



**PIZZA PIZZA LIMITED**

Unaudited Interim Condensed Consolidated Financial Statements

For the thirteen and twenty-six weeks ended July 2, 2017

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


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

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

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



Paul Goddard  
Chief Executive Officer



Curtis Feltner  
Chief Financial Officer

**Pizza Pizza Limited**  
**Unaudited Interim Consolidated Statements of Financial Position**  
**As at July 2, 2017 and January 1, 2017**  
**(Expressed in thousands of Canadian dollars)**

	July 2, 2017 \$	January 1, 2017 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	6,758	13,024
Short-term investment	7,000	7,000
Trade and other receivables (note 16)	20,099	17,907
Inventories	5,084	6,161
Income taxes recoverable	5,726	5,017
Receivables from jointly-controlled companies (note 13)	2,854	2,702
Recoverable franchisee expenses	3,726	3,876
<b>Total current assets</b>	<b>51,247</b>	<b>55,687</b>
<b>Non-current assets</b>		
Property, plant and equipment	12,799	11,860
Notes receivable	13,787	14,841
Renovation funds	7,301	6,075
Deferred tax asset	45,118	45,471
Investment in Pizza Pizza Royalty Limited Partnership (note 3)	23,586	23,648
Investment in jointly-controlled companies (note 4)	18,802	19,235
Intangible assets	13	130
<b>Total non-current assets</b>	<b>121,406</b>	<b>121,260</b>
<b>Total assets</b>	<b>172,653</b>	<b>176,947</b>
<b>Liabilities and shareholders' deficiency</b>		
<b>Current liabilities</b>		
Trade and other payables	39,245	43,558
Deposits from franchisees	1,172	2,486
Borrowings (note 5)	334	570
Provisions (note 6)	997	489
<b>Total current liabilities</b>	<b>41,748</b>	<b>47,103</b>
<b>Non-current liabilities</b>		
Borrowings (note 5)	633	747
Unearned vendor allowances	838	1,096
Advances from related party (note 13)	16,845	17,452
Leasehold inducements	8	8
Renovation funds	3,772	3,227
Deferred gain	202,714	203,879
<b>Total non-current liabilities</b>	<b>224,810</b>	<b>226,409</b>
<b>Shareholders' deficiency</b>		
Common shares and special voting shares (note 8)	-	-
Accumulated other comprehensive loss	(31)	(102)
Deficit	(93,874)	(96,463)
<b>Total shareholders' deficiency</b>	<b>(93,905)</b>	<b>(96,565)</b>
<b>Total liabilities and shareholders' deficiency</b>	<b>172,653</b>	<b>176,947</b>

Commitments and contingencies (note 7)

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.  
Approved by the Directors on August 8, 2017.

**Pizza Pizza Limited**  
**Unaudited Interim Consolidated Statements of Income**  
**For the 13-week and 26-week periods ended July 2, 2017 and July 3, 2016**  
**(Expressed in thousands of Canadian dollars)**

	For the 13-week period ended July 2, 2017	For the 13-week period ended July 3, 2016	For the 26-week period ended July 2, 2017	For the 26-week period ended July 3, 2016
<b>Revenues</b>				
Food sales (note 10)	46,691	46,527	92,696	93,397
Royalties, franchise fees and other revenue (note 11)	7,623	7,514	15,414	14,885
<b>Total revenues</b>	<b>54,314</b>	<b>54,041</b>	<b>108,110</b>	<b>108,282</b>
Cost of food sales	(37,599)	(37,689)	(74,965)	(75,198)
General and administrative expenses (note 12)	(11,327)	(10,090)	(20,792)	(20,158)
Royalty payments	(8,691)	(8,580)	(17,363)	(17,222)
Equity income from Pizza Pizza Royalty Limited Partnership (note 3)	1,660	1,580	3,324	3,173
Equity income from jointly controlled companies (note 4)	1,148	1,275	2,490	2,565
Gain on sale of Company-owned restaurants	49	245	106	331
<b>Operating income (loss)</b>	<b>(446)</b>	<b>782</b>	<b>910</b>	<b>1,773</b>
Interest and other income	238	304	546	601
Amortization of deferred gain	583	583	1,165	1,165
Interest on borrowings	(23)	(13)	(31)	(21)
<b>Income for the period before income taxes</b>	<b>352</b>	<b>1,656</b>	<b>2,590</b>	<b>3,518</b>
Current income tax recovery	298	210	331	58
Deferred tax expense	(87)	(193)	(332)	(413)
<b>Income for the period attributable to the shareholders</b>	<b>563</b>	<b>1,673</b>	<b>2,589</b>	<b>3,163</b>

**Pizza Pizza Limited**  
**Unaudited Interim Consolidated Statements of Comprehensive Income**  
**For the 13-week and 26-week periods ended July 2, 2017 and July 3, 2016**  
**(Expressed in thousands of Canadian dollars)**

	For the 13-week period ended July 2, 2017	For the 13-week period ended July 3, 2016	For the 26-week period ended July 2, 2017	For the 26-week period ended July 3, 2016
<b>Income for the period</b>	<b>563</b>	<b>1,673</b>	<b>2,589</b>	<b>3,163</b>
<b>Other comprehensive income (loss)</b>				
<i>Items that may be reclassified subsequently to net income:</i>				
Share of other comprehensive income (loss) of the Pizza Pizza Royalty Limited Partnership (note 3)	88	19	92	(26)
Deferred tax impact of share of other comprehensive income (loss) of Pizza Pizza Royalty Limited Partnership	(27)	(5)	(21)	7
<b>Total comprehensive income attributable to shareholders</b>	<b>624</b>	<b>1,687</b>	<b>2,660</b>	<b>3,144</b>

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 26-week periods ended July 2, 2017 and July 3, 2016**  
**(Expressed in thousands of Canadian dollars)**

	Common shares and special voting shares \$	Accumulated other comprehensive income (loss) \$	Deficit \$	Total \$
<b>As at January 1, 2017</b>	-	<b>(102)</b>	<b>(96,463)</b>	<b>(96,565)</b>
<b>Comprehensive income (loss)</b>				
Income for the 26-week period ended July 2, 2017	-	-	2,589	2,589
Share of other comprehensive income on Pizza Pizza Royalty Limited Partnership's cash flow hedge	-	92	-	92
Deferred tax impact of share of other comprehensive income of Pizza Pizza Royalty Limited Partnership	-	(21)	-	(21)
<b>Total comprehensive income</b>	-	71	2,589	2,660
<b>As at July 2, 2017</b>	-	<b>(31)</b>	<b>(93,874)</b>	<b>(93,905)</b>
<b>As at January 3, 2016</b>	-	<b>(198)</b>	<b>(99,719)</b>	<b>(99,917)</b>
<b>Comprehensive income (loss)</b>				
Income for the 26-week period ended July 3, 2016	-	-	3,163	3,163
Share of other comprehensive loss on Pizza Pizza Royalty Limited Partnership's cash flow hedge	-	(26)	-	(26)
Deferred tax impact of share of other comprehensive loss of Pizza Pizza Royalty Limited Partnership	-	7	-	7
<b>Total comprehensive income (loss)</b>	-	(19)	3,163	3,144
<b>As at July 3, 2016</b>	-	<b>(217)</b>	<b>(96,556)</b>	<b>(96,773)</b>

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

**Pizza Pizza Limited**  
**Unaudited Interim Consolidated Statements of Cash Flows**  
**For the 26-week periods ended July 2, 2017 and July 3, 2016**  
**(Expressed in thousands of Canadian dollars)**

	For the 26-week period ended July 2, 2017	For the 26-week period ended July 3, 2016
<b>Operating activities</b>		
Income for the period	2,589	3,163
Depreciation of property, plant and equipment	1,848	1,183
Amortization of intangible assets	117	168
Amortization of unearned vendor allowances	(258)	(265)
Amortization of deferred gain	(1,165)	(1,165)
Provision for notes receivable	(141)	(101)
Net provisions during the period	508	(228)
Gain on sale of Company-owned restaurants	(106)	(331)
Equity income from Pizza Pizza Royalty Limited Partnership (note 3)	(3,324)	(3,173)
Equity income from jointly controlled companies (note 4)	(2,490)	(2,565)
Deferred income tax expense	332	406
	<b>(2,090)</b>	<b>(2,908)</b>
Changes in non-cash operating elements of working capital (note 15)	(7,453)	(15,963)
<b>Cash used in operating activities</b>	<b>(9,543)</b>	<b>(18,871)</b>
<b>Investing activities</b>		
Additions to property, plant and equipment	(3,076)	(2,368)
Proceeds from sale of Company-owned restaurants	395	1,055
Distributions from Pizza Pizza Royalty Limited Partnership (note 3)	3,478	3,277
Dividends from jointly-controlled companies (note 4)	2,923	2,818
Repayment of notes receivable	3,889	3,261
Issuance of notes receivable	(2,694)	(3,770)
Contributions to renovation funds	6,262	5,878
Disbursement from renovation funds	(6,943)	(5,530)
Redemption of short-term investments	-	13,000
<b>Cash provided by investing activities</b>	<b>4,234</b>	<b>17,621</b>
<b>Financing activities</b>		
Proceeds from borrowings	218	447
Repayments of borrowings	(568)	(46)
Repayments of advances from related party	(1,779)	(1,105)
Advances from related party	1,172	9
<b>Cash used in financing activities</b>	<b>(957)</b>	<b>(695)</b>
<b>Decrease in cash and cash equivalents</b>	<b>(6,266)</b>	<b>(1,945)</b>
Cash and cash equivalents, beginning of period	13,024	14,360
<b>Cash and cash equivalents, end of period</b>	<b>6,758</b>	<b>12,415</b>

See supplementary cash flow information (note 15).

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

# Pizza Pizza Limited

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week and 26-week periods ended July 2, 2017 and July 3, 2016

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

### 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 primarily throughout Ontario and Alberta and primarily franchises and operates quick-service restaurant (“QSR”) businesses under the brand names of Pizza Pizza and Pizza 73. PPL derives revenues from franchises through the sale of franchise restaurants, food, beverages and receipt of royalties. PPL also derives revenues from Company-owned and managed restaurants through sales to retail customers.

PPL is incorporated and domiciled in Canada, and the address of its registered office is 500 Kipling Avenue, Toronto, Ontario, Canada. The ultimate parent of PPL is The Flower Trust, a private Trust that does not prepare financial statements available for public use.

During the 26-week period ended July 2, 2017, PPL acquired five traditional franchises (26-week period ended July 3, 2016 – five ) and franchised ten traditional restaurants (26-week period ended July 3, 2016 – thirteen). Below are the number of traditional and non-traditional franchisees and licensees as at:

	July 2, 2017	July 3, 2016
Franchisees and licensees	671	662
Jointly controlled restaurants	78	75
Company-owned restaurants	9	9

### 2. Significant Accounting Policies

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

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

PPL 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) Basis of preparation

PPL prepares its unaudited interim condensed consolidated financial statements in accordance with 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 Company’s annual consolidated financial statements as at and for the 52-week period ended January 1, 2017.

The 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 audited consolidated financial statements as at and for the 52-week period ended January 1, 2017.

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 audited consolidated financial statements as at and for the 52-week period ended January 1, 2017.

# Pizza Pizza Limited

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week and 26-week periods ended July 2, 2017 and July 3, 2016

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

The Directors approved the unaudited interim condensed consolidated financial statements on August 8, 2017, and have the power to amend the unaudited interim condensed consolidated financial statements once issued.

c) Changes in accounting policies and disclosure

*Standards, amendments and interpretations to existing standards that are not yet effective and have not yet been early adopted by PPL:*

IFRS 9, Financial Instruments (“IFRS 9”)

IFRS 9, Financial Instruments, as issued in 2014, introduces new requirements for the classification and measurement of financial instruments, a new expected-loss impairment model that will require more timely recognition of expected credit losses and a substantially reformed model for hedge accounting, with enhanced disclosures about risk management activity. IFRS 9 also removes the volatility in profit or loss that was caused by changes in an entity’s own credit risk for liabilities elected to be measured at fair value. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Company is currently in process of evaluating the impact of this standard on its consolidated financial statements. The Company has formed a project team to evaluate and implement the standard.

IFRS 15, Revenue from Contracts with Customers (“IFRS 15”)

In May 2014, the IASB issued IFRS 15, which covers principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018. The new revenue standards may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Company is still in the process of assessing the anticipated impact of the amended standard on its consolidated financial statements. The Company has formed a project team to evaluate and implement the standard and currently anticipates adopting this standard in its first quarter of 2018 without restatement of prior periods presented.

IFRS 16, Leases (“IFRS 16”)

In January 2016, the IASB has issued IFRS 16, Leases, its new leases standard that requires lessees to recognize assets and liabilities for most leases on their balance sheets. Lessees applying IFRS 16 will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The new standard will be effective from January 1, 2019 with limited early application permitted. PPL has not yet begun the process of evaluating the impact of this standard on its consolidated financial statements.

d) Basis of consolidation

These unaudited interim condensed consolidated financial statements incorporate the assets and liabilities of PPL and its subsidiaries as at July 2, 2017 and January 1, 2017 and the results of these entities for the 26-week periods ended July 2, 2017 and July 3, 2016, respectively.

PPL 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 PPL and deconsolidated from the date that control ceases. Inter-entity transactions, balances and unrealized gains/losses on transactions between entities are eliminated.



# Pizza Pizza Limited

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week and 26-week periods ended July 2, 2017 and July 3, 2016

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

### *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.

PPL accounts for its 21.1% (January 1, 2017 – 21.1%) share interest in the Pizza Pizza Royalty Limited Partnership (the “Partnership”) as an investment in an associate and applies equity accounting whereby PPL’s investment is increased by its 21.1% 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 PPL’s, as the Partnership operates on a calendar year-end.

PPL 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 PPL’s share of the underlying assets of the Partnership is written down to its estimated recoverable amount, being the higher of fair value less cost to sell and value in use, and the write-down is charged to the unaudited interim consolidated statements of income.

### *Investments in joint ventures*

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

PPL accounts for its 50% (January 1, 2017 – 50%) share interest in the 78 jointly controlled companies as an investment in joint ventures and applies equity accounting whereby PPL’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 PPL’s, as the joint ventures have a floating year-end of the Saturday immediately preceding July 31.

PPL 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 PPL’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

- a) PPL 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 21.1% interest in the Partnership as at July 2, 2017 (January 1, 2017 – 21.1%).

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

	For the 26-week period ended July 2, 2017	For the 52-week period ended January 1, 2017
Balance – beginning of period	23,648	23,562
Equity income of the Partnership	3,324	6,531
Distributions received from Partnership	(3,478)	(6,585)
Share of Partnership other comprehensive loss	92	140
<b>Balance – end of period</b>	<b>23,586</b>	<b>23,648</b>

# Pizza Pizza Limited

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week and 26-week periods ended July 2, 2017 and July 3, 2016

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

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

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

	As at June 30, 2017	As at December 31, 2016		
Total assets	349,791	345,045		
Total liabilities	80,075	80,133		
	For the 13-week period ended July 2, 2017	For the 13-week period ended July 3, 2016	For the 26-week period ended July 2, 2017	For the 26-week period ended July 3, 2016
Revenues	8,691	8,580	17,363	17,222
Profit for the period	8,305	8,200	16,633	16,466

b) 2016 Royalty Pool Adjustment – Class B Exchange Multiplier

In early January 2017, adjustments to royalty payments and PPL's Class B Exchange Multiplier were made based on the actual performance of the 24 new restaurants added to the Royalty Pool on January 1, 2016. As a result of the adjustments, the new Class B Exchange Multiplier is 1.819988 and Class B Units can be exchanged for 4,564,964 shares, which is an increase of 5,422 shares, effective January 1, 2016.

c) 2016 Royalty Pool Adjustment – Class D Exchange Multiplier

In early January 2017, adjustments to royalty payments and PPL's Class D Exchange Multiplier were made based on the actual performance of the two Pizza 73 restaurants added to the Royalty Pool on January 1, 2016. As a result of the adjustments, the new Class D Exchange Multiplier is 17.52620 and Class D Units can be exchanged for 1,752,620 shares, which is an increase of 9,313 shares, effective January 1, 2016.

d) 2017 Royalty Pool Adjustment – Class B Exchange Multiplier

On January 1, 2017, 15 net Pizza Pizza restaurants were added to the Royalty Pool as a result of 23 new restaurants opening and eight closing from January 1, 2016 to December 31, 2016. The additional system sales from the 23 new restaurants are estimated at \$7,674 annually less sales of \$873 from eight permanently closed Pizza Pizza restaurants resulting in net estimated Pizza Pizza sales of \$6,801 added to the Royalty Pool. The total number of Pizza Pizza restaurants in the Royalty Pool has increased to 651. The yield of the shares was determined to be 5.16% calculated using \$16.43 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, 2017. 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 0.110643; the new Class B Exchange Multiplier is 1.930631. 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, 2017, once the actual performance of the new restaurants is determined in early 2018.

# Pizza Pizza Limited

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week and 26-week periods ended July 2, 2017 and July 3, 2016

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

e) 2017 Royalty Pool Adjustment – Class D Exchange Multiplier

On January 1, 2017, the Pizza 73 Royalty Pool remained unchanged as a result of four new restaurants opening between September 2, 2015 and September 1, 2016 and four restaurants closing between January 1, 2016 and December 31, 2016. The forecasted additional system sales from the four new restaurants are estimated at \$1,226 annually less \$179 in system sales attributable to the four closed Pizza 73 restaurants resulting in net estimated Pizza 73 sales of \$1,047 added to the Royalty Pool. The net estimated sales were further reduced by \$2,086 in system sales attributable to certain restaurants previously added to the Royalty Pool whose territory adjusted a previously existing restaurant, resulting in a negative Pizza 73 Estimated Determined Amount. 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 17.52620. Once the actual performance of the new restaurants is determined in early 2018, the Class D Exchange Multiplier may be adjusted to be effective January 1, 2017. The total number of Pizza 73 restaurants in the Royalty Pool remains at 100 for 2017.

f) PPRC Outstanding Shares

In exchange for adding the forecasted Pizza Pizza system sales to the Royalty Pool, PPL has received 277,519 additional equivalent shares (through the change to the Class B Exchange Multiplier). These represent 80% of the forecasted equivalent shares entitlement to be received (346,899 equivalent shares represent 100%), with the final equivalent shares entitlement to be determined when the new restaurants' 2017 actual sales performance is known with certainty in early 2018.

PPL's Class D equivalent share entitlement is unchanged for 2017. 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 2017, no increase or decrease in the Exchange Multiplier is made. PPL will only have a Class D equivalent share entitlement for 2017 if the actual sales performance of the four new Pizza 73 restaurants, less the sales of adjustment restaurants, significantly exceeds forecasted system sales and yields net, positive sales when the actual sales performance is known with certainty in early 2018.

After giving effect to PPL's entitlement to additional equivalent shares as at January 1, 2017, PPL owns equivalent shares representing 21.1% of the Partnership's fully diluted shares.

The chart below shows the Shares that would be outstanding if all of PPL's Class B and D Units of the Partnership were converted to Shares after accounting for their respective multipliers.

Shares outstanding & issuable on July 2, 2017

Shares outstanding		24,618,392
Class B equivalent Shares held by PPL as at December 31, 2016	4,559,542	
PPL additional Class B equivalent shares - True-up Holdback as at December 31, 2016	5,422	
Additional PPL Class B equivalent shares as at January 1, 2017	<u>277,519</u>	4,842,483
Class D equivalent Shares held by PPL as at December 31, 2016	1,743,307	
PPL additional Class D equivalent shares - True-up Holdback as at December 31, 2016	9,313	
Additional PPL Class D equivalent shares as at January 1, 2017	<u>-</u>	1,752,620
Number of fully diluted shares		<u>31,213,495</u>
PPL's proportion of all shares outstanding and available for exchange		21.1%

# Pizza Pizza Limited

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week and 26-week periods ended July 2, 2017 and July 3, 2016

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

### 4. Investment in Jointly Controlled Companies

Jointly-controlled companies are joint ventures, consisting of PPL's 50% interest in 78 Pizza 73 restaurants (January 1, 2017 – 75 Pizza 73 restaurants). Jointly-controlled restaurants are companies, owned and operated as an independent business, equally owned by PPL and an Owner/Operator. Licensing, consulting and other agreements govern the relationship of PPL and the Owner/Operator as shareholders of these jointly-controlled restaurants, and establish a framework under which each restaurant is operated.

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

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

	For the 26-week period ended July 2, 2017	For the 52-week period ended January 1, 2017
Balance – beginning of period	19,235	18,937
Equity income from jointly controlled companies	2,490	5,382
Dividends received from jointly controlled companies	(2,923)	(5,084)
<b>Balance – end of period</b>	<b>18,802</b>	<b>19,235</b>

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

	For the 13-week period ended July 2, 2017	For the 13-week period ended July 3, 2016	For the 26-week period ended July 2, 2017	For the 26-week period ended July 3, 2016
Revenue	10,021	9,970	20,181	20,140
Expenses	(8,873)	(8,695)	(17,691)	(17,575)
<b>Income for the period after income tax</b>	<b>1,148</b>	<b>1,275</b>	<b>2,490</b>	<b>2,565</b>

### 5. Borrowings

	As at July 2, 2017	As at January 1, 2017
Notes payable, bearing interest from 5.4% to 8%, repayable in varying monthly principal amounts, maturing between 2016 and 2019. These notes were secured by specific company-owned restaurant assets. The effective interest rate as at July 2, 2017 was 6.7% (July 3, 2016 – 6.5%).	967	1,317
	<b>967</b>	<b>1,317</b>
Less: current portion	(334)	(570)
<b>Total non-current borrowings</b>	<b>633</b>	<b>747</b>

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### 6. Provisions

The provision for onerous leases represents the liability for the leased premises that are either vacant or sub-leased at a lower rate. The provision is made for the losses to be incurred over the remaining term period of the lease.

Future outflows may differ if the Company is able to franchise, sublease or terminate the lease before the expiry of the agreement.

	For the 26-week period ended July 2, 2017	For the 52-week period ended January 1, 2017
<b>Movements in the provision for onerous leases</b>		
Opening balance	489	934
Arising during the period	854	118
Reversals	-	(97)
Utilized during the period	(362)	(541)
Imputed interest	16	75
<b>Closing balance</b>	<b>997</b>	<b>489</b>

### 7. Commitments and Contingencies

#### *Commitments*

Future minimum lease payments for premises, sponsorships and vehicles to related parties, which are companies under common control, and non-related entities, are as follows:

	Third parties	Related parties
Not later than 1 year	32,453	2,490
Later than 1 year and no later than 5 years	98,292	6,734
Later than 5 years	32,310	2,984

During the 26-week period ended July 2, 2017, lease payments of approximately \$ 14,769 (26-week period ended July 3, 2016 - \$11,764) were recovered under sub-lease agreements with various franchised restaurants. These recoveries are offset against rent expense.

The amounts receivable under future committed subleases are as follows:

	Third parties	Related parties
Not later than 1 year	30,042	-
Later than 1 year and no later than 5 years	91,927	-
Later than 5 years	31,408	-

#### *Contingencies*

PPL is a party to various legal proceedings, mainly related to claims brought against it by former franchisees. It is not possible at this time to determine the outcome of these proceedings and, accordingly, no provisions have been made in these unaudited interim condensed consolidated financial statements.

PPL has entered into an agreement with certain lenders to establish a line of credit of \$33,730 (January 1, 2017 – \$33,730) for the purpose of providing certain equipment and leasehold improvement loans to its franchisees. As security under these lines of credit facilities, PPL has provided certain guarantees as described in the agreement

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including a letter of credit in the amount of \$3,373 (January 1, 2017 – \$3,373). PPL has the right to increase the limit under these credit facilities by providing additional letters of credit.

As security for repayment of a borrowing facility held by the Partnership in the amount of \$47,000, PPL has granted 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. With respect to the Partnership's borrowing facility, PPL must comply with certain financial covenants. As at July 3, 2017 and January 1, 2017, PPL was in compliance with these financial covenants.

### 8. Common Shares and Special Voting Shares

	As at July 2, 2017	As at January 1, 2017
Authorized without limit as to number - Common shares (with no par value) Special voting shares, non-participating, entitling the holder to one vote per share (with no par value)		
Issued and paid -		
100 common shares	100	100
100,000 special voting shares	100	100
<b>Total common shares and voting shares</b>	<b>200</b>	<b>200</b>

### 9. Capital Disclosures

PPL's objectives when managing capital are to safeguard PPL's ability to continue as a going concern so that it can continue to provide returns for the shareholders and benefits for other stakeholders and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

PPL evaluates its capital as all components of shareholders' deficiency, other than amounts in accumulated other comprehensive loss related to PPL's share of the Partnership's cash flow hedge.

PPL sets the amount of capital in proportion to risk. PPL manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, PPL may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

### 10. Food Sales

Food sales include the following:

	For the 13-week period ended July 2, 2017	For the 13-week period ended July 3, 2016	For the 26-week period ended July 2, 2017	For the 26-week period ended July 3, 2016
Food sales	42,899	42,551	85,673	84,671
Company owned restaurant sales	3,792	3,976	7,023	8,726
<b>Total food sales</b>	<b>46,691</b>	<b>46,527</b>	<b>92,696</b>	<b>93,397</b>

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### 11. Royalties, Franchise Fees and Other Revenue

Royalties, franchise fees and other revenue include the following:

	For the 13-week period ended July 2, 2017	For the 13-week period ended July 3, 2016	For the 26-week period ended July 2, 2017	For the 26-week period ended July 3, 2016
Royalties	6,195	5,933	12,463	12,096
Initial and renewal franchise fees	417	562	985	824
Construction fees	338	341	610	600
Administration and accounting fees	673	678	1,356	1,365
<b>Total royalties, franchise fees and other revenue</b>	<b>7,623</b>	<b>7,514</b>	<b>15,414</b>	<b>14,885</b>

### 12. Expenses by Nature

	For the 13-week period ended July 2, 2017	For the 13-week period ended July 3, 2016	For the 26-week period ended July 2, 2017	For the 26-week period ended July 3, 2016
Depreciation of property, plant and equipment	822	520	1,580	990
Amortization of intangible assets	40	40	79	79
Operating lease payments	732	812	1,648	1,512
Employee benefit expense	5,179	4,772	9,388	9,060

### 13. Related Party Transactions

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

	For the 13-week period ended July 2, 2017	For the 13-week period ended July 3, 2016	For the 26-week period ended July 2, 2017	For the 26-week period ended July 3, 2016
Rent expense <sup>(i)</sup>	879	644	1,533	1,303
Food purchases <sup>(i)</sup>	3,444	2,182	6,059	5,583
Recovery of expenses <sup>(i)</sup>	150	150	300	300
Administration and accounting fee revenue <sup>(ii)</sup>	673	678	1,356	1,365

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

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

As at July 2, 2017, PPL has trade payables of \$657 (as at January 1, 2017 - \$930) payable to a company under common management control.

As at July 2, 2017, PPL has included in trade and other payables amounts payable of \$2,889 (as at January 1, 2017 - \$3,498) to the Partnership, which were paid subsequent to the end of the period.

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In addition, PPL has the following advances to and from related parties:

	As at July 2, 2017	As at January 1, 2017
Receivables from jointly-controlled companies	3,824	2,702
Advances from related party	16,845	17,452

Advances from related party are due to the parent company. Advances from related party and receivables from jointly-controlled companies are non-interest bearing, have no specified terms of repayment and are unsecured. The related party has waived the right to demand repayment prior to July 3, 2018. Accordingly, the advances from related party have been classified as long-term.

### 14. Segmented Information

Operating segments are defined as components of an enterprise about which discrete, separate financial information is available and which are evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The chief operating decision maker is the Chief Executive Officer and Director. The operations of Pizza Pizza consist of two reportable segments: Pizza Pizza and Pizza 73. While they both operate in the pizza QSR segment, they are in predominantly different geographic markets in Canada. Pizza Pizza operates mainly in the Ontario and Quebec (Eastern Canada) pizza QSR segment, whereas Pizza 73 operates mainly in the Alberta (Western Canada) pizza QSR segment. In addition, the return on Pizza Pizza's investment in the Partnership is included in the Pizza Pizza segment. The eliminations column represents adjustments required to reconcile PPL's segmented reporting to the reporting on the unaudited interim consolidated statements of financial position and the unaudited interim consolidated statements of income. This column represents adjustments required to account for joint ventures under IFRS 11.

For the 13-week period ended July 2, 2017	Eastern	Western	Eliminations	Total
Food sales	46,691	9,994	(9,994)	46,691
Royalties, franchise fees and other revenue	6,822	801	-	7,623
Interest and other income	236	9	(7)	238
Cost of food sales	(37,599)	(4,047)	4,047	(37,599)
General and administrative expenses	(10,772)	(5,143)	4,588	(11,327)
Equity income from jointly controlled companies	-	-	1,148	1,148
Interest on borrowings	(23)	(1)	1	(23)
Income for the period before income taxes	807	911	(1,366)	352
Segment income for the period	1,016	695	(1,148)	563
Property, plant and equipment additions	1,805	121	(26)	1,900
<b>As at July 2, 2017</b>				
Total assets	143,754	32,233	(3,334)	172,653
Intangible assets	3	10	-	13



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For the 13-week period ended July 3, 2016	Eastern	Western	Eliminations	Total
Food sales	46,491	10,006	(9,970)	46,527
Royalties, franchise fees and other revenue	6,792	722	-	7,514
Interest and other income	292	20	(8)	304
Cost of food sales	(37,673)	(4,148)	4,132	(37,689)
General and administrative expenses	(9,568)	(4,479)	3,957	(10,090)
Equity income from jointly controlled companies	-	-	1,275	1,275
Interest on borrowings	(13)	(3)	3	(13)
Income for the period before income taxes	2,083	1,069	(1,496)	1,656
Segment income for the period	2,101	843	(1,271)	1,673
Property, plant and equipment additions	1,157	64	(64)	1,157

As at July 3, 2016

Total assets	144,151	28,562	(2,738)	169,975
Intangible assets	116	169	-	285

For the 26-week period ended July 2, 2017	Eastern	Western	Eliminations	Total
Food sales	92,696	20,154	(20,154)	92,696
Royalties, franchise fees and other revenue	13,785	1,629	-	15,414
Interest and other income	540	33	(27)	546
Cost of food sales	(74,965)	(8,152)	8,152	(74,965)
General and administrative expenses	(19,659)	(10,219)	9,086	(20,792)
Equity income from jointly controlled companies	-	-	2,490	2,490
Interest on borrowings	(31)	(3)	3	(31)
Income for the period before income taxes	3,372	2,159	(2,941)	2,590
Segment income for the period	3,370	1,710	(2,490)	2,589
Property, plant and equipment additions	2,973	1,001	(898)	3,076

For the 26-week period ended July 3, 2016	Eastern	Western	Eliminations	Total
Food sales	93,238	20,299	(20,140)	93,397
Royalties, franchise fees and other revenue	13,370	1,515	-	14,885
Interest and other income	586	27	(12)	601
Cost of food sales	(75,132)	(8,405)	8,339	(75,198)
General and administrative expenses	(19,012)	(9,540)	8,394	(20,158)
Equity income from jointly controlled companies	-	-	2,565	2,565
Interest on borrowings	(21)	(4)	4	(21)
Income for the period before income taxes	4,380	2,158	(3,020)	3,518
Segment income for the period	4,025	1,703	(2,565)	3,163
Property, plant and equipment additions	2,359	129	(120)	2,368

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### 15. Statements of Cash Flows Information

Changes in non-cash working capital are as follows:

	For the 26-week period ended July 2, 2017	For the 26-week period ended July 3, 2016
Trade and other receivables	(2,192)	139
Inventories	1,077	1,513
Income taxes receivable	(709)	(58)
Receivables from jointly-controlled companies	(152)	230
Recoverable franchisee expenses	150	(2,381)
Trade and other payables	(4,313)	(7,745)
Income taxes payable	-	(7,651)
Deposits from franchisee	(1,314)	(10)
	<u>(7,453)</u>	<u>(15,963)</u>

### 16. Financial Risk Management

PPL'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, trade and other receivables and trade and other payables approximate fair values given the short-term maturity of these instruments and are level 3 instruments.

A reasonable estimate of fair value could not be made for receivables from jointly-controlled companies, advances from related party, recoverable franchisee expenses, 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 July 2, 2017 of 6.6 % (January 1, 2017 – 6.5%).

The fair value of the borrowings is based on the estimated future discounted cash flows using a comparable market rate of interest as at July 2, 2017 of prime plus a spread varying by loan (January 1, 2017 - prime plus a spread varying by loan). The Company has no plans to prepay these instruments prior to maturity. The fair value of the borrowings was determined using Level 2 inputs, which are observable inputs or inputs that can be corroborated by observable market data for substantially the full term of the asset or liability.

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

Category	As at July 2, 2017		As at January 1, 2017		
	Carrying value	Fair value	Carrying value	Fair value	
Cash and cash equivalents	L&R	6,758	6,758	13,024	13,024
Trade and other receivables	L&R	20,099	20,099	17,907	17,907
Notes receivable	L&R	13,787	12,906	14,841	13,891
Trade and other payables	OFL	39,245	39,245	43,558	43,558
Borrowings	OFL	967	862	1,317	1,167

Financial instruments category guide:

- L&R Loans and receivables
- OFL Other financial liabilities

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

PPL is exposed to credit risk as all of the franchisees and jointly controlled companies operate within the same segment: commercial food service. PPL is also exposed to credit risk in the event of non-payment by its franchisees and jointly controlled companies of its trade receivables, recoverable franchisee expenses, notes receivable, receivables from jointly controlled companies and renovation funds receivable. PPL's credit risk is mitigated by the large number of franchisees and jointly controlled companies operating in different geographical markets and by PPL's ultimate ability to assume operations of the franchisees if there is inadequate financial performance and/or default under the franchisee agreement.

PPL writes off receivable accounts, including trade receivables, notes receivable and renovation funds, to expected realizable value as soon as the account is determined not to be fully collectible, with such write-offs charged to income, unless the loss has been provided for in prior periods, in which case the write-off is applied to reduce the provision for impairment of those receivables. PPL updates its estimate of the provision for impairment of receivables, based on a customer-by-customer evaluation of the collectability of receivable balances at each balance sheet reporting date, taking into account amounts which are past due, and any available information indicating that a customer could be experiencing liquidity or going concern problems.

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

	As at July 2, 2017	As at January 1, 2017
Past due 0-30 days	572	1,069
Past due 31-120 days	622	719
<b>Total trade receivables past due but not impaired</b>	<b>1,194</b>	<b>1,788</b>

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### Liquidity Risk

PPL is subject to liquidity risk with respect to the items outlined in the table below. The risk is mitigated as the majority of PPL's revenue is earned from franchisees and jointly controlled companies, which have agreements with PPL and whose activities are closely monitored by PPL. In the case of franchisees, the majority of PPL's business, PPL 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 PPL's head office functions in order to guarantee effective access to financial resources.

Management believes that currently available funds and credit facilities, apart from those which will be generated by operating and financing activities, will allow PPL 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 July 2, 2017:

	Carrying amount	0 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
Trade and other payables	39,245	39,245	-	-	-
Deposits from franchisees	1,172	1,172	-	-	-
Borrowings	967	334	545	88	-
Advances from related party	16,845	-	16,845	-	-

### Interest Rate Risk

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

### 17. Seasonality

Historically, Pizza Pizza's system sales experience a decrease in the first calendar quarter when compared to the fourth quarter, which has historically been the strongest quarter.