



PIZZA PIZZA ROYALTY CORP.

Interim Condensed Consolidated Financial Statements
For the three months ended March 31, 2025 and 2024

Pizza Pizza Royalty Corp.

Unaudited Interim Condensed Consolidated Statements of Financial Position

As at March 31, 2025 and December 31, 2024

(Expressed in thousands of Canadian dollars)

	March 31, 2025	December 31, 2024
	\$	\$
Assets		
Current assets		
Cash	42	781
Short-term investments	5,000	5,000
Receivable from Pizza Pizza Limited (note 8)	3,402	3,539
Trade and other receivables	268	133
Income taxes receivable	185	168
Total current assets	8,897	9,621
Non-current assets		
Derivative financial instruments (note 10)	50	251
Pizza Pizza Rights and Marks (note 3)	289,377	283,059
Pizza 73 Rights and Marks (note 3)	80,814	80,814
Total non-current assets	370,241	364,124
Total assets	379,138	373,745
Liabilities and shareholders' equity		
Current liabilities		
Trade and other payables	518	565
Payable to Pizza Pizza Limited (note 8)	1,276	1,062
Dividends payable to shareholders	1,908	1,908
Borrowings (note 4)	-	46,994
Total current liabilities	3,702	50,529
Non-current liabilities		
Borrowings (note 4)	46,916	-
Deferred tax liability	24,850	24,998
Total non-current liabilities	71,766	24,998
Shareholders' equity		
Share capital	242,030	242,030
Exchangeable Shares (note 5)	99,322	93,004
Accumulated other comprehensive earnings	43	205
Deficit	(37,725)	(37,021)
Total shareholders' equity	303,670	298,218
Total liabilities and shareholders' equity	379,138	373,745

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

Pizza Pizza Royalty Corp.

Unaudited Interim Condensed Consolidated Statements of Earnings

For the three months ended March 31, 2025 and 2024

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

	March 31, 2025	March 31, 2024
	\$	\$
Royalty income (note 7)	9,729	9,552
Administrative expenses	(152)	(126)
Operating earnings	9,577	9,426
Interest expense on borrowings (note 4)	(317)	(319)
Interest income	68	120
Earnings for the period before income taxes	9,328	9,227
Current tax expense	(1,656)	(1,646)
Deferred tax recovery	108	168
Earnings for the period attributable to shareholders	7,780	7,749
Weighted average number of shares – basic and diluted (note 6)	33,353,588	32,908,631
Basic and diluted earnings per share (note 6)	0.23	0.24

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

Pizza Pizza Royalty Corp.

Unaudited Interim Condensed Consolidated Statements of Comprehensive Earnings

For the three months ended March 31, 2025 and 2024

(Expressed in thousands of Canadian dollars)

	March 31, 2025 \$	March 31, 2024 \$
Earnings for the period	7,780	7,749
Other comprehensive earnings (loss)		
Items that may be reclassified subsequently to net earnings:		
Cash flow hedges	(201)	(150)
<u>Deferred tax impact of cash flow hedges</u>	39	30
Total comprehensive earnings	7,618	7,629

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 Changes in Shareholders' Equity

For the three months ended March 31, 2025 and 2024

(Expressed in thousands of Canadian dollars)

	Share capital \$	Exchangeable Shares \$	Accumulated other comprehensive earnings (loss) \$	Deficit \$	Total shareholders' equity \$
At December 31, 2024	242,030	93,004	205	(37,021)	298,218
Comprehensive earnings					
Earnings for the period	-	-	-	7,780	7,780
Cash flow hedges	-	-	(201)	-	(201)
Deferred tax impact of cash flow hedges	-	-	39	-	39
Total comprehensive earnings (loss)	-	-	(162)	7,780	7,618
Transactions with shareholders					
Exchangeable Shares (note 5)	-	6,318	-	-	6,318
Dividends declared to shareholders	-	-	-	(5,724)	(5,724)
Distributions on Class B and Class D Exchangeable Shares	-	-	-	(2,760)	(2,760)
Total transactions with shareholders	-	6,318	-	(8,484)	(2,166)
At March 31, 2025	242,030	99,322	43	(37,725)	303,670
At December 31, 2023	242,030	85,027	1,324	(34,473)	293,908
Comprehensive earnings					
Earnings for the period	-	-	-	7,749	7,749
Cash flow hedges	-	-	(150)	-	(150)
Deferred tax impact of cash flow hedges	-	-	30	-	30
Total comprehensive earnings	-	-	(120)	7,749	7,629
Transactions with shareholders					
Exchangeable Shares (note 5)	-	7,977	-	-	7,977
Dividends declared to shareholders	-	-	-	(5,724)	(5,724)
Distributions on Class B and Class D Exchangeable Shares	-	-	-	(2,872)	(2,872)
Total transactions with shareholders	-	7,977	-	(8,596)	(619)
At March 31, 2024	242,030	93,004	1,204	(35,320)	300,918

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 three months ended March 31, 2025 and 2024
(Expressed in thousands of Canadian dollars)

	March 31, 2025	March 31, 2024
	\$	\$
Cash provided by (used in)		
Operating activities		
Earnings for the period	7,780	7,749
Amortization of deferred financing fees	5	5
Deferred tax expense	(108)	(168)
Changes in non-cash working capital (note 9)	152	(714)
Cash provided by operating activities	7,829	6,872
Financing activities		
Debt refinancing fees	(84)	-
Dividends paid to shareholders	(5,724)	(5,724)
Distributions on Class B and Class D Exchangeable Shares	(2,760)	(2,872)
Cash used in financing activities	(8,568)	(8,596)
Decrease in cash	(739)	(1,724)
Cash, beginning of period	781	2,505
Cash, end of period	42	781
Supplementary information		
Interest paid	312	315
Income taxes paid	1,700	2,403
 Total cash and short-term investments		
	\$	\$
Cash	42	781
Short-term investments	5,000	6,000
Total cash and short-term investments	5,042	6,781

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

Pizza Pizza Royalty Corp.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2025 and 2024

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

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). Royalties commenced in October 2024. 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 March 31, 2025, there were four PZA restaurants in Mexico.

As at March 31, 2025, there were 694 Pizza Pizza restaurants and 100 Pizza 73 restaurants in the Royalty Pool (2024 – 672 and 102, respectively); the Royalty Pool is adjusted annually on January 1.

The Company pays monthly dividends directly to public shareholders. For the three months ended March 31, 2025, the Company declared dividends of \$0.2325 per share (2024 – \$0.2325 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.

Pizza Pizza Royalty Corp.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2025 and 2024

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

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, 2024.

The Company's preparation of financial statements in accordance with IAS 34 requires the use of certain 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, 2024.

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, 2024. 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 May 7, 2025.

b. 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.

c. Consolidation

The unaudited interim condensed consolidated financial statements incorporate the assets and liabilities of the Company and its subsidiaries as at March 31, 2025 and December 31, 2024 and the results of these subsidiaries for the three months ended March 31, 2025 and 2024.

Pizza Pizza Royalty Corp.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2025 and 2024

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

The Company's subsidiaries and its respective holdings at March 31, 2025 and December 31, 2024 are outlined below:

Subsidiary	March 31, 2025	December 31, 2024
Pizza Pizza GP Inc.	73.8%	74.8%
Pizza Pizza Royalty Limited Partnership	73.8%	74.8%

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, 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 December 31, 2024	283,059	80,814	363,873
Accretion of value – January 1, 2025 vend-in	4,904	-	4,904
Accretion of value – January 1, 2024 true-up	1,414	-	1,414
Net book value at March 31, 2025	289,377	80,814	370,191

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.

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 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 system sales from any Pizza 73 restaurants that permanently closed during the 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 Multipliers (see note 5).

As a result of the adjustment to the Royalty Pool on January 1, 2025, the Pizza Pizza Rights and Marks increased by \$4,904 in 2025 (2024 – increased \$4,090) and increased by \$1,414 related to the January 1, 2024 true-up (2024 – increased \$3,887), and the Pizza 73 Rights and Marks remained unchanged (2024 – unchanged) (see note 5).

Pizza Pizza Royalty Corp.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

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4. Borrowings

	March 31, 2025	December 31, 2024
	\$	\$
Borrowings	47,000	47,000
Less: unamortized deferred financing fees	84	6
Total borrowings	46,916	46,994

The borrowings are a committed, non-revolving facility, 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.

On March 20, 2025, the Partnership amended and extended its \$47,000 credit facility from April 24, 2025 to April 24, 2028. During the three months ended March 31, 2025, the facility bore interest at an adjusted Canadian Overnight Repo Rate Average ("CORRA") rate plus a credit spread of 0.875% to 1.375%, depending on certain financial ratios. The Partnership's interest rate is fixed through two interest rate swap arrangements, which commenced in April 2020 and matured in April 2025. During the three months ended March 31, 2025, the interest rate is 2.69%, comprised of interest rate swaps of 1.81% plus a credit spread of 0.875%. As part of the amended agreement, the credit spread range increased to 1.00% to 1.50%.

On April 3, 2025, the Partnership entered into a three-year forward swap arrangement, commencing April 24, 2025; the credit facility will have a new effective interest rate of 3.51%, comprised of a fixed rate of 2.51% plus the new credit spread, currently set at 1.00%.

The Company is currently making interest-only payments until the loan matures on April 24, 2028.

The facility is subject to certain financial ratios, specifically a maximum debt-to-EBITDA ratio, an interest coverage ratio, and a covenant on distributable cash, all of which have been met as at March 31, 2025. 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.

5. Exchangeable Shares

As at March 31, 2025, PPL directly and indirectly holds, through its wholly-owned subsidiary Pizza Pizza Holdings Ltd., an effective 26.2% interest in the Company (December 31, 2024 – 25.2%) 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

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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, 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 December 31, 2024	6,045,264	2,244,975	8,290,239	93,004
Add: January 1, 2025 vend-in	346,317	-	346,317	4,904
Add: January 1, 2024 true-up	98,640	-	98,640	1,414
At March 31, 2025	6,490,221	2,244,975	8,735,196	99,322

a. 2024 Royalty Pool Adjustment

In early January 2025, a second adjustment was made to the royalty payments and PPL's Class B Exchange Multiplier based on the actual performance of the 41 new restaurants added to the Royalty Pool on January 1, 2024. As a result of the adjustments, PPL obtained an additional 98,640 shares, the Class B Exchange Multiplier is 2.449489, and Class B Units can be exchanged for 6,143,904 shares effective January 1, 2024.

In early January 2025, a second adjustment was made to the royalty payments and PPL's Class D Exchange Multiplier based on the actual performance of the four Pizza 73 restaurants added to the Royalty Pool on January 1, 2024. The final 2024 Pizza 73 Royalty Pool adjustment confirmed that \$850 was applied against the Make-Whole Carryover Amount. 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, 2024.

b. 2025 Royalty Pool Adjustment – Class B Exchange Multiplier

On January 1, 2025, 22 net Pizza Pizza restaurants were added to the Royalty Pool as a result of 44 new restaurants opening and 22 closing from January 1, 2024 to December 31, 2024. The total number of Pizza Pizza restaurants in the Royalty Pool has increased to 694. The additional system sales from the 44 new restaurants are estimated at \$12,943 annually, less sales of \$3,583 from the 22 permanently closed Pizza Pizza restaurants. As a result, \$9,360 net, estimated Pizza Pizza sales were added to the Royalty Pool, resulting in an Estimated Determined Amount of \$5,695 added to the Royalty Pool.

The yield of the shares was determined to be 7.07% calculated using \$13.16 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, 2025. 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 0.130872 (representing 346,317 equivalent shares); the new Class B Multiplier is 2.587561. 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, 2025, once the actual performance of the new restaurants is determined in early 2026.

Pizza Pizza Royalty Corp.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

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

c. 2025 Royalty Pool Adjustment – Class D Exchange Multiplier

On January 1, 2025, two net Pizza 73 restaurants were removed from the Royalty Pool as a result of one new restaurant opening between September 2, 2023 and September 1, 2024 and three restaurants closing between January 1, 2024 and December 31, 2024. The forecasted additional system sales from the one new restaurant is estimated at \$286 annually, less \$384 in system sales attributable to the three closed Pizza 73 restaurants. As a result, \$98 net, estimated Pizza 73 sales were added to the \$647 Make-Whole Carryover Amount.

The cumulative Make-Whole Carryover Amount of \$745 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 100.

The yield of the shares was determined to be 7.07% calculated using \$13.16 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, 2025. 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, 2025, once the actual performance of the new restaurant is determined in early 2026.

d. Pizza Pizza Royalty Corp. Outstanding Shares

In exchange for adding the forecasted Pizza Pizza system sales to the Royalty Pool, PPL has received 346,317 additional equivalent shares (through the change to the Class B Exchange Multiplier). These represent 80% of the forecasted equivalent shares entitlement to be received (432,896 equivalent shares represent 100%), with the final equivalent shares entitlement to be determined when the new restaurants' 2025 actual sales performance is known with certainty in early 2026.

PPL's Class D equivalent share entitlement is unchanged for 2025. 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 2025, no increase or decrease in the Exchange Multiplier is made. PPL will only have an increased Class D equivalent share entitlement for 2025 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 2026.

After giving effect to PPL's entitlement to additional equivalent Shares at January 1, 2025, PPL directly and indirectly owns equivalent shares representing 26.2% of the Company's fully diluted shares.

6. Share capital

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 they are exchangeable into and economically equivalent to the Company's common shares. There were no potentially dilutive instruments outstanding during the three months ended March 31, 2025 and 2024.

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

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

	March 31, 2025	December 31, 2024
	\$	\$
Weighted average number of:		
Common shares	24,618,392	24,618,392
Exchangeable Shares (note 5)	8,735,196	8,290,239
Weighted average number of shares outstanding – basic and diluted	33,353,588	32,908,631
Basic and diluted earnings per share	\$0.23	\$0.24

7. Royalty income

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

	March 31, 2025	March 31, 2024
	\$	\$
Restaurants in Royalty Pool	794	774
System sales reported by Pizza Pizza restaurants in the Royalty Pool	129,820	128,284
System sales reported by Pizza 73 restaurants in the Royalty Pool	21,503	20,611
Total system sales	151,323	148,895
Royalty – 6% on Pizza Pizza system sales	7,789	7,697
Royalty – 9% on Pizza 73 system sales	1,936	1,855
International royalties	4	-
Royalty income	9,729	9,552

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

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 March 31, 2025 of \$3,402 (December 31, 2024 - \$3,539) and a payable to PPL as at March 31, 2025 of \$1,276 (December 31, 2024 - \$1,062). 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 months ended March 31, 2025 and 2024.

The Company has no paid executives in 2025 or 2024, but the total director compensation for the three months ended March 31, 2025 was \$62 (March 31, 2024 - \$53).

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For the three months ended March 31, 2025 and 2024

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

9. Consolidated statements of cash flows information

Changes in non-cash working capital are as follows:

	March 31, 2025	March 31, 2024
	\$	\$
Receivable from Pizza Pizza Limited	137	308
Trade and other receivables	(135)	(165)
Trade and other payables	(47)	(25)
Payable to Pizza Pizza Limited	214	(75)
Income taxes receivable/(payable)	(17)	(757)
Changes in non-cash working capital	152	(714)

10. Financial risk management

Fair value

The following table presents the carrying amount and the fair value of the Company's financial instruments. Fair value is estimated as disclosed below. These amounts represent point-in-time estimates and may not reflect fair value in the future. 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.

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

	March 31, 2025		December 31, 2024	
	Carrying value	Fair value	Carrying value	Fair value
	\$	\$	\$	\$
Derivative financial instruments - asset	50	50	251	251
Borrowings	46,916	47,000	46,994	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 March 31, 2025, 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 \$47,000 (December 31, 2024 – \$47,000) 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

Pizza Pizza Royalty Corp.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2025 and 2024

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

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.

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 \$5 as at March 31, 2025 (December 31, 2024 – \$25) based on movements in the fair value of the interest rate swaps.