash flow hedges	-	-	(535)	-	(535)
Deferred tax impact of cash flow hedges	-	-	107	-	107
Total comprehensive earnings (loss)	**-**	**-**	**(428)**	**15,411**	**14,983**
Transactions with shareholders					
Exchangeable Shares (note 5)	-	7,977	-	-	7,977
Dividends declared to shareholders	-	-	-	(11,448)	(11,448)
Distributions on Class B and Class D Exchangeable Shares	-	-	-	(5,456)	(5,456)
Total transactions with shareholders	**-**	**7,977**	**-**	**(16,904)**	**(8,927)**
At June 30, 2024	**242,030**	**93,004**	**896**	**(35,966)**	**299,964**
At December 31, 2022	**242,030**	**82,847**	**2,030**	**(34,484)**	**292,423**
Comprehensive earnings					
Earnings for the period	-	-	-	14,880	14,880
Cash flow hedges	-	-	164	-	164
Deferred tax impact of cash flow hedges	-	-	(33)	-	(33)
Total comprehensive earnings	**-**	**-**	**131**	**14,880**	**15,011**
Transactions with shareholders					
Exchangeable Shares (note 5)	-	2,180	-	-	2,180
Dividends declared to shareholders	-	-	-	(10,648)	(10,648)
Distributions on Class B and Class D Exchangeable Shares	-	-	-	(4,431)	(4,431)
Total transactions with shareholders	**-**	**2,180**	**-**	**(15,079)**	**(12,899)**
At June 30, 2023	**242,030**	**85,027**	**2,161**	**(34,683)**	**294,535**

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

Pizza Pizza Royalty Corp.

Unaudited Interim Condensed Consolidated Statements of Cash Flows
For the six months ended June 30, 2024 and 2023
(Expressed in thousands of Canadian dollars)

	June 30, 2024 $	June 30, 2023 $
Cash provided by (used in)		
Operating activities		
Earnings for the period	15,411	14,880
Amortization of deferred financing fees	10	10
Deferred tax expense	15	295
Changes in non-cash working capital (note 9)	(571)	(1,004)
Cash provided by operating activities	**14,865**	**14,181**
Financing activities		
Dividends paid to shareholders	(11,448)	(10,524)
Distributions on Class B and Class D Exchangeable Shares	(5,456)	(4,431)
Cash used in financing activities	**(16,904)**	**(14,955)**
Investing activities		
Proceeds on redemption of short-term investment	1,500	-
Cash provided by investing activities	**1,500**	-
Decrease in cash	**(539)**	**(774)**
Cash, beginning of period	**2,505**	**1,936**
Cash, end of period	**1,966**	**1,162**
Supplementary information		
Interest paid	389	647
Income taxes paid	4,253	4,065

Total cash and short-term investments	June 30, 2024 $	June 30, 2023 $
Cash	1,966	1,162
Short-term investments	4,500	6,000
Total cash and short-term investments	**6,466**	**7,162**

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

1. General information

The Pizza Pizza Royalty Corp. (the “Company”) is governed by the *Business Corporations Act* (Ontario) pursuant to its articles of incorporation dated April 4, 2012 and articles of arrangement dated December 31, 2012. The Company’s common shares are traded on the Toronto Stock Exchange under the stock symbol PZA. The Company is incorporated and domiciled in Canada, and the address of its registered office is 500 Kipling Avenue, Toronto, Ontario, Canada.

The Company acquired, through the Pizza Pizza Royalty Limited Partnership (the “Partnership”), the trademarks, trade names, operating procedures, systems and other intellectual property and proprietary rights associated therewith owned by Pizza Pizza Limited (“PPL”) used in connection with the operation of all restaurants operated by PPL, its subsidiaries and its franchisees (collectively, the “Pizza Pizza Rights and Marks”).

Concurrent with the acquisition of the Pizza Pizza Rights and Marks on July 6, 2005, the Partnership granted PPL an exclusive and unlimited licence to use the Pizza Pizza Rights and Marks for an initial term of 99 years for which PPL pays a royalty equal to 6% of system sales from all Pizza Pizza restaurants in the Royalty Pool, as defined in the Pizza Pizza Licence and Royalty Agreement.

On July 24, 2007, the Company, through the Partnership, acquired the trademarks, trade names, operating procedures and systems, and other intellectual property and proprietary rights owned by Pizza 73 Inc. and its affiliated companies (together, “Pizza 73”) used in connection with the operation of all restaurants operated by Pizza 73 and its partners (collectively, the “Pizza 73 Rights and Marks”).

Concurrent with the acquisition of the Pizza 73 Rights and Marks, the Partnership granted PPL an exclusive and unlimited licence to use the Pizza 73 Rights and Marks for an initial term of 99 years for which PPL pays a royalty equal to 9% of system sales from all Pizza 73 restaurants in the Royalty Pool, as defined in the Pizza 73 Licence and Royalty Agreement.

In November 2021, the Partnership and PPL entered into a licence and royalty agreement for international operations, under which PPL 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, PPL 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 PPL 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. As at June 30, 2024, there were four PZA restaurants opened in Mexico.

As at June 30, 2024, there were 672 Pizza Pizza restaurants and 102 Pizza 73 restaurants in the Royalty Pool (2023 – 644 and 99, respectively); the Royalty Pool is adjusted annually on January 1.

The Company pays monthly dividends directly to public shareholders. For the six months ended June 30, 2024, the Company declared dividends of $0.465 per share (2023 – $0.4325 per share).

PPL, a privately owned corporation headquartered in Toronto, Ontario, operates in the food service industry primarily throughout Ontario and Alberta, and primarily franchises and operates quick-service restaurant businesses under the Pizza Pizza and Pizza 73 brands. PPL derives revenue from franchisees through the sale of franchise restaurants, food and supplies and royalties. PPL also derives revenue from company owned and jointly controlled restaurants through the sale of food products to retail customers. The Company’s revenue is earned from certain operations of PPL and, accordingly, the revenue of the Company and its ability to pay dividends to shareholders are dependent on the ability of PPL to generate and pay royalties to the Company.

2. Material accounting policies

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

a. 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 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 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 December 31, 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 December 31, 2023. The Company has not adopted any other standard, interpretation or amendment that has been issued, but is not yet effective. These unaudited interim condensed consolidated financial statements were authorized for issue by the Board of the Directors on August 7, 2024.

b. 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 interim condensed consolidated financial statements for the annual period beginning January 1, 2024.

c. Accounting standards and amendments issued but not yet adopted

Enhanced presentation and disclosure of financial statements (IFRS 18)

On April 9, 2024, the IASB issued a new standard IFRS 18 *Presentation and Disclosure in Financial Statements* to improve the usefulness and comparability of financial statement information. The new standard replaces IAS 1 and introduces three sets of new presentation and disclosure requirements: (1) it codifies the reporting structure of the income statement and requires defined subtotals; (2) disclosure of management-defined performance measures that relate to the income statement; and (3) enhanced guidance on how to organize information in the financial statements and whether to provide it in the primary financial statements or in the notes. The new standard is effective for annual periods beginning on or after January 1, 2027. The Company is currently assessing whether the new standard will have a material impact on the consolidated financial statements.

(Expressed in thousands of Canadian dollars, except number of shares and per share amounts)

d. Consolidation

The unaudited interim condensed consolidated financial statements incorporate the assets and liabilities of the Company and its subsidiaries as at June 30, 2024 and December 31, 2023 and the results of these subsidiaries for the three and six months ended June 30, 2024 and 2023.

The Company's subsidiaries and its respective holdings at June 30, 2024 and December 31, 2023 are outlined below:

Subsidiary	**June 30, 2024**	**December 31, 2023**
Pizza Pizza GP Inc.	74.8%	76.1%
Pizza Pizza Royalty Limited Partnership	74.8%	76.1%

3. Pizza Pizza and Pizza 73 Rights and Marks

	Pizza Pizza Rights and Marks $	Pizza 73 Rights and Marks $	Total $
Net book value at December 31, 2022	**272,902**	**80,814**	**353,716**
Accretion of value – January 1, 2023 vend-in	2,180	-	2,180
Accretion of value – January 1, 2022 true-up	-	-	-
Net book value at December 31, 2023	**275,082**	**80,814**	**355,896**
Accretion of value – January 1, 2024 vend-in	4,090	-	4,090
Accretion of value – January 1, 2023 true-up	3,887	-	3,887
Net book value at June 30, 2024	**283,059**	**80,814**	**363,873**

The Company, through its interest in the Partnership, acquired the Pizza Pizza Rights and Marks used in the Pizza Pizza quick service restaurant business in Canada in July 2005. Funding for the purchase came from the completion of the Pizza Pizza Royalty Income Fund's initial public offering in July 2005 and from proceeds of the term loan. Concurrent with the acquisition of the Pizza Pizza Rights and Marks, the Partnership granted PPL an exclusive and unlimited licence to use the Pizza Pizza Rights and Marks for an initial term of 99 years, for which PPL pays a royalty equal to 6% of system sales for all Pizza Pizza restaurants in the Royalty Pool, as defined in the Pizza Pizza Licence and Royalty Agreement.

In July 2007, the Company, through its interest in the Partnership, acquired the Pizza 73 Rights and Marks from Pizza 73. The purchase was funded by a public and private placement of Fund units and proceeds from the term loan. Concurrent with the acquisition of the Pizza 73 Rights and Marks, the Partnership granted PPL an exclusive and unlimited licence to use the Pizza 73 Rights and Marks for an initial term of 99 years, for which PPL pays a royalty equal to 9% of system sales of all Pizza 73 restaurants included in the Royalty Pool, as defined in the Pizza 73 Licence and Royalty Agreement.

(Expressed in thousands of Canadian dollars, except number of shares and per share amounts)

Annually, on January 1 (the "Adjustment Date"), the Royalty Pool is adjusted to include the forecasted system sales from new Pizza Pizza restaurants opened on or before December 31 of the prior year, less system sales from any Pizza Pizza restaurants that have been permanently closed during the year. Similarly, on the Adjustment Date, the Royalty Pool is adjusted to include the forecasted system sales from new Pizza 73 restaurants opened on or before September 1 of the prior year, less any Pizza 73 restaurants permanently closed during the calendar year. In return for adding net additional royalty revenue, PPL receives the right to indirectly acquire additional shares of the Company through an adjustment to the Class B and Class D Exchange Multiplier (see note 5).

As a result of the adjustment to the Royalty Pool on January 1, 2024, the Pizza Pizza Rights and Marks increased by $4,090 in 2024 (2023 – increased $2,180) and increased by $3,887 related to the January 1, 2023 true-up (2023 – unchanged), and the Pizza 73 Rights and Marks remained unchanged.

4. Borrowings

	June 30, 2024 $	December 31, 2023 $
Borrowings	47,000	47,000
Less: unamortized deferred financing fees	14	24
Total borrowings	**46,986**	**46,976**

The borrowings are a committed, non-revolving, five-year facility maturing on April 24, 2025, and were used to finance a portion of the acquisition costs of the Pizza Pizza Rights and Marks in 2005 and the Pizza 73 Rights and Marks in 2007. As security for repayment of the facility, PPL grants a continuing general security interest subject to certain exceptions, in all present and acquired property of PPL, which may not be assigned without the prior consent of PPL and the bank.

The $47,000 credit facility with a syndicate of chartered banks matures April 24, 2025, and has been classified as a current liability. The facility bears interest at an adjusted Canadian Overnight Repo Rate Average ("CORRA") rate plus a credit spread of 0.875% to 1.375%, depending on the level of certain covenant calculations. The Partnership entered into a five year forward swap arrangement, which commenced April 2020. The effective interest rate on the credit facility decreased effective April 2022 to 2.685% comprised of a fixed rate of 1.81% plus a credit spread of 0.875%.

The Company is currently making interest-only payments until the loan matures on April 24, 2025.

On June 19, 2024, in response to the cessation of the Canadian Dollar Offered Rate ("CDOR"), the benchmark interest rate on bankers' acceptances, the credit facility was amended. The amendment transitioned the $47,000 credit facility from bankers' acceptances to CORRA loans, in which the interest rate benchmark is CORRA. The remaining terms and conditions are consistent with those of the previous credit facility. The fixed interest rate on the swaps remained unchanged with this amendment.

It is expected in the transition from CDOR to CORRA that the contractual cash flows of the financial liability as a result of this change would remain economically equivalent. Therefore, the Company intends to apply the practical expedient in IFRS 9 relating to accounting for modifications of contractual terms of a financial instrument, such that the Company would remeasure the updated effective interest rate prospectively with no immediate gain or loss recognized on transition.

The facility is subject to certain financial covenants, all of which have been met as at June 30, 2024. The borrowings are held within the Partnership, and therefore, the financial covenants for the borrowings pertain only to the results of the Partnership and not the Company.

(Expressed in thousands of Canadian dollars, except number of shares and per share amounts)

5. Exchangeable Shares

As at June 30, 2024, PPL directly and indirectly holds, through its wholly-owned subsidiary Pizza Pizza Holdings Ltd., an effective 25.2% interest in the Company (December 31, 2023 – 23.9%) by holding all Class B ordinary partnership units (the "Class B Units") and Class D ordinary partnership units (the "Class D Units") of the Partnership. Subject to the Amended and Restated Exchange Agreement ("Exchange Agreement"), one Class B or Class D Unit may be exchanged indirectly for that number of shares equal to the Class B Exchange Multiplier or Class D Exchange Multiplier, respectively, applicable at the date of such exchange, as described under "Licence and Royalty Adjustment of the Royalty Pool Changes in the Restaurants in the Royalty Pool" in the Exchange Agreement.

Subject to the prior rights of the Company's Class C Units, a monthly distribution is paid to both PPL (as indirect holder of the Class B and Class D Units) and the Company (as holders of the Class A Units), on a pro rata ownership basis. Distributions are subject to the discretion of the Pizza Pizza GP Inc., which the Company controls. Distributions made to PPL are recorded directly in equity. The equivalent number of Shares issuable on the exchange of Class B and Class D Units outstanding are as follows:

	Number of Class B Exchangeable Shares	Number of Class D Exchangeable Shares	Total Number of Exchangeable Shares	Amount $
At December 31, 2022	**5,313,909**	**2,244,975**	**7,558,884**	**82,847**
Add: January 1, 2023 vend-in	160,304	-	160,304	2,180
Add: January 1, 2022 true-up	-	-	-	-
At December 31, 2023	**5,474,213**	**2,244,975**	**7,719,188**	**85,027**
Add: January 1, 2024 vend-in	285,250	-	285,250	4,090
Add: January 1, 2023 true-up	285,801	-	285,801	3,887
At June 30, 2024	**6,045,264**	**2,244,975**	**8,290,239**	**93,004**

a. 2023 Royalty Pool Adjustment

In early January 2024, a second adjustment was made to the royalty payments and the 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 the 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 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 additional system sales (less closed restaurant 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.

(Expressed in thousands of Canadian dollars, except number of shares and per share amounts)

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

6. Earnings per Share

The basic earnings per share is calculated by dividing earnings for the period by the weighted average number of shares outstanding during the period. The denominator in basic earnings per share includes PPL's Class B and Class D Exchangeable Shares, as if they have been converted, since the Class B and Class D Units are exchangeable into and economically equivalent to the Company's common shares. There were no potentially dilutive instruments outstanding during the three and six months ended June 30, 2024 and 2023.

The following table illustrates the computation of basic and diluted earnings per share:

	Three months ended June 30, 2024 $	Three months ended June 30, 2023 $	Six months ended June 30, 2024 $	Six months ended June 30, 2023 $
Weighted average number of:				
Common shares	24,618,392	24,618,392	24,618,392	24,618,392
Exchangeable Shares (note 5)	8,290,239	7,719,188	8,290,239	7,719,188
Weighted average number of shares outstanding – basic and diluted	32,908,631	32,337,580	32,908,631	32,337,580
Basic and diluted earnings per share	**$0.23**	**$0.24**	**$0.47**	**$0.46**

7. Royalty income

Royalty income earned by the Company has been derived as shown in the table below:

	Three months ended June 30, 2024 $	Three months ended June 30, 2023 $	Six months ended June 30, 2024 $	Six months ended June 30, 2023 $
Restaurants in Royalty Pool	774	743	774	743
System sales reported by Pizza Pizza restaurants in the Royalty Pool	133,839	137,656	262,123	261,342
System sales reported by Pizza 73 restaurants in the Royalty Pool	21,517	20,820	42,129	39,869
Total system sales	**155,356**	**158,476**	**304,252**	**301,211**
Royalty – 6% on Pizza Pizza system sales	8,030	8,259	15,727	15,681
Royalty – 9% on Pizza 73 system sales	1,937	1,874	3,792	3,588
Royalty income	**9,967**	**10,133**	**19,519**	**19,269**

System sales do not represent the consolidated operating results of the Company but are used to calculate the royalty income as presented above.

(Expressed in thousands of Canadian dollars, except number of shares and per share amounts)

8. Related party transactions and balances

PPL is a related party by virtue of directly and indirectly holding Class B and Class D Units that are exchangeable into Shares of the Company. Disclosure related to these Exchangeable Shares is provided in note 5.

PPL, pursuant to the Partnership Agreement, is providing certain administrative services to the Company. The fee for these services, which on an annual basis shall not exceed $25, has been waived for the period.

The Company has a receivable from PPL as at June 30, 2024 of $3,475 (December 31, 2023 – $3,689) and a payable to PPL as at June 30, 2024 of $1,047 (December 31, 2023 – $1,001). The receivable relates to royalty amounts receivable from the Royalty Pool system sales, while the payable to PPL relates to distributions payable in respect of Class B and Class D Units and other expenses paid by PPL on behalf of the Partnership.

Transactions with related parties are in the normal course of operations. No amount of related party balances was written off during the three and six months ended June 30, 2024 and 2023.

The Company has no paid executives in 2024 or 2023, but the total director compensation for three and six months ended June 30, 2024 was $63 and $115, respectively (June 30, 2023 - $54 and $102).

9. Consolidated statements of cash flows information

Changes in non-cash working capital are as follows:

	June 30, 2024 $	June 30, 2023 $
Receivable from Pizza Pizza Limited	214	(164)
Trade and other receivables	64	(144)
Trade and other payables	1	(17)
Payable to Pizza Pizza Limited	46	52
Income taxes payable	(896)	(731)
Changes in non-cash working capital	**(571)**	**(1,004)**

10. Financial risk management

Fair value

The following table presents the carrying amount and the fair value of the Company's financial instruments. Amortized cost is calculated using the effective interest rate method. Fair value is estimated as disclosed below. These amounts represent point-in-time estimates and may not reflect fair value in the future. These calculations are subjective in nature, involve uncertainties and are a matter of significant judgment. The only financial instruments carried at fair value in the consolidated statements of financial position are the derivative financial instruments.

The carrying amounts of the cash, short-term investments, receivable from PPL, trade and other receivables, trade and other payables, payable to PPL, and dividends payable to shareholders all approximate their fair value given the short-term maturity of these financial instruments.

(Expressed in thousands of Canadian dollars, except number of shares and per share amounts)

The carrying value and fair value of all financial instruments are as follows:

	June 30, 2024		December 31, 2023	
	Carrying value $	Fair value $	Carrying value $	Fair value $
Derivative financial instruments - asset	1,113	1,113	1,647	1,647
Borrowings	46,986	47,000	46,976	47,000

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 assets or financial liabilities that are not based on observable market data.

As at June 30, 2024, inputs used to fair value the derivative financial instruments were Level 2 and based on observable inputs available for similar assets and liabilities in the active markets, as provided by sources independent from the Company.

The fair value of the borrowings balance, which equals the principal amount outstanding, is $47 million (December 31, 2023 – $47 million) since the debt has variable interest rates at terms that the Company believes are reflective of currently available terms. The Company has no plans to prepay these instruments prior to maturity. The valuation is 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.

Credit risk

The Company is exposed to credit risk in the event of non-payment by PPL and due to the fact that PPL's operations are all within the same segment, commercial food services. The credit risk is mitigated since monthly royalty payments are received from PPL based on sales generated by a large number of Pizza Pizza and Pizza 73 restaurants in diverse geographical regions. These royalty payments are used to fund monthly distributions to the Company on its Class A and C Limited Partnership Units and to fund distributions to PPL on the Class B and D Units. All trade and other receivables, and the amount receivable from PPL, are current and no amounts have been written off or provided for during the period.

Credit risk also arises from cash and derivative financial instruments with banks and financial institutions. The Company places its cash and transacts in derivative financial instruments with institutions of high creditworthiness.

Maximum credit risk exposure, which is equivalent to the carrying amount, represents the loss that would be incurred if all of the Company's counterparties were to default at the same time.

Liquidity risk

Liquidity risk is the risk that an entity is unable to fund its assets or meet its financial obligations as they come due.

The Company is subject to liquidity risk with respect to trade and other payables, borrowings and funding the dividends payable to Company shareholders. The Company receives monthly royalties from PPL, and the Company is of the opinion that this risk is mitigated by the large number of Pizza Pizza and Pizza 73 restaurants in diverse geographical areas that generate the royalties used to fund the monthly royalties. To mitigate its liquidity risk, the Company has the discretion to reduce the dividends payable to the Company's shareholders in the event of a reduction of the Company's royalty income.
The dividends payable to Company shareholders and trade and other payables, are expected to be paid within 30 days of the date of the consolidated statements of financial position.

Liquidity risk is managed, in part, through cash flow forecasting by the Company. The Company monitors its forecasts of liquidity requirements to ensure it has the ability to meet operational needs with cash on hand and cash from operations. Such forecasting involves a degree of judgment, which takes into consideration current and projected macroeconomic conditions and other efforts by the entity including re-financing the existing debt. The Company's debt facility exists to support the historical purchase of the rights and marks. The current debt facility matures on April 24, 2025. The Company is currently working with their lenders to renew the existing credit facility and expects to receive a new commitment term at or before the maturity. As a result, the Company believes it will be able to refinance the debt at prevailing market rates at or closer to the date maturity. The market conditions around availability of financing and rates of interest are difficult to predict. In the event of a remote circumstance of a constrained financing market or more unfavourable borrowing rates, the Company can look to other means of financing including equity financing, private placement or high yield debt markets to manage financing needs of the business.

Interest rate risk

The interest rate swaps eliminate the Company's interest rate cash flow risk by fixing the rate of interest that is paid on the borrowings. However, the Company is still exposed to fair value interest rate risk as a result of fair value movements in the value of the interest rate swaps that are recorded in other comprehensive earnings (loss) to the extent that the interest rate swaps are effective as cash flow hedges. If interest rates changed by plus/minus 10% of the existing rate, total comprehensive earnings and shareholders' equity would change by plus/minus $65 as at June 30, 2024 (December 31, 2023 – $109) based on movements in the fair value of the interest rate swaps.