



## **PIZZA PIZZA LIMITED**

Unaudited Interim Condensed Consolidated Financial Statements

For the thirteen weeks ended April 1, 2018

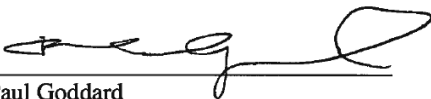

**Pizza Pizza Limited**  
500 Kipling Avenue  
Toronto, ON M8Z 5E5  
Phone: (416) 967-1010 Fax: (416) 967-5941

**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 April 1, 2018 and December 31, 2017**  
**(Expressed in thousands of Canadian dollars)**

	April 1, 2018 \$	December 31, 2017 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	14,269	12,758
Short-term investment	3,000	6,000
Trade and other receivables (note 17)	17,825	14,959
Inventories	4,994	5,718
Income taxes recoverable	1,665	1,473
Receivables from jointly-controlled companies (note 14)	3,152	3,275
Recoverable franchisee expenses	-	727
<b>Total current assets</b>	<b>44,905</b>	<b>44,910</b>
<b>Non-current assets</b>		
Property, plant and equipment	12,718	13,160
Notes receivable	12,848	13,256
Renovation funds	7,966	7,834
Deferred tax asset	49,406	49,191
Investment in Pizza Pizza Royalty Limited Partnership (note 3)	23,716	23,877
Investment in jointly-controlled companies (note 4)	18,808	18,929
Intangible assets	3,567	3,891
<b>Total non-current assets</b>	<b>129,029</b>	<b>130,138</b>
<b>Total assets</b>	<b>173,934</b>	<b>175,048</b>
<b>Liabilities and shareholders' deficiency</b>		
<b>Current liabilities</b>		
Trade and other payables	46,637	52,696
Deposits from franchisees	886	415
Borrowings (note 5)	521	474
Provisions (note 6)	1,613	1,328
<b>Total current liabilities</b>	<b>49,657</b>	<b>54,913</b>
<b>Non-current liabilities</b>		
Borrowings (note 5)	500	560
Deferred franchise fees (note 2)	1,860	-
Unearned vendor allowances	3,975	-
Advances from related party (note 14)	14,766	16,261
Leasehold inducements	6	7
Renovation funds	4,915	4,586
Deferred gain	200,966	201,549
<b>Total non-current liabilities</b>	<b>226,988</b>	<b>222,963</b>
<b>Shareholders' deficiency</b>		
Common shares and special voting shares (note 8)	-	-
Accumulated other comprehensive loss	(118)	(170)
Deficit	(102,593)	(102,658)
<b>Total shareholders' deficiency</b>	<b>(102,711)</b>	<b>(102,828)</b>
<b>Total liabilities and shareholders' deficiency</b>	<b>173,934</b>	<b>175,048</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 May 9, 2018.

**Pizza Pizza Limited**  
**Unaudited Interim Consolidated Statements of Income**  
**For the 13-week periods ended April 1, 2018 and April 2, 2017**  
**(Expressed in thousands of Canadian dollars)**

	For the 13-week period ended April 1, 2018	For the 13-week period ended April 2, 2017
<b>Revenues</b>		
Food sales (note 10)	44,445	46,005
Royalties, franchise fees and other revenue (note 11)	7,816	7,791
Store service contributions (note 2 and note 12)	22,909	-
<b>Total revenues</b>	<b>75,170</b>	<b>53,796</b>
Cost of food sales	(35,966)	(37,366)
General and administrative expenses (note 13)	(10,626)	(9,465)
Store service expenditures (note 2)	(21,241)	-
Royalty payments	(8,785)	(8,672)
Equity income from Pizza Pizza Royalty Limited Partnership (note 3)	1,759	1,664
Equity income from jointly controlled companies (note 4)	1,266	1,342
Gain on sale of Company-owned restaurants	-	57
<b>Operating income</b>	<b>1,577</b>	<b>1,356</b>
Interest and other income	264	308
Amortization of deferred gain	582	582
Interest on borrowings	(37)	(8)
<b>Income for the period before income taxes</b>	<b>2,386</b>	<b>2,238</b>
Current income tax recovery (expense)	-	33
Deferred tax expense	(315)	(245)
<b>Income for the period attributable to the shareholders</b>	<b>2,071</b>	<b>2,026</b>

**Pizza Pizza Limited**  
**Unaudited Interim Consolidated Statements of Comprehensive Income**  
**For the 13-week periods ended April 1, 2018 and April 2, 2017**  
**(Expressed in thousands of Canadian dollars)**

	For the 13-week period ended April 1, 2018	For the 13-week period ended April 2, 2017
<b>Income for the period</b>	<b>2,071</b>	<b>2,026</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)	66	4
Deferred tax impact of share of other comprehensive income (loss) of Pizza Pizza Royalty Limited Partnership	(14)	6
<b>Total comprehensive income attributable to shareholders</b>	<b>2,123</b>	<b>2,036</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 13-week periods ended April 1, 2018 and April 2, 2017**  
**(Expressed in thousands of Canadian dollars)**

	Common shares and special voting shares \$	Accumulated other comprehensive income (loss) \$	Deficit \$	Total \$
<b>As at December 31, 2017, as previously reported</b>	-	(170)	(102,658)	(102,828)
Impact of adopting IFRS 15 (note 2)			(2,728)	(2,728)
Tax impact of adopting IFRS 15			722	722
<b>Restated as at January 1, 2018</b>		(170)	(104,664)	(104,834)
<b>Comprehensive income (loss)</b>				
Income for the 13-week period ended April 1, 2018	-	-	2,071	2,071
Share of other comprehensive income on Pizza Pizza Royalty Limited Partnership's cash flow hedge	-	66	-	66
Deferred tax impact of share of other comprehensive income of Pizza Pizza Royalty Limited Partnership	-	(14)	-	(14)
<b>Total comprehensive income</b>	-	52	2,071	2,123
<b>As at April 1, 2018</b>	-	(118)	(102,593)	(102,711)
 <b>As at January 1, 2017</b>	-	(102)	(96,463)	(96,565)
<b>Comprehensive income (loss)</b>				
Income for the 13-week period ended April 2, 2017	-		2,026	2,026
Share of other comprehensive income on Pizza Pizza Royalty Limited Partnership's cash flow hedge	-	4	-	4
Deferred tax impact of share of other comprehensive income of Pizza Pizza Royalty Limited Partnership	-	6	-	6
<b>Total comprehensive income</b>	-	10	2,026	2,036
<b>As at April 2, 2017</b>	-	(92)	(94,437)	(94,529)

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

**Pizza Pizza Limited**  
**Unaudited Interim Consolidated Statements of Cash Flows**  
**For the 13-week periods ended April 1, 2018 and April 2, 2017**  
**(Expressed in thousands of Canadian dollars)**

	For the 13-week period ended April 1, 2018	For the 13-week period ended April 2, 2017
<b>Operating activities</b>		
Income for the period	2,071	2,026
Depreciation of property, plant and equipment	1,051	885
Amortization of intangible assets	324	68
Receipt of unearned vendor allowances	4,500	-
Amortization unearned vendor allowances	(525)	(111)
Amortization of deferred franchise fee	(141)	-
Amortization of leasehold inducements	(1)	-
Amortization of deferred gain	(582)	(582)
Provision for notes receivable	-	(121)
Net provisions during the period	284	(93)
Gain on sale of Company-owned restaurants	-	(57)
Equity income from Pizza Pizza Royalty Limited Partnership (note 3)	(1,759)	(1,664)
Equity income from jointly controlled companies (note 4)	(1,266)	(1,342)
Deferred income tax expense	315	245
	<b>4,271</b>	<b>(746)</b>
Changes in non-cash operating elements of working capital (note 16)	(7,607)	(3,414)
<b>Cash used in operating activities</b>	<b>(3,336)</b>	<b>(4,160)</b>
<b>Investing activities</b>		
Additions to property, plant and equipment	(609)	(1,176)
Proceeds from sale of Company-owned restaurants	-	66
Distributions from Pizza Pizza Royalty Limited Partnership (note 3)	1,972	1,735
Dividends from jointly-controlled companies (note 4)	1,387	1,618
Repayment of notes receivable	1,423	1,576
Issuance of notes receivable	(1,015)	(704)
Contributions to renovation funds	3,907	2,728
Disbursement from renovation funds	(3,710)	(3,309)
Redemption of short-term investments	3,000	-
<b>Cash provided by investing activities</b>	<b>6,355</b>	<b>2,534</b>
<b>Financing activities</b>		
Proceeds from borrowings	108	218
Repayments of borrowings	(121)	(210)
Repayments of advances from related party	(1,495)	(523)
Advances from related party	-	764
<b>Cash provided by (used in) financing activities</b>	<b>(1,508)</b>	<b>249</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>1,511</b>	<b>(1,377)</b>
Cash and cash equivalents, beginning of period	12,758	13,024
<b>Cash and cash equivalents, end of period</b>	<b>14,269</b>	<b>11,647</b>

See supplementary cash flow information (note 16).

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 periods ended April 1, 2018 and April 2, 2017

(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 revenue from franchises through the sale of franchise restaurants, food and beverages and royalties. Furthermore, PPL recovers costs from restaurant operators for various services that are provided by the Company. PPL also derives revenue from Company-owned and managed restaurants through the sale of food products 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 parent of PPL is 1373153 Ontario Limited, a private Corporation that does not prepare and make available financial statements for public use.

During the 13-week period ended April 1, 2018, PPL acquired zero traditional franchises (13-week period ended April 2, 2017 – four) and franchised three traditional restaurants (13-week period ended April 2, 2017 – eight). Below are the number of traditional and non-traditional franchisees and licensees as at:

	April 1, 2018	April 2, 2017
Franchisees and licensees	682	669
Jointly controlled restaurants	80	77
Company-owned restaurants	5	10

The Directors approved the unaudited interim condensed consolidated financial statements on May 9, 2018 and have the power to amend the unaudited interim condensed consolidated financial statements once issued.

### 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 December 31, 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 December 31, 2017.

# Pizza Pizza Limited

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week periods ended April 1, 2018 and April 2, 2017

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

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 December 31, 2017, except for the adoption of new standards effective as of January 1, 2018. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

On January 1, 2018, PPL adopted, for the first time, IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments*, which require the restatement of opening retained earnings. As required by IAS 34, the nature and effect of these changes are disclosed below.

### IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 *Revenue from Contracts with Customers* (IFRS 15), establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The Company adopted IFRS 15 using the modified retrospective method and has elected to apply the standard retrospectively only to contracts that are not completed contracts at the date of initial application. The Company applied certain practical expedients, as permitted by the standard in determining the impact on transition.

The Company's accounting policy for revenue recognition is described below and was determined to be in compliance with the requirements of IFRS 15. The effect of adopting IFRS 15 is, as follows.

Impact on the statement of financial position as at January 1, 2018:

	Balance at December 31, 2017	Adjustments due to IFRS 15		Balance at January 1, 2018
<b>Assets</b>				
Recoverable franchisee expenses	727	(727) (i)		-
Income tax recoverable	1,473	192		1,665
Deferred tax asset	49,191	530		49,721
<b>Liabilities</b>				
Deferred franchise fee	-	2,001 (ii)		2,001
<b>Shareholders' deficiency</b>				
Deficit	(102,658)	(2,006)		(104,664)



# Pizza Pizza Limited

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week periods ended April 1, 2018 and April 2, 2017

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

Impact on the statement of financial position as at April 1, 2018:

	Balances without the adoption of IFRS 15	Adjustments due to IFRS 15		As reported in accordance with IFRS 15
<b>Assets</b>				
Income tax recoverable	1,473	192		1,665
Deferred tax asset	48,876	530		49,406
<b>Liabilities</b>				
Deferred franchise fee	-	1,860	(ii)	1,860
Franchisee expenses payable	1,668	(1,668)	(i)	-
<b>Shareholders' deficiency</b>				
Deficit	(103,123)	530		(102,593)

Impact on the consolidated statement of income/loss for the 13-week period ended April 1, 2018:

	Balances without the adoption of IFRS 15	Adjustments due to IFRS 15		As reported in accordance with IFRS 15
<b>Revenues</b>				
Royalties, franchise fees and other revenue	7,675	141	(ii)	7,816
Store service contributions	-	22,909	(i)	22,909
<b>Expenses</b>				
Store service expenditures	-	(21,241)	(i)	(21,241)
<b>Income for the period attributable to the shareholders</b>	<b>262</b>	<b>1,809</b>		<b>2,071</b>

- i. PPL provides advertising and order processing services to Pizza Pizza restaurants. Commissary food services are provided to Pizza 73 restaurants in addition to advertising and order processing services. Expenses related to the provision of these services are administered and paid for by PPL. PPL recovers advertising expenses based on a percentage of individual restaurant retail sales, order processing service expenses based on the number of orders directed to the restaurant, and commissary services at an agreed upon mark up on cost. Prior to the adoption of IFRS 15, recoveries from franchisees were recorded as a reduction of the related expenses. To the extent that expenses recovered exceeded or were less than expenses paid by PPL, the difference was recorded as a payable or a receivable, net of any provision for impairment.

Under the new standard, advertising, order processing, and commissary services give rise to variable consideration and are considered separate performance obligations per the contractual agreements. The Company will continue to determine the transaction price based on a percentage of individual restaurant sales for advertising services and number of orders directed to restaurants for order processing services. For commissary food services, the Company will determine the transaction price based on the right to invoice practical expedient. However, in the event expenses recovered exceeded or were less than expenses paid by PPL, the Company will no longer record a net payable or a receivable in the statement of financial position. With the adoption of the new standard the Company has recognized all advertising, order processing and

# Pizza Pizza Limited

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week periods ended April 1, 2018 and April 2, 2017

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

commissary food service revenues and related expenses in the consolidated statement of income on a gross basis. As a result, the statement of financial position as at January 1, 2018 was restated resulting in de-recognition of the receivable that was recorded as recoverable franchisee expenses of \$727 and a corresponding increase to the deficit as at January 1, 2018.

- ii. The Company collects initial and renewal fees upfront from franchisees related to the grant of operating licenses and associated training costs. Prior to the adoption of IFRS 15, the Company would recognize said fees at a point in time, which was upon the initial grant or renewal of the license. In accordance with the new standard, a portion of the initial franchise fee related to the license and the full amount of the renewal fee will be amortized over the initial and renewal term of the franchise agreement, respectively, both of which is five years. Upon adoption of IFRS 15, the Company recognized an amount of \$2,001 of deferred revenue in the statement of financial position related to the portion of initial and renewal fees that were previously recognized at a point in time and a corresponding increase to the deficit as at January 1, 2018.

Below are changes to accounting policies that did not have a material impact upon transition:

- i. Food Sales - Revenue is recognized at the point in time when control of the product is transferred to the franchised and jointly controlled restaurants, which is on delivery of the product and acceptance by the customer. The transaction price is documented on the sales invoice and agreed to by the customer. All franchisees and joint ventures are required to purchase from Pizza Pizza, at an agreed markup on cost, all of the raw materials and supplies used and sold in their Pizza Pizza restaurants. Payment is generally due in seven days, as such a receivable is recognized as the consideration is unconditional and only the passage of time is required before payment is collected.
- ii. Company owned and managed restaurant retail sales - Revenue is recognized at a point in time when the services are rendered and the product is sold to the end consumer. Payment is collected at time of sale and the consideration received is unconditional.
- iii. Franchise royalties - The new revenue standards include an exception relating to variable consideration for the recognition of sales or usage based royalties from licenses of intellectual property. Revenue from a sales or usage based royalty is not recognized until the later of when (1) the customer's subsequent sales or usage occurs or (2) the performance obligation to which some or all of the sales or usage based royalty has been allocated is satisfied or partially satisfied. As such there has been no significant impact of adopting the new standard and no retrospective adjustments have been applied.
- iv. Administration and accounting fees - Revenue is based on a percentage of retail sales as provided for in the individual contractual agreements for both franchisee and joint venture partners. Under IFRS 15 revenue is recognized overtime using the right to invoice practical expedient. Payment is generally due in seven days, as such a receivable is recognized as the consideration is unconditional and only the passage of time is required before payment is collected.
- v. Construction fees - Revenue is generated by PPL acting as general contractor overseeing completion of construction work at the individual store location. Revenue is recognized at a point in time upon completion of construction at the individual store location. Payment is due immediately upon completion of construction and the consideration received is unconditional.

# Pizza Pizza Limited

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week periods ended April 1, 2018 and April 2, 2017

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

### IFRS 9 *Financial Instruments*

IFRS 9 - Financial Instruments ("IFRS 9") replaces IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39") for annual periods beginning on or after January 1, 2018. IFRS 9 includes classification and measurement of financial assets and financial liabilities, a forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The Company has applied IFRS 9 retrospectively, with the initial application date of January 1, 2018. As permitted by the transitional provisions of IFRS 9, the Company elected not to restate comparative figures or note disclosures. Any adjustments to the carrying amounts of financial assets and liabilities at the transition date are to be recognized in the opening retained earnings of the current period, however, the Company assessed that no adjustments to the carrying amounts of financial assets and liabilities were required upon adoption of IFRS 9.

#### Classification and measurement

With the adoption of the new standard, the Company noted that there have been no significant changes in classification and measurement of its financial instruments. The classification of debt financial assets is based on two criteria: The Company's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion'). Based on the Company's assessment, cash and cash equivalents, short-term investments, trade and other receivables, receivables from jointly controlled companies, notes receivable and renovation fund receivables are carried at amortized cost, as these financial assets are held within a business model with the objective to hold the financial assets in order to collect the contractual cash flows that meet the SPPI criterion.

The assessment of the Company's business models was made as of the date of initial application, January 1, 2018, and then applied retrospectively to those financial assets that were not derecognized before January 1, 2018. The assessment on whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Company's financial liabilities remains largely the same as it was under IAS 39. Similar to the requirements of IAS 39, the Company continues to measure its borrowings, trade and other payables, renovation fund liabilities, and advances from related party at amortized cost.

#### Impairment

The adoption of IFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach.

IFRS 9 requires the Company to record an allowance for ECLs for all debt financial instruments held at amortized cost or fair value through other comprehensive income.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade and other receivables and receivables from jointly controlled companies, the Company has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Company has established a provision matrix that is based on the Company's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For all other financial assets of the Company that are held at amortized cost, the Company has applied the general approach and has calculated the expected credit losses at initial recognition by considering the outcomes and probabilities of potential defaults over the next 12 months. The Company will continue to apply this method until a significant increase in credit risk has occurred, at which point an allowance is measured based on lifetime ECLs. Cash equivalents and short term investments are high grade investments that are held with reputable highly rated financial institutions. As such these assets are considered to be low credit risk investments. It is the Company's policy to measure such instruments on a 12-month ECL basis. In all cases, the Company will consider that there

# Pizza Pizza Limited

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week periods ended April 1, 2018 and April 2, 2017

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

has been an increase in credit risk when contractual payments are more than 30 days past due. The Company considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.

The adoption of the new impairment requirements resulted in no transitional adjustment to the allowances of the Company's debt financial assets. As such there were no retrospective adjustments made upon transition.

### 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 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 formed a project team and has 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 April 1, 2018 and December 31, 2017 and the results of these entities for the 13-week periods ended April 1, 2018 and April 2, 2017, 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.

#### *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 22.3% (December 31, 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 22.3% 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.

# Pizza Pizza Limited

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week periods ended April 1, 2018 and April 2, 2017

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

### *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% (December 31, 2017 – 50%) share interest in the 80 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

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 22.3% interest in the Partnership as at April 1, 2018 (December 31, 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 13-week period ended April 1, 2018	For the 52-week period ended December 31, 2017
Balance – beginning of period	23,877	23,648
Equity income of the Partnership	1,759	6,952
Distributions received from Partnership	(1,972)	(6,963)
Share of Partnership other comprehensive loss	52	240
<b>Balance – end of period</b>	<b>23,716</b>	<b>23,877</b>

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

# Pizza Pizza Limited

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week periods ended April 1, 2018 and April 2, 2017

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

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

	As at March 31, 2018	As at December 31, 2017
Total assets	355,358	348,597
Total liabilities	68,646	77,295
	Three months ended March 31, 2018	Three months ended March 31, 2017
	\$	\$
Revenues	8,785	8,672
Profit for the period	8,353	8,328

### a) 2017 Royalty Pool Adjustment

In early January 2018, adjustments to royalty payments and PPL's Class B Exchange Multiplier were made based on the actual performance of the 23 new restaurants added to the Royalty Pool on January 1, 2017. As a result of the adjustments, the new Class B Exchange Multiplier is 2.000691 and Class B Units can be exchanged for 5,018,210 shares, which is an increase of 175,727 shares, effective January 1, 2017.

In early January 2018, adjustments to royalty payments and PPL's Class D Exchange Multiplier were made based on the actual performance of the four Pizza 73 restaurants added to the Royalty Pool on January 1, 2017. As a result of the adjustments, the new Class D Exchange Multiplier remains unchanged at 17.52620 and Class D Units can be exchanged for 1,752,620 shares effective January 1, 2017.

### b) 2018 Royalty Pool Adjustment – Class B Exchange Multiplier

On January 1, 2018, one net Pizza Pizza restaurant was added to the Royalty Pool as a result of 17 new restaurants opening and 16 closing from January 1, 2017 to December 31, 2017. The total number of Pizza Pizza restaurants in the Royalty Pool has increased to 652. The additional system sales from the 17 new restaurants are estimated at \$3,860 annually, less sales of \$3,861 from 16 permanently closed Pizza Pizza restaurants, resulting in the Estimated Determined Amount being (\$1). 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 B Exchange Multiplier remained unchanged at 2.000691. The second adjustment to the Class B Exchange Multiplier will be adjusted to be effective January 1, 2018, once the actual performance of the new restaurants is determined in early 2019.

### c) 2018 Royalty Pool Adjustment – Class D Exchange Multiplier

On January 1, 2018, six net Pizza 73 restaurants were added to the Royalty Pool as a result of eight new restaurants opening between September 2, 2016 and September 1, 2017 and two restaurants closing between January 1, 2017 and December 31, 2017. The forecasted additional system sales from the eight new restaurants are estimated at \$4,836 annually, less \$260 in system sales attributable to the two closed Pizza 73 restaurants, resulting in net estimated Pizza 73 sales of \$4,576 added to the Royalty Pool. The total number of Pizza 73 restaurants in the Royalty Pool has increased to 106. The yield of the shares was determined to be 5.39% calculated using \$15.88 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

# Pizza Pizza Limited

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week periods ended April 1, 2018 and April 2, 2017

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

January 1, 2018. As a result of the contribution of the additional net sales to the Royalty Pool, the Class D Exchange Multiplier increased fractionally by 80% of the total adjustment or 2.76781 (or 276,781 exchangeable shares); the new Class D Multiplier is 20.29401 and the Class D Units can be exchanged for 2,029,401 shares effective January 1, 2018. This adjustment will also increase the entitlement of the holders of the Class D units to distributions of cash and allocations of income from the Partnership. The second adjustment to the Class D Exchange Multiplier will be adjusted to be effective January 1, 2018, once the actual performance of the new restaurants is determined in early 2019.

### d) Pizza Pizza Royalty Corp. Outstanding Shares

PPL's Class B equivalent Share entitlement is unchanged for 2018, due to the fact that, in any year that the forecasted system sales (less closed restaurants sales and other adjustments) is negative, as was the case with the Class B equivalent Share entitlement calculation for 2018, no increase or decrease in the Exchange Multiplier is made. PPL will only have a Class B equivalent Share entitlement for 2018 if the actual sales performance of the 17 new Pizza Pizza restaurants, significantly exceeds forecasted system sales and yields net, positive sales which will be determined in early 2019.

In exchange for adding the forecasted Pizza 73 system sales to the Royalty Pool, PPL has received 276,781 additional equivalent Shares (through the change to the Class D Exchange Multiplier). These represent 80% of the forecasted equivalent Shares entitlement to be received (345,977 equivalent Shares represent 100%), with the final equivalent Shares entitlement to be determined when the new restaurants' 2018 actual sales performance is known with certainty in early 2019.

After giving effect to PPL's entitlement to additional equivalent shares as at January 1, 2018, PPL owns equivalent shares representing 22.3% 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 April 1, 2018

Shares outstanding		24,618,392
Class B equivalent Shares held by PPL as at December 31, 2017	4,842,483	
PPL additional Class B equivalent shares - True-up Holdback as at December 31, 2017	175,727	
Additional PPL Class B equivalent shares as at January 1, 2018	-	5,018,210
Class D equivalent Shares held by PPL as at December 31, 2017	1,752,620	
PPL additional Class D equivalent shares - True-up Holdback as at December 31, 2017	276,781	
Additional PPL Class D equivalent shares as at January 1, 2018	-	2,029,401
Number of fully diluted shares		31,666,003
PPL's proportion of all shares outstanding and available for exchange		22.3%

## 4. Investment in Jointly Controlled Companies

Jointly-controlled companies are joint ventures, consisting of PPL's 50% interest in 80 Pizza 73 restaurants (December 31, 2017 – 79 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.

# Pizza Pizza Limited

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week periods ended April 1, 2018 and April 2, 2017

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

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 13-week period ended April 1, 2018	For the 52-week period ended December 31, 2017
Balance – beginning of period	18,929	19,235
Equity income from jointly controlled companies	1,266	4,871
Dividends received from jointly controlled companies	(1,387)	(5,177)
<b>Balance – end of period</b>	<b>18,808</b>	<b>18,929</b>

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

	For the 13-week period ended April 1, 2018	For the 13-week period ended April 2, 2017
Revenue	10,209	10,160
Expenses	(8,943)	(8,818)
<b>Income for the period after income tax</b>	<b>1,266</b>	<b>1,342</b>

## 5. Borrowings

	As at April 1, 2018	As at December 31, 2017
Notes payable, bearing interest from 5.4% to 8%, repayable in varying monthly principal amounts, maturing between 2018 and 2021. These notes were secured by specific company-owned restaurant assets. The effective interest rate as at April 1, 2018 was 6.2% (April 2, 2017– 6.6%).	1,021	1,034
	<b>1,021</b>	<b>1,034</b>
Less: current portion	(521)	(474)
<b>Total non-current borrowings</b>	<b>500</b>	<b>560</b>



# Pizza Pizza Limited

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week periods ended April 1, 2018 and April 2, 2017

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

### 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.

Reversals in the period relate to leases that were franchised, subleased or terminated during the period.

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

	For the 13-week period ended April 1, 2018	For the 52-week period ended December 31, 2017
<b>Movements in the provision for onerous leases</b>		
Opening balance	1,328	489
Arising during the period	371	1,270
Reversals	(58)	(52)
Utilized during the period	(64)	(466)
Imputed interest	36	88
<b>Closing balance</b>	<b>1,613</b>	<b>1,328</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	43,190	2,098
Later than 1 year and no later than 5 years	92,543	4,082
Later than 5 years	26,375	1,038

During the 13-week period ended April 1, 2018, lease payments of approximately \$8,211 (13-week period ended April 2, 2017 - \$7,259) 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	32,845	-
Later than 1 year and no later than 5 years	86,431	-
Later than 5 years	5,247	-

#### 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.

# Pizza Pizza Limited

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week periods ended April 1, 2018 and April 2, 2017

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

PPL has entered into an agreement with certain lenders to establish a line of credit of \$25,780 (December 31, 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 including a letter of credit in the amount of \$2,578 (December 31, 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 April 1, 2018 and December 31, 2017 PPL was in compliance with these financial covenants.

### 8. Common Shares and Special Voting Shares

	As at April 1, 2018	As at December 31, 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.

# Pizza Pizza Limited

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week periods ended April 1, 2018 and April 2, 2017

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

### 10. Food Sales

Food sales include the following:

	For the 13-week period ended April 1, 2018	For the 13-week period ended April 2, 2017
Food sales	40,802	42,774
Company owned restaurant sales	3,643	3,231
<b>Total food sales</b>	<b>44,445</b>	<b>46,005</b>

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

Royalties, franchise fees and other revenue include the following:

	For the 13-week period ended April 1, 2018	For the 13-week period ended April 2, 2017
Royalties	6,288	6,268
Initial and renewal franchise fees <sup>(i)</sup>	413	568
Construction fees	423	272
Administration and accounting fees	692	683
<b>Total royalties, franchise fees and other revenue</b>	<b>7,816</b>	<b>7,791</b>

<sup>(i)</sup> The Company elected not to restate comparatives, under the modified retrospective approach upon transition to IFRS 15. Please refer to note 2 for more details.

### 12. Store service contributions

Store service contributions include the following:

	For the 13-week period ended April 1, 2018
Advertising services	10,327
Order processing services	3,284
Commissary food services	9,298
<b>Total store service contributions</b>	<b>22,909</b>

The Company has elected to not disclose comparatives, under the modified retrospective approach upon transition to IFRS 15. Please refer to note 2 for more details.

# Pizza Pizza Limited

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week periods ended April 1, 2018 and April 2, 2017

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

### 13. Expenses by Nature

	For the 13-week period ended April 1, 2018	For the 13-week period ended April 2, 2017
Depreciation of property, plant and equipment	924	758
Amortization of intangible assets	128	39
Operating lease payments	895	916
Employee benefit expense	4,254	4,209

### 14. 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 April 1, 2018	For the 13-week period ended April 2, 2017
Rent expense <sup>(i)</sup>	575	654
Food purchases <sup>(i)</sup>	2,993	2,615
Recovery of expenses <sup>(i)</sup>	150	150
Administration and accounting fee revenue <sup>(ii)</sup>	692	683

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

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

As at April 1, 2018, PPL has trade payables of \$788 (as at December 31, 2017 - \$935) payable to a company under common management control. As at April 1, 2018, PPL has included in trade and other payables amounts payable of \$2,332 (as at December 31, 2017 - \$2,519) to the Partnership, which were paid subsequent to the end of the period.

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

	As at April 1, 2018	December 31, 2017
Receivables from jointly-controlled companies	3,152	3,275
Advances from related party	(14,766)	(16,261)

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 April 2, 2019. Accordingly, the advances from related party have been classified as long-term.

# Pizza Pizza Limited

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week periods ended April 1, 2018 and April 2, 2017

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

### 15. 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 April 1, 2018	Eastern	Western	Eliminations	Total
Food sales	44,445	10,209	(10,209)	44,445
Royalties, franchise fees and other revenue	6,990	826	-	7,816
Interest and other income	264	7	(7)	264
Cost of food sales	35,966	4,013	(4,013)	35,966
General and administrative expenses	10,133	5,205	(4,712)	10,626
Equity income from jointly controlled companies	-	-	1,266	1,266
Interest on borrowings	37	2	(2)	37
Income for the period before income taxes	5,978	(2,103)	(1,488)	2,386
Segment income for the period	5,663	(2,326)	(1,266)	2,071
Property, plant and equipment additions	594	821	(806)	609

#### As at April 1, 2018

Total assets	144,614	33,129	(3,809)	173,934
Intangible assets	3,567	-	-	3,567

For the 13-week period ended April 2, 2017	Eastern	Western	Eliminations	Total
Food sales	46,005	10,160	(10,160)	46,005
Royalties, franchise fees and other revenue	6,963	828	-	7,791
Interest and other income	304	24	(20)	308
Cost of food sales	37,366	4,105	(4,105)	37,366
General and administrative expenses	8,887	5,076	(4,498)	9,465
Equity income from jointly controlled companies	-	-	1,342	1,342
Interest on borrowings	8	2	(2)	8
Income for the period before income taxes	2,565	1,105	(1,342)	2,238
Segment income for the period	2,353	1,248	(1,575)	2,026
Property, plant and equipment additions	1,168	880	(872)	1,176

#### As at December 31, 2017

Total assets	141,270	37,111	(3,333)	175,048
Intangible assets	3,891	-	-	3,891

# Pizza Pizza Limited

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week periods ended April 1, 2018 and April 2, 2017

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

### 16. Statements of Cash Flows Information

Changes in non-cash working capital are as follows:

	For the 13-week period ended April 1, 2018	For the 13-week period ended April 2, 2017
Trade and other receivables	(2,866)	(1,232)
Inventories	724	1,286
Income taxes receivable	-	(42)
Receivables from jointly-controlled companies	123	967
Recoverable franchisee expenses	-	1,335
Trade and other payables	(6,059)	(4,817)
Income taxes payable	-	-
Deposits from franchisee	471	(911)
	(7,607)	(3,414)

### 17. 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 and renovation funds 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 April 1, 2018 of 5.52% (December 31, 2017 – 6.58%).

The fair value of the borrowings is based on the estimated future discounted cash flows using a comparable market rate of interest as at April 1, 2018 of prime plus a spread varying by loan (January 1, 2018 - 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.

# Pizza Pizza Limited

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week periods ended April 1, 2018 and April 2, 2017

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

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

	As at April 1, 2018		As at December 31, 2017	
	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	14,269	14,269	12,758	12,758
Trade and other receivables	17,825	17,825	14,959	14,959
Notes receivable	12,848	11,955	13,256	12,379
Trade and other payables	46,637	46,637	52,696	52,696
Borrowings	1,021	917	1,034	930

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 and other receivables, 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 franchise agreement.

The aging of trade and other receivable balances that are past due is as follows:

	As at April 1, 2018	As at December 31, 2017
Past due 0-30 days	1,184	880
Past due 31-120 days	1,075	837
<b>Total trade and other receivables past due</b>	<b>2,259</b>	<b>1,717</b>

### 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.

# Pizza Pizza Limited

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the 13-week periods ended April 1, 2018 and April 2, 2017

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

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 April 1, 2018:

	Carrying amount	0 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
Trade and other payables	46,637	46,637	-	-	-
Borrowings	1,021	521	500	-	-
Advances from related party	14,766	-	14,766	-	-

### Interest Rate Risk

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

### 18. 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.