PIZZA PIZZA Limited

Consolidated Annual Financial Statements

For the 52-week period ended December 30, 2018 and the 52-week period ended December 31, 2017

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Pizza Pizza Limited

Opinion

We have audited the consolidated financial statements of Pizza Pizza Limited (the Group), which comprise the consolidated statement of financial position as at December 30, 2018 and December 31, 2017, and the consolidated statements of income (loss), consolidated statement of changes in shareholders' deficiency and consolidated statement of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of the Group as at December 30, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
March 1, 2019

Pizza Pizza Limited

Consolidated Statements of Financial Position
As at December 30, 2018 and December 31, 2017
(Expressed in thousands of Canadian dollars)

	December 30, 2018 $	December 31, 2017 $
Assets		
Current assets		
Cash and cash equivalents	4,818	12,758
Short-term investment	2,005	6,000
Trade, other receivables and prepayments (note 3)	24,739	14,959
Inventories	7,396	5,718
Income taxes recoverable	7	1,473
Receivables from jointly-controlled companies (note 22)	3,517	3,275
Recoverable franchisee expenses	-	727
Total current assets	**42,482**	**44,910**
Non-current assets		
Property, plant and equipment (note 4)	12,007	13,160
Notes receivable (note 5)	13,607	13,256
Renovation funds (note 6)	9,501	7,834
Deferred tax asset (note 14)	49,811	49,191
Investment in Pizza Pizza Royalty Limited Partnership (note 7)	23,514	23,877
Investment in jointly-controlled companies (note 8)	18,624	18,929
Intangible assets (note 9)	4,737	3,891
Total non-current assets	**131,801**	**130,138**
Total assets	**174,283**	**175,048**
Liabilities and shareholders' deficiency		
Current liabilities		
Trade and other payables (note 10)	48,694	52,696
Deposits from franchisees	1,510	415
Borrowings (note 11)	220	474
Provisions (note 12)	1,167	1,328
Total current liabilities	**51,591**	**54,913**
Non-current liabilities		
Borrowings (note 11)	472	560
Deferred franchise fees (note 2)	1,853	-
Unearned vendor allowances	5,414	-
Advances from related party (note 22)	13,548	16,261
Leasehold inducements	-	7
Renovation funds (note 6)	5,353	4,586
Deferred gain (note 13)	199,219	201,549
Total non-current liabilities	**225,859**	**222,963**
Shareholders' deficiency		
Common shares and special voting shares (note 16)	-	-
Accumulated other comprehensive loss	112	(170)
Deficit	(103,279)	(102,658)
Total shareholders' deficiency attributable to the shareholders	**(103,167)**	**(102,828)**
Total liabilities and shareholders' deficiency	**174,283**	**175,048**

Commitments and contingencies (note 15)

The accompanying notes are an integral part of these consolidated financial statements.
Approved by the Directors on March 1, 2019

Pizza Pizza Limited
Consolidated Statements of Income (Loss)
For the 52-week period ended December 30, 2018 and the 52-week period ended December 31, 2017
(Expressed in thousands of Canadian dollars)

	December 30, 2018 $	December 31, 2017 $
Revenue		
Food sales (note 18)	180,909	188,014
Royalties, franchise fees and other revenue (note 2 and 19)	30,549	30,817
Store service contributions (note 2 and 20)	84,524	-
Total revenue	**295,982**	**218,831**
Cost of food sales	(146,376)	(150,998)
General and administrative expenses (note 21)	(43,366)	(58,982)
Store service expenditures (note 2 and 20)	(84,884)	-
Royalty payments	(35,408)	(35,614)
Equity income from Pizza Pizza Royalty Limited Partnership (note 7)	7,147	6,952
Equity income from jointly-controlled companies (note 8)	4,553	4,871
Gain on sale of Company-owned restaurants	579	77
Operating loss	**(1,773)**	**(14,863)**
Interest and other income	924	1,186
Amortization of deferred gain (note 13)	2,330	2,330
Interest on borrowings	(63)	(35)
Income (loss) for the period before income taxes	**1,418**	**(11,382)**
Current income tax recovery (note 14)	-	1,524
Deferred tax recovery (expense) (note 14)	(33)	3,663
Income (loss) for the period attributable to the shareholders of Pizza Pizza Limited	**1,385**	**(6,195)**

Pizza Pizza Limited
Consolidated Statements of Comprehensive Income (Loss)
For the 52-week period ended December 30, 2018 and the 52-week period ended December 31, 2017
(Expressed in thousands of Canadian dollars)

	December 30, 2018 **$**	December 31, 2017 **$**
Income (loss) for the period	**1,385**	**(6,195)**
Other comprehensive income (loss)		
Items that may be reclassified subsequently to net income:		
Share of other comprehensive income of the Pizza Pizza Royalty Limited Partnership (note 7)	46	240
Deferred tax impact of share of other comprehensive income of Pizza Pizza Royalty Limited Partnership	12	(47)
Items that will not be reclassified subsequently to net income:		
Employee benefits	306	(364)
Deferred tax impact of employee benefits	(82)	103
Total comprehensive income (loss) attributable to shareholders	**1,667**	**(6,263)**

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

Pizza Pizza Limited
Consolidated Statements of Changes in Shareholders' Deficiency
For the 52-week period ended December 30, 2018 and the 52-week period ended December 31, 2017
(Expressed in thousands of Canadian dollars)

	Common shares and special voting shares (note 16) $	Accumulated other comprehensive income (loss) $	Deficit $	Total $
As at December 31, 2017, as previously reported		**(170)**	**(102,658)**	**(102,828)**
Impact of adopting IFRS 15 (note 2)			(2,728)	(2,728)
Tax impact of adopting IFRS 15			722	722
Restated as at January 1, 2018		**(170)**	**(104,664)**	**(104,834)**
Comprehensive loss				
Income for the 52-week period ended December 31, 2018	-	-	1,385	1,385
Employee benefits	-	306	-	306
Tax effect of employee benefits	-	(82)	-	(82)
Share of other comprehensive income on Pizza Pizza Royalty Limited Partnership's cash flow hedge	-	46	-	46
Tax effect of cash flow hedge	-	12	-	12
Total comprehensive loss	-	**282**	**1,385**	**1,667**
As at December 30, 2018	**-**	**112**	**(103,279)**	**(103,167)**
As at January 1, 2017	**-**	**(102)**	**(96,463)**	**(96,565)**
Comprehensive income (loss)				
Income for the 52-week period ended January 1, 2017	-	-	(6,195)	(6,195)
Employee benefits	-	(364)	-	(364)
Tax effect of employee benefits	-	103	-	103
Share of other comprehensive income on Pizza Pizza Royalty Limited Partnership's cash flow hedge	-	240	-	240
Tax effect of cash flow hedge	-	(47)	-	(47)
Total comprehensive income	-	**(68)**	**(6,195)**	**(6,263)**
As at December 31, 2017	**-**	**(170)**	**(102,658)**	**(102,828)**

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

Pizza Pizza Limited
Consolidated Statements of Cash Flows
For the 52-week period ended December 30, 2018 and the 52-week period ended December 31, 2017
(Expressed in thousands of Canadian dollars)

	December 30, 2018 $	December 31, 2017 $
Operating activities		
Income (loss) for the period	1,385	(6,195)
Depreciation of property, plant and equipment (note 4)	4,202	3,867
Amortization of intangible assets (note 9)	759	130
Amortization of leasehold inducements	(7)	(3)
Receipt of unearned vendor allowances	6,500	-
Amortization of unearned vendor allowances	(1,086)	(1,096)
Amortization of deferred franchise fees (note 2)	(148)	-
Amortization of deferred gain (note 13)	(2,330)	(2,330)
Net provision for notes receivable (note 5)	-	(151)
Net provisions during the period (note 12)	(162)	839
Gain on sale of Company-owned restaurants	(579)	(77)
Equity income from Pizza Pizza Royalty Limited Partnership (note 7)	(7,147)	(6,952)
Equity income from jointly-controlled companies (note 8)	(4,553)	(4,871)
Deferred income tax expense/(recovery) (note 14)	33	(3,663)
	(3,133)	**(20,502)**
Changes in non-cash operating elements of working capital (note 24)	(12,835)	16,214
Cash used in operating activities	**(15,968)**	**(4,288)**
Investing activities		
Additions to property, plant and equipment (note 4)	(3,651)	(5,477)
Additions to intangible assets (note 9)	(1,605)	(3,891)
Proceeds from sale of Company-owned restaurants	1,181	390
Distributions from Pizza Pizza Royalty Limited Partnership (note 7)	7,555	6,963
Dividends from jointly-controlled companies (note 8)	4,858	5,177
Repayment of notes receivable	10,733	6,532
Issuance of notes receivable	(11,085)	(4,796)
Contributions to renovation funds	19,911	13,712
Disbursement from renovation funds	(20,809)	(14,113)
Withdrawals from (additions to) short-term investments	3,995	1,000
Cash provided by investing activities	**11,083**	**5,497**
Financing activities		
Proceeds from borrowings	326	434
Repayments of borrowings	(668)	(718)
Repayment of advances from related party (note 22)	(11,963)	(3,360)
Advances from related party (note 22)	9,250	2,169
Cash used in financing activities	**(3,055)**	**(1,475)**
Decrease in cash and cash equivalents	**(7,940)**	**(266)**
Cash and cash equivalents, beginning of period	12,758	13,024
Cash and cash equivalents, end of period	**4,818**	**12,758**

See supplementary cash flow information (note 24)
The accompanying notes are an integral part of these consolidated financial statements.

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

1. Nature of Business

Pizza Pizza Limited ("PPL" or the "Company"), a privately-held corporation incorporated by Articles of Incorporation under the *Business Corporations Act* (Canada) on December 27, 1989, operates in the food service industry 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. 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 ultimate parent of PPL is 1373153 Ontario Limited, a private Corporation that does not prepare and make available financial statements for public use.

Below are the number of traditional and non-traditional franchisees and licensees as at:

	December 30, 2018	December 31, 2017
Franchisees and licensees	683	674
Jointly-controlled restaurants	81	79
Company-owned and operated restaurants	9	7

2. Significant Accounting Policies

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

a) 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 presentation

PPL prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The policies applied in these consolidated financial statements are based on IFRS standards, which have been applied consistently to all periods presented, unless otherwise stated. These consolidated financial statements were issued and effective as of March 1, 2019, the date the Directors approved the consolidated financial statements.

These consolidated financial statements have been prepared using the historical cost convention and on a going concern basis.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Company presents an additional statement of financial position at the beginning of the preceding period when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements. An additional statement of financial position as at January 1, 2018 is presented below due to the retrospective application of accounting policies as a result of the adoption of new accounting standards.

PPL applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below. Additionally, PPL has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

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

c) Changes in accounting policies and disclosure

IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15")

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 recognized 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
Assets				
Recoverable franchisee expenses	727	(727)	(i)	-
Deferred tax asset	49,191	722		49,913
Liabilities				
Deferred franchise fee	-	2,001	(ii)	2,001
Shareholders' deficiency				
Deficit	(102,658)	(2,006)		(104,664)

Impact on the consolidated statement of financial position as at December 30, 2018:

	Balances without the adoption of IFRS 15	Adjustments due to IFRS 15		As reported in accordance with IFRS 15
Assets				
Recoverable franchisee expenses	1,087	(1,087)	(i)	-
Deferred tax asset	49,089	722		49,811
Liabilities				
Deferred franchise fee	-	1,853	(ii)	1,853
Shareholders' deficiency				
Deficit	(103,235)	(44)		(103,279)

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

Impact on the consolidated statement of income for the 52-week period ended December 30, 2018:

	Balances without the adoption of IFRS 15	Adjustments due to IFRS 15		As reported in accordance with IFRS 15
Revenues				
Royalties, franchise fees and other revenue	30,401	148	(ii)	30,549
Store service contributions	-	84,524	(i)	84,524
Expenses				
Store service expenditures	-	(84,884)	(i)	(84,884)
Income for the period attributable to the shareholders	**1,597**	**(212)**		**1,385**

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 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 exceed or are 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 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 are 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 over time 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.

IFRS 9 *Financial Instruments* ("IFRS 9")

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 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 payments 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.

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.

Given that the standard is effective January 1, 2019 and PPL's fiscal year commences on December 31, 2019, PPL will not be early adopting the standard. Additionally, PPL has formed a project team and has begun the process of evaluating the impact of this standard on its consolidated financial statements and expects to adopt the standard on December 30, 2019 using the modified retrospective approach. The Company anticipates that it will have to measure the right of use asset upon adoption at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease immediately before the date of initial application. The Company will elect to apply the standard to contracts that were previously identified as leases under IAS 17 and IFRIC 4. The Company will also elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

PPL expects a significant portion of its operating leases to be reclassified as finance leases under the new standard. The cumulative effect of initially applying IFRS 16 is expected to be recognized as an adjustment to the opening retained earnings as of the date of initial application.

d) Basis of consolidation

These consolidated financial statements incorporate the assets and liabilities of PPL and its subsidiaries as at December 30, 2018 and December 31, 2017 and the results of these entities for the 52-week periods ended.

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% (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 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 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% (December 31, 2017 – 50%) share interest in the 81 jointly-controlled companies as an investment in a joint venture 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 consolidated statements of income.

e) Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which PPL operates (the functional currency). These consolidated financial statements are presented in Canadian dollars, which is PPL's functional and presentation currency.

f) Financial assets and liabilities (Policy applicable before January 1, 2018 per IAS 39)

A financial asset or liability is recognized if PPL becomes a party to the contractual provisions of the asset or liability. A financial asset or liability is recognized initially (at the trade date) at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the instrument. Financial assets and liabilities carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the consolidated statements of income.

After initial recognition, financial assets are measured at their fair values, except for loans and receivables and held to maturity financial assets, which are measured at amortized cost. After initial recognition, financial liabilities are measured at amortized cost except for financial liabilities at fair value through profit or loss, which are measured at fair value.

PPL classifies its financial assets and liabilities according to their characteristics and management's intentions related thereto for the purposes of ongoing measurement.

Classification choices for financial assets include:

i. Fair value through profit or loss - measured at fair value with changes in fair value recorded in the consolidated statements of income;

ii. Held to maturity - recorded at amortized cost with gains and losses recognized in the consolidated statements of income in the period in which the financial asset is no longer recognized or impaired;

iii. Available for sale - measured at fair value with changes in fair value recognized in other comprehensive Income (loss) for the current period until realized through disposal or impairment; and

iv. Loans and receivables - recorded at amortized cost with gains and losses recognized in profit in the period in which the financial asset is no longer recognized or impaired.

Classification choices for financial liabilities include:

i. Fair value through profit or loss - measured at fair value with changes in fair value recorded in the consolidated statements of income; and

ii. Other financial liabilities - measured at amortized cost with gains and losses recognized in the consolidated statements of income in the period in which the financial liability is no longer recognized.

PPL's financial assets and liabilities are classified and measured as follows:

Assets/liabilities	**Category**	**Measurement**
Cash and cash equivalents	Loans and receivables	Amortized cost
Short-term-investment	Loans and receivables	Amortized cost
Trade, other receivables and prepayments	Loans and receivables	Amortized cost
Receivables from jointly-controlled companies	Loans and receivables	Amortized cost
Recoverable franchisee expenses	Loans and receivables	Amortized cost
Notes receivable	Loans and receivables	Amortized cost
Renovation funds	Loans and receivables	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost
Deposits from franchisees	Other financial liabilities	Amortized cost
Borrowings	Other financial liabilities	Amortized cost
Advances from related party	Other financial liabilities	Amortized cost

Financial assets are derecognized if PPL's contractual rights to the cash flows from the financial assets expire or if PPL transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognized if PPL's obligations specified in the contract expire or are discharged or cancelled.

g) Impairment of financial assets (Policy applicable before January 1, 2018 per IAS 39)

PPL assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

In the case of financial assets measured at amortized cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the consolidated statements of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment is recognized in the consolidated statements of income.

h) Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term deposits with a maturity at acquisition of less than 90 days.

i) Short-term investment

The short-term investment includes amounts invested in a Guaranteed Investment Certificate with a maturity at acquisition between 90 and 365 days.

j) Trade, other receivables and prepayments

Trade and other receivables are amounts due for the sale of goods to franchises and jointly-controlled entities, overnight settlement of credit card sales and prepayments on behalf of our franchisees. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade and other receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

k) Inventories

Inventories consist of food, supplies, and construction materials available to be sold to restaurants. Inventories are valued at the lower of cost and net realizable value. Cost is determined on the first-in, first-out basis.

l) Notes receivable

Notes receivable are amounts due from franchisees bearing interest at agreed interest rates. Notes are classified as non-current taking into consideration their nature and management's intention with respect to timing of recovery of these balances.

Notes receivable are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

m) Recoverable franchisee expenses (Policy applicable before January 1, 2018 per IAS 18)

PPL provides advertising and order processing services to Pizza Pizza and Pizza 73 restaurants. Expenses related to the provision of these services are paid by PPL. PPL recovers advertising expenses based on a percentage of individual restaurant sales and order processing service expenses based on the number of orders directed to the restaurant. Recoveries from franchisees are recorded as a reduction of the related expenses. To the extent that expenses recovered exceed or are less than expenses paid by PPL, the difference is recorded as a payable or a receivable, net of any provision for impairment.

In addition to providing advertising and order processing services to Pizza 73 restaurants, PPL also operates two Pizza 73 commissaries. A consulting agreement controls the markup on food sales, which is designed to cover the expenses of the commissary operations. Recoveries are recorded as a reduction of the related expenses. To the extent that expenses recovered exceed or are less than expenses paid by PPL, the difference may be allocated annually to individual restaurants based on a percentage of individual restaurant sales.

n) Property, plant and equipment

Owned assets

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses, if any. Historical cost includes expenditures that are directly attributable to the acquisition or construction of items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to PPL and the cost can be measured reliably. The carrying amount of any replaced part is derecognized. All other repairs and maintenance are charged to the consolidated statements of income during the period in which they are incurred.

Leased assets

Operating lease payments are recognized as an expense on a straight-line basis over the period of the lease.

Depreciation

Depreciation is calculated on a straight-line or declining balance basis to allocate the cost of the asset, less any residual value, over its estimated useful life. The depreciation method and range of estimated useful lives for each class of property, plant and equipment are as follows:

On the declining balance method -	
Equipment	20%
Furniture and fixtures	20%
Vehicles	30%
On the straight-line method -	
Leasehold improvements	5 years
Computer - software	3 years
- hardware	4 years
Company-owned restaurant assets	5 years

PPL allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant components and depreciates separately each such component. Residual values, method of depreciation and useful lives of items of property, plant and equipment are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of general and administrative expenses in the consolidated statements of income.

o) Intangible assets

Intangible assets are assets acquired that lack physical substance and that meet the specified criteria for recognition. Intangible assets with a finite life are recorded at cost and are amortized over the period of expected future benefit on the straight-line method:

Computer software	3 and 10 years

p) Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Specifically, assets are grouped at the cash-generating unit ("CGU") level, namely Pizza Pizza restaurants and Pizza 73 restaurants. In determining fair value less costs to sell, recent market transactions are taken into account, if available. In assessing value in use, the estimated further cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment losses are recognized in the consolidated statements of income.

The Company bases its impairment calculation on detailed budgets that are prepared for each of the CGUs and generally cover a period of one year. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the one-year period.

An assessment is made at each reporting date whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of income.

q) Renovation funds

PPL maintains a long-term renovation program whereby franchisees contribute towards future restaurant renovations and upgrades. The franchise owner acknowledges that the renovation fund contribution may be used by PPL, without interest or other compensation to the franchise owner, to fund the renovation, expansion or relocation of other Pizza Pizza outlets until such time as the funds are required by the franchise owner for renovation, expansion or relocation of the franchised outlet.

r) Income taxes

Income tax expense for the period is composed of current and deferred tax. Income taxes are recognized in the consolidated statements of income except to the extent it relates to items recognized directly in equity.

Current income taxes

Current income tax expense is based on the income for the period as adjusted for items that are not taxable or not deductible. Current income taxes are calculated using tax rates and tax laws that were substantively enacted at the end of the reporting periods. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred taxes

Deferred taxes are recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred taxes are determined using tax rates (and tax laws) that have been enacted or substantively enacted by the consolidated statement of financial position dates and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled. The measurement of deferred tax assets and liabilities reflect the tax consequences that would follow from the manner in which PPL expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets are recognized only to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current taxes and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority where there is an intention to settle the balances on a net basis.

s) Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less.

t) Borrowings

Borrowings are initially recognized at fair value net of any financing fees. Borrowings are classified as current liabilities unless PPL has an unconditional right to defer settlement of the liability for more than 12 months. After initial recognition, borrowings are carried at amortized cost with any difference between the proceeds (net of financing fees) and the redemption value recognized in the consolidated statements of income over the period of the borrowing using the effective interest method.

u) Provisions

Provisions represent liabilities to PPL for which the amount or timing is uncertain. Provisions are recognized when PPL has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized in the consolidated statements of income.

v) Unearned vendor allowances

Unearned vendor allowances relate to an allowance received from a supplier in consideration of the achievement of certain volume and time commitments. The unearned vendor allowances are being amortized based on the proportion of volume commitments met during each period.

w) Common shares and special voting shares

Common shares and special voting shares are classified as equity. Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction, net of income taxes, from the proceeds.

x) Revenue recognition (Policy applicable before January 1, 2018 per IAS 18)

PPL recognizes revenue on the following basis:

- Food sales are recognized when the products are delivered to the franchised and jointly-controlled restaurants. Pizza Pizza 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 for materials and supplies are due within seven days.

- Company-owned and managed restaurant retail sales are recognized when the services are rendered and the products are sold to the public. Payment by the public is immediate.

- Franchise royalties and administration and accounting fees are recognized as earned and are based on a percentage of the franchisees' sales as provided for in individual franchise agreements. Royalties are due within seven days.

- Initial and renewal franchise fees are recognized at the commencement of the initial term of the franchise agreement and upon the renewal of such an agreement. The initial franchise fee is payable, in full, at the commencement of the agreement and is non-refundable. The renewal fee is charged to franchisees upon renewal of their franchise agreement, which is typically five years from the initial agreement.

- Construction fees are recognized when the costs are incurred. Fees are generated by PPL acting as general contractor as per the franchise agreement.

- Interest and other income is recognized and accrued when earned. Interest income is derived from notes receivable with franchisees and investments in cash equivalents that have maturity dates less than 90 days.

y) Employee Benefits

Expenses relating to employee benefits are included in general and administrative expenses. Liabilities relating to employee benefits, including post-employment benefits, are included in trade and other payables. Changes in the liabilities due to changes in actuarial assumptions and experience adjustments are recognized in other comprehensive income.

z) Gift Cards

The Company administers a gift card program on behalf of its franchisees as part of its advertising activities. The purpose of the program is to expand the brand through increased exposure, as well as to increase system-wide sales. The liability related to the gift cards represent the prepaid amounts not yet redeemed by customers and is recorded within trade and other payables.

Income is recognized as store service contributions when breakage is recorded. Breakage is estimated and recorded based on historical experience of redemption patterns.

aa) Critical accounting estimates and assumptions

PPL makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are addressed below:

Impairment of investment in Pizza Pizza Royalty Limited Partnership

PPL, at each period-end, identifies impairment indicators and assesses 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 consolidated statements of income.

The value-in-use calculation requires the Company to estimate the future cash flows expected to arise from the Partnership and a suitable discount rate in order to calculate present value. In measuring future cash flows, PPL makes assumptions about future sales and terminal growth rates that are based on historical experience and expected future performance. Determining the applicable discount rate also involves estimating appropriate adjustments to market risk and PPL specific risk factors. The two most sensitive assumptions are pre-tax discount rates and terminal growth rates.

Impairment of investment in jointly-controlled companies

PPL, at each period-end, identifies impairment indicators and assesses 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 charged to the consolidated statements of income.

The value-in-use calculation requires the Company to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. In measuring future cash flows, PPL makes assumptions about future sales, tax rates, and terminal growth rates that were based on historical experience and expected future performance. Determining the applicable discount rate also involves estimating appropriate adjustments to market risk and PPL specific risk factors. The two most sensitive assumptions used are pre-tax discount rates and terminal growth rates.

Impairment of non-trade assets

PPL, at each period-end, identifies impairment indicators and assesses whether there is any objective evidence that its non-trade assets are impaired. If impaired, the carrying value of these assets is written down to its estimated recoverable amount, and charged to the consolidated statements of income.

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

bb) Critical judgments

Consolidation

Determining which entities are to be consolidated by PPL requires judgment on the definition of control. The definition of control under IFRS 10, *Consolidated Financial Statements* ("IFRS 10"), states that an investor controls an investee when it has power over the investee, 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. Based on an assessment of the activities of the Partnership and the franchisees, it was concluded that PPL does not control these entities, and therefore shall not consolidate their operations. The Partnership is consolidated by Pizza Pizza Royalty Corp ("PPRC"), formerly Pizza Pizza Royalty Income Fund (the "Fund").

Identification of CGUs

For the purposes of identifying CGUs, assets are grouped at the lowest levels for which there are separately identifiable cash flows. PPL concludes there are interdependencies of cash flows between Pizza 73 restaurants and PPL and therefore, the investment in jointly-controlled Pizza 73 restaurants is considered a single CGU. PPL's assets pertaining to Pizza Pizza operations are classified as a separate CGU.

Sale of Rights and Marks and annual vend-ins

PPL has applied judgment in assessing the application of the revenue recognition accounting policy for the initial sale of Rights and Marks, described in note 14, and the annual vend-ins of restaurants in the Royalty Pool (note 8). In making its assessment, management considered the substance of these transactions and whether the risks and rewards of ownership have been transferred. Based on this assessment, management has determined that revenue relating to the sale will be deferred and amortized as earned and that the subsequent vend-ins will have no impact on PPL. Cash in lieu of vend-ins is considered as proceeds of disposition of the contractual right to an increase in the Exchange Multiplier and is taken to income when due.

3. Trade, other receivables and prepayments

	As at December 30, 2018	As at December 31, 2017
Trade receivables	7,708	5,766
Less: provision for impairment of trade receivables	(1,312)	(715)
Trade receivables less provision for impairment	6,396	5,051
Overnight settlement of credit card sales	5,442	1,341
Other receivables	8,130	5,059
Prepayments	4,771	3,508
Total trade, other receivables and prepayments	**24,739**	**14,959**

	For the 52-week period ended December 30, 2018	For the 52-week period ended December 31, 2017
Movements in the provision for impairment of trade receivables		
Opening balance	715	427
Provisions made during the period	675	454
Utilization of the impairment provision	(78)	(166)
Closing balance	**1,312**	**715**

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

The establishment and release of the provision for impaired trade receivables have been included within general and administrative expenses in the consolidated statements of income. Amounts charged to the provision are based on the Company's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and their economic environment. The other classes within trade and other receivables do not contain impaired assets and accordingly, no amounts were written off during the period.

4. Property, plant and equipment

	Equipment	Furniture and fixtures	Vehicles	Leasehold improvements	Computer hardware and software	Company-owned restaurant assets	Total
52-week period ended December 30, 2018							
Opening net book value	1,841	53	11	878	752	9,625	13,160
Additions	258	253	595	309	284	1,969	3,668
Disposals	(10)	(8)	-	-	-	(601)	(619)
Depreciation charge	(389)	(24)	(4)	(374)	(398)	(3,013)	(4,202)
Closing net book value	**1,700**	**274**	**602**	**813**	**638**	**7,980**	**12,007**
Cost	13,048	1,151	1,294	7,708	15,461	27,391	66,053
Accumulated depreciation	(11,348)	(877)	(692)	(6,895)	(14,823)	(19,411)	(54,046)
Net book value	**1,700**	**274**	**602**	**813**	**638**	**7,980**	**12,007**

	Equipment	Furniture and fixtures	Vehicles	Leasehold improvements	Computer hardware and software	Company-owned restaurant assets	Total
52-week period ended December 31, 2017							
Opening net book value	1,642	44	16	679	943	8,536	11,860
Additions	671	18	-	492	198	4,098	5,477
Disposals	(22)	-	(2)	-	-	(286)	(310)
Depreciation charge	(450)	(9)	(3)	(293)	(389)	(2,723)	(3,867)
Closing net book value	**1,841**	**53**	**11**	**878**	**752**	**9,625**	**13,160**
Cost	15,628	1,142	489	10,353	14,761	26,577	68,950
Accumulated depreciation	(13,787)	(1,089)	(478)	(9,475)	(14,009)	(16,952)	(55,790)
Net book value	**1,841**	**53**	**11**	**878**	**752**	**9,625**	**13,160**

Depreciation in the amount of $132 for the 52-week period ended December 30, 2018 (52-week period ended December 31, 2017 - $572) has been recovered from franchisees. Accumulated depreciation of $551 on disposals (December 31, 2017 - $76) has been removed from accumulated depreciation on property plant and equipment as at December 31, 2017. During the 52-week period ended December 30, 2018, PPL transferred assets between classes and wrote off fully depreciated assets and the associated accumulated amortization in the amount of $5,936 (52-week period ended December 31, 2017- $0)

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

5. Notes receivable

	As at December 30, 2018	As at December 31, 2017
From franchisees, bearing interest from 5% to 9% (December 31, 2017 – 5% to 9%)	12,224	9,365
From franchisees, non-interest bearing	2,245	4,753
Less: provision for impairment of notes receivable	(862)	(862)
Total notes receivable	**13,607**	**13,256**

The notes receivable from franchisees are unsecured and are repayable in varying monthly principal amounts. The effective interest rate on the notes receivable as at December 30, 2018 is 6.87% (December 31, 2017 – 6.6%).

	For the 52-week period ended December 30, 2018	For the 52-week period ended December 31, 2017
Movements in the provision for impairment of notes receivable		
Opening balance	862	1,013
Provisions made during the period	-	-
Utilization of the impairment provision	-	(151)
Closing balance	**862**	**862**

6. Renovation funds

The renovation funds are non-interest bearing and are collected from franchisees on a monthly basis at amounts based on a percentage of sales.

7. Investment in Pizza Pizza Royalty Limited Partnership

a) PPL owns Class B and Class D Partnership Units that are exchangeable for PPRC shares based on the Exchange Multiplier applicable at the exchange date and represent an effective 22.3% interest in the Partnership as at December 30, 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 52-week period ended December 30, 2018	For the 52-week period ended December 31, 2017
Balance – beginning of period	23,877	23,648
Equity income of the Partnership	7,147	6,952
Distributions received from Partnership	(7,555)	(6,963)
Share of Partnership other comprehensive income	45	240
Balance – end of period	**23,514**	**23,877**

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 under each Licence and Royalty Agreement as well as perform the administration of PPRC pursuant to the Administration Agreement.

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

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

	As at December 30, 2018	As at December 31, 2017
Total assets	354,864	348,597
Total liabilities	76,078	77,295

	For the 52-week period ended December 30, 2018	For the 52-week period ended December 31, 2017
Revenue	35,408	35,614
Profit for the period	33,570	34,037

b) 2017 Royalty Pool Adjustment – Class B Exchange Multiplier

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.

c) 2017 Royalty Pool Adjustment – Class D Exchange Multiplier

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.

d) 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. See Subsequent Events – Note 27.

e) 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 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. See Subsequent Events – Note 27.

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

f) PPRC 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 restaurant sales and other adjustments) are 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. See Subsequent Events – Note 27.

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. See Subsequent Events – Note 27.

After giving effect to PPL's entitlement to additional equivalent Shares at January 1, 2018, PPL owns equivalent Shares representing 22.3% of the Company'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 December 30, 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%

8. Investment in jointly-controlled companies

Jointly-controlled companies are joint ventures, consisting of PPL's 50% interest in 81 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.
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.

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

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

	For the 52-week period ended December 30, 2018	For the 52-week period ended December 31, 2017
Balance – beginning of period	18,929	19,235
Equity income from jointly-controlled companies	4,553	4,871
Dividends received from jointly-controlled companies	(4,858)	(5,177)
Balance – end of period	**18,624**	**18,929**

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

	For the 52-week period ended December 30, 2018	For the 52-week period ended December 31, 2017
Revenue	40,212	40,684
Expenses	(35,659)	(35,813)
Income for the period after income taxes	**4,553**	**4,871**

9. Intangible assets

	Computer software	Total
52-week period ended December 30, 2018		
Opening net book value	3,891	3,891
Additions	1,605	1,605
Amortization charge	(759)	(759)
Closing net book value	**4,737**	**4,737**
As at December 30, 2018		
Cost	5,496	5,496
Accumulated amortization	(759)	(759)
Net book value	**4,737**	**4,737**
52-week period ended December 31, 2017		
Opening net book value	41	41
Additions	3,891	3,891
Amortization charge	(41)	(41)
Closing net book value	**3,891**	**3,891**
As at December 31, 2017		
Cost	5,873	5,873
Accumulated amortization	(1,982)	(1,982)
Net book value	**3,891**	**3,891**

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

Amortization in the amount of $ 528 (52-week period ended December 31, 2017 - $40) for the 52-week period ended December 30, 2018 has been recovered from franchisees. During the 52-week period ended December 30, 2018 $1,919 of fully depreciated assets and the associated accumulated depreciation were written off.

10. Trade and other payables

	As at December 30, 2018	As at December 31, 2017
Trade payables and accruals	34,966	39,950
Sales tax payable	6,790	7,409
Other payables	6,938	5,337
Total trade and other payables	**48,694**	**52,696**

11. Borrowings

	As at December 30, 2018	As at December 31, 2017
Notes payable, bearing interest from 5.3% to 7.5%, repayable in varying monthly principal amounts, maturing between 2019 and 2023. These notes were secured by specific company-owned restaurant assets. The effective interest rate as at December 31, 2018 was 5.94% (December 31, 2017 – 5.87%).	692	1,034
	692	**1,034**
Less: current portion	(220)	(474)
Total non-current borrowings	**472**	**560**

12. Provisions

The provision for onerous leases represents the liability for the leased premises that are either vacant or subleased 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 52-week period ended December 30, 2018	For the 52-week period ended December 31, 2017
Movements in the provision for onerous leases		
Opening balance	1,328	489
Arising during the period	795	1,270
Reversals	(647)	(52)
Utilized during the period	(402)	(466)
Imputed interest	93	88
Closing balance	**1,167**	**1,328**

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

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

13. Deferred gain

The deferred gain arose following the sale of the Pizza Pizza Rights and Marks to the Partnership following the initial public offering of the Fund. Concurrent with the sale, PPL entered into a 99-year License and Royalty Agreement with the Partnership, whereby PPL has the right to use the Rights and Marks and pays a royalty equal to 6% of the total system sales of restaurants in the Royalty Pool. The deferred gain is being amortized on a straight-line basis over the term of the License and Royalty Agreement.

The movement in the deferred gain balance during each period is as follows:

	For the 52-week period ended December 30, 2018	For the 52-week period ended December 31, 2017
Balance – beginning of period	201,549	203,879
Amortization for the period	(2,330)	(2,330)
Balance – end of period	**199,219**	**201,549**

A summary of the deferred gain and accumulated amortization at the end of each period is as follows:

	As at December 30, 2018	As at December 31, 2017
Deferred gain	230,675	230,675
Accumulated amortization	(31,456)	(29,126)
Balance – end of period	**199,219**	**201,549**

14. Income taxes

The components of the income tax (expense) recovery are as follows:

	For the 52-week period ended December 30, 2018	For the 52-week period ended December 31, 2017
Current income tax recovery	-	1,524
Deferred tax recovery (expense)	(33)	3,663
Income tax recovery (expense)	**(33)**	**5,187**

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

The reconciliation to the statutory tax rate is as follows:

	For the 52-week period ended December 30, 2018	For the 52-week period ended December 31, 2017
Income (loss) for the period before income taxes	1,418	(11,382)
Combined Canadian federal and provincial rates	26.59%	26.59%
Computed expected income tax recovery (expense)	**(377)**	**3,026**
Equity income from jointly-controlled companies	1,211	1,295
Rate differential	(858)	813
Permanent adjustments	67	(52)
Other	58	105
Income tax recovery (expense)	**(33)**	**5,187**

The deferred tax asset arises as a result of the temporary difference between the accounting and tax basis on the Rights and Marks, deferred financing fees and cash flow hedge as shown below.

	As at December 30, 2018	As at December 31, 2017
Property, plant and equipment	(1,326)	(1,136)
Intangible assets	(188)	12
Pizza Pizza Royalty Limited Partnership	(9,516)	(8,528)
Deferred gain	52,853	53,572
Donations	78	34
Provisions and other	310	353
Unearned vendor allowance	1,440	-
Non-capital losses carried forward	4,964	4,021
Ontario Corporate Minimum Tax	491	491
Share of cash flow hedge of Partnership	(10)	(9)
IFRS 15 Adjustments	492	-
Employee benefits	223	381
Deferred tax asset	**49,811**	**49,191**

15. Commitments and contingencies

Commitments

Future minimum lease payments for marketing sponsorships, vehicles, and lease premises with related and non-related entities, are as follows:

	Third parties	Related parties
Not later than 1 year	30,680	1,270
Later than 1 year and no later than 5 years	71,806	1,911
Later than 5 years	19,943	414

During the 52-week period ended December 30, 2018, lease payments of approximately $25,380 (52-week period ended December 31, 2017 - $30,322) were recovered under sublease agreements with various franchised restaurants. These recoveries are offset against rent expense.

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

The amounts receivable under future committed subleases are as follows:

	Third parties	Related parties
Not later than 1 year	25,380	-
Later than 1 year and no later than 5 years	63,531	-
Later than 5 years	17,608	-

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 consolidated financial statements.

PPL has entered into an agreement with certain lenders to establish a line of credit of $31,780 (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 $3,178 (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 to 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 December 30, 2018, PPL was in compliance with these financial covenants.

16. Common shares and special voting shares

	As at December 30, 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
Total common shares and special voting shares	**200**	**200**

17. 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 shareholder 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.

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

18. Food sales

Food sales include the following:

	For the 52-week period ended December 30, 2018	For the 52-week period ended December 31, 2017
Food sales	166,710	172,803
Company-owned restaurant sales	14,199	15,211
Total food sales	**180,909**	**188,014**

19. Royalties, franchise fees and other revenue

Royalties, franchise fees and other revenue include the following:

	For the 52-week period ended December 30, 2018	For the 52-week period ended December 31, 2017
Royalties	25,121	25,205
Initial and renewal franchise fees(i)	1,781	1,764
Construction fees	850	1,109
Administration and accounting fees	2,797	2,739
Total royalties, franchise fees and other revenue	**30,549**	**30,817**

(i) The Company elected not to restate comparatives, under the modified retrospective approach upon transition to IFRS 15. Under the old method of accounting, 2018 initial and renewal franchise fees would have been $1,633 for the 52-week period ended.

20. Store service contributions and expenditures

Store service contributions include the following:

	For the 52-week period ended December 30, 2018
Advertising services	34,553
Order processing services	15,252
Commissary food services	34,719
Total store service contributions	**84,524**

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

Store service expenditures include the following:

	For the 52-week period ended December 30, 2018
Advertising services	34,406
Order processing services	15,506
Commissary food services	34,972
Total store service expenditures	**84,884**

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.

21. Expenses by nature

The following table summarizes significant general and administrative expenses:

	For the 52-week period ended December 30, 2018	For the 52-week period ended December 31, 2017
Depreciation of property, plant and equipment	4,072	3,305
Amortization of intangible assets	231	89
Operating lease payments	2,157	3,302
Provision for recoverable franchisee expenses	-	14,606
Company store expenses	11,573	11,130
Employee benefit expense	18,848	17,976

22. Related party transactions

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

	For the 52-week period ended December 30, 2018	For the 52-week period ended December 31, 2017
Rent expense(i)	2,475	2,589
Food purchases(i)	12,508	11,817
Recovery of expenses(i)	600	600
Administration and accounting fee revenue(ii)	2,727	2,739

(i) Transactions with commonly controlled companies
(ii) Transactions with jointly-controlled companies

As at December 30, 2018, PPL has trade payables of $650 (as at December 31, 2017 - $935) payable to a company under common management control. As at December 30, 2018, trade and other payables includes amounts payable of $2,463 (as at December 31, 2017 - $2,519) to the Partnership, which were paid subsequent to the end of the period.

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

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

	As at December 30, 2018	As at December 31, 2017
Receivables from jointly-controlled companies	3,517	3,275
Advances from related party	(13,548)	(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 December 31, 2019. Accordingly, the advances from related party have been classified as long-term.

Key management compensation

The compensation expense or amounts payable to management, including officers and directors, is shown below:

	For the 52-week period ended December 30, 2018	For the 52-week period ended December 31, 2017
Salaries and other short-term employee benefits	2,385	3,343
Other long-term benefits	419	226
Total key management compensation	**2,804**	**3,569**

23. Segmented information

Operating segments are defined as components of an enterprise about which discrete separate financial information is available and which is 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 consolidated statements of financial position and the consolidated statements of income. This column represents adjustments required to account for joint ventures under IFRS 11.

For the 52-week period ended December 30, 2018	Eastern	Western	Eliminations	Total
Food sales	180,909	40,212	(40,212)	180,909
Royalties, franchise fees and other revenue	27,289	3,260	-	30,549
Interest and other income	924	35	(35)	924
Cost of food sales	146,376	15,874	(15,874)	146,376
General and administrative expenses	41,113	21,242	(18,989)	43,366
Equity income from jointly-controlled companies	-	-	4,553	4,553
Interest on borrowings	63	12	(12)	63
Income (loss) for the period before income taxes	3,740	3,051	(5,373)	1,418
Segment income (loss) for the period	3,706	2,232	(4,553)	1,385

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

For the 52-week period ended December 31, 2017	Eastern	Western	Eliminations	Total
Food sales	188,014	40,647	(40,647)	188,014
Royalties, franchise fees and other revenue	27,503	3,314	-	30,817
Interest and other income	1,186	37	(37)	1,186
Cost of food sales	150,998	16,374	(16,374)	150,998
General and administrative expenses	56,925	20,793	(18,736)	58,982
Equity income from jointly-controlled companies	-	-	4,871	4,871
Interest on borrowings	35	7	(7)	35
Income (loss) for the period before income taxes	(9,858)	4,043	(5,567)	(11,382)
Segment income (loss) for the period	(4,671)	3,347	(4,871)	(6,195)

24. Statements of cash flows information

Changes in non-cash working capital are as follows:

	For the 52-week period ended December 30, 2018	For the 52-week period ended December 31, 2017
Trade and other receivables	(9,780)	2,948
Inventories	(1,678)	443
Income taxes recoverable	1,466	3,544
Receivables from jointly-controlled companies	(242)	(573)
Recoverable franchisee expenses	-	3,149
Trade and other payables	(3,696)	8,774
Income taxes payable	-	-
Deposits from franchisees	1,095	(2,071)
	(12,835)	16,214

	For the 52-week period ended December 30, 2018	For the 52-week period ended December 31, 2017
Interest paid	63	35
Income taxes paid	-	-

25. 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, other receivables and prepayments 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.

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

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 December 30, 2018 of 5.10% (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 December 30, 2018 of prime plus a spread varying by loan (December 31, 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.

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

		As at December 30, 2018		As at December 31, 2017	
	Category	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Cash and cash equivalents	L&R	4,818	4,818	12,758	12,758
Trade and other receivables	L&R	24,739	24,739	14,959	14,959
Notes receivable	L&R	13,607	12,755	13,256	12,379
Trade and other payables	OFL	48,694	48,694	52,696	52,696
Borrowings	OFL	692	614	1,034	930

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.

Please refer to note 2 for PPL's accounting policy on impairment of the receivables. Additionally, a reconciliation of the provision for impairment of trade, other receivables and prepayments is shown in note 3 and a reconciliation of the provision for notes receivable is shown in note 5.

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

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

	As at December 30, 2018	As at December 31, 2018
Past due 0-30 days	1,180	880
Past due 31-120 days	504	837
Total trade receivables past due, but not impaired	**1,684**	**1,717**

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 that 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 December 30, 2018:

	Carrying amount	0 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
Trade and other payables	48,694	48,694	-	-	-
Deposits from franchisees	1,510	1,510	-	-	-
Borrowings	692	220	472	-	-
Advances from related party	13,548	-	13,548	-	-

Interest Rate Risk

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

26. Seasonality

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

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

27. Subsequent events

The chart below shows the Company shares that would be outstanding if all of the Class B and Class D Units held by PPL were converted to Company shares after accounting for their respective multipliers and adjustments as described below.

Shares outstanding & issuable on January 1, 2019		
Shares outstanding		24,618,392
Class B equivalent Shares held by PPL at December 31, 2018	5,018,210	
PPL additional Class B equivalent Shares - True-up Holdback as at December 31, 2018	-	
Additional PPL Class B equivalent Shares as of January 1, 2019	150,398	5,168,608
Class D equivalent Shares held by PPL at December 31, 2018	2,029,401	
PPL additional Class D equivalent Shares - True-up Holdback as at December 31, 2018	98,380	
Additional PPL Class D equivalent Shares as of January 1, 2019	52,925	2,180,706
Number of fully diluted shares		31,967,706
		23.0%

a. 2018 Royalty Pool Adjustment

In early January 2019, adjustments to royalty payments and PPL's Class B Exchange Multiplier were made based on the actual performance of the 17 new restaurants added to the Royalty Pool on January 1, 2018. As a result of the adjustments, the Class B Exchange Multiplier remains unchanged at 2.000691 and Class B Units can be exchanged for 5,018,210 shares effective January 1, 2018.

In early January 2019, adjustments to royalty payments and PPL's Class D Exchange Multiplier were made based on the actual performance of the eight Pizza 73 restaurants added to the Royalty Pool on January 1, 2018. As a result of the adjustments, the Class D Exchange Multiplier is 21.27782 and Class D Units can be exchanged for 2,127,782 shares effective January 1, 2018.

b. 2019 Royalty Pool Adjustment – Class B Exchange Multiplier

On January 1, 2019, eight net Pizza Pizza restaurants were added to the Royalty Pool as a result of 18 new restaurants opening and 10 closing from January 1, 2018 to December 31, 2018. The total number of Pizza Pizza restaurants in the Royalty Pool has increased to 660. The additional system sales from the 18 new restaurants are estimated at $5,860 annually, less sales of $2,135 from 10 permanently closed Pizza Pizza restaurants, resulting in net estimated Pizza Pizza sales of $3,725 added to the Royalty Pool. The yield of the shares was determined to be 9.5% calculated using $9.05 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, 2019. 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 0.059961; the new Class B Multiplier is 2.060652. 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, 2019, once the actual performance of the new restaurants is determined in early 2020.

c. 2019 Royalty Pool Adjustment – Class D Exchange Multiplier

On January 1, 2019, six net Pizza 73 restaurants were added to the Royalty Pool as a result of seven new restaurants opening between September 2, 2017 and September 1, 2018 and one restaurant closing between January 1, 2018 and December 31, 2018. The forecasted additional system sales from the seven new restaurants are estimated at $2,472 annually, less $161 in system sales attributable to the one closed Pizza 73 restaurant. The net estimated sales were further reduced by $1,438 in system sales attributable to certain restaurants previously added to the Royalty Pool whose territory adjusted a previously existing restaurant; resulting in overall net estimated Pizza 73 sales of $873 added to the Royalty Pool. The total number of Pizza 73 restaurants in the Royalty Pool has increased to 112. The yield of the shares was determined to be 9.5% calculated using $9.05 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, 2019. 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 0.52925; the new Class D Multiplier is 21.80706. 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, 2019, once the actual performance of the new restaurants is determined in early 2020.

d. Pizza Pizza Royalty Corp. Outstanding Shares

In exchange for adding the forecasted Pizza Pizza system sales to the Royalty Pool, PPL has received 150,398 additional equivalent Shares (through the change to the Class B Exchange Multiplier). These represent 80% of the forecasted equivalent Shares entitlement to be received (187,997 equivalent Shares represent 100%), with the final equivalent Shares entitlement to be determined when the new restaurants' 2019 actual sales performance is known with certainty in early 2020.

In exchange for adding the forecasted Pizza 73 system sales to the Royalty Pool, PPL has received 52,925 additional equivalent Shares (through the change to the Class D Exchange Multiplier). These represent 80% of the forecasted equivalent Shares entitlement to be received (66,156 equivalent Shares represent 100%), with the final equivalent Shares entitlement to be determined when the new restaurants' 2019 actual sales performance is known with certainty in early 2020.

After giving effect to PPL's entitlement to additional equivalent Shares at January 1, 2019, PPL owns equivalent Shares representing 23.0% of the Company's fully diluted shares.