PIZZA PIZZA LIMITED

Unaudited Interim Condensed Consolidated Financial Statements

For the thirteen and twenty-six weeks ended July 3, 2016

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

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

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

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

Paul Goddard Chief Executive Officer	Curtis Feltner Chief Financial Officer

Pizza Pizza Limited
Unaudited Interim Consolidated Statements of Financial Position
As at July 3, 2016 and January 3, 2016
(Expressed in thousands of Canadian dollars)

	July 3, 2016 $	January 3, 2016 $
Assets		
Current assets		
Cash and cash equivalents	12,415	14,360
Short-term investment	10,000	23,000
Trade and other receivables (note 16)	12,549	12,688
Inventories	4,528	6,041
Income taxes receivable	58	-
Receivables from jointly-controlled companies (note 13)	952	1,182
Recoverable franchisee expenses	12,043	9,662
Total current assets	**52,545**	**66,933**
Non-current assets		
Property, plant and equipment	8,940	8,474
Notes receivable	12,914	12,304
Renovation funds	7,090	7,076
Deferred tax asset	46,090	46,489
Investment in Pizza Pizza Royalty Limited Partnership (note 3)	23,432	23,562
Investment in jointly-controlled companies (note 4)	18,679	18,937
Intangible assets	285	453
Total non-current assets	**117,430**	**117,295**
Total assets	**169,975**	**184,228**
Liabilities and shareholders' deficiency		
Current liabilities		
Trade and other payables (note 13)	35,745	43,490
Income taxes payable	-	7,651
Deposits from franchisees	2,360	2,370
Borrowings (note 5)	256	64
Provisions (note 6)	706	934
Total current liabilities	**39,067**	**54,509**
Non-current liabilities		
Borrowings (note 5)	566	357
Unearned vendor allowances	1,479	1,744
Advances from related party (note 13)	17,782	18,878
Leasehold inducements	10	10
Renovation funds	2,800	2,438
Deferred gain	205,044	206,209
Total non-current liabilities	**227,681**	**229,636**
Shareholders' deficiency		
Common shares and special voting shares (note 8)	-	-
Accumulated other comprehensive loss	(217)	(198)
Deficit	(96,556)	(99,719)
Total shareholders' deficiency	**(96,773)**	**(99,917)**
Total liabilities and shareholders' deficiency	**169,975**	**184,228**

Commitments and contingencies (note 7)

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.
Approved by the Directors on August 9, 2016.

Pizza Pizza Limited
Unaudited Interim Consolidated Statements of Income
For the 13-week and 26-week periods ended July 3, 2016 and June 28, 2015
(Expressed in thousands of Canadian dollars)

	For the 13-week period ended July 3, 2016	For the 13-week period ended June 28, 2015	For the 26-week period ended July 3, 2016	For the 26-week period ended June 28, 2015
Revenues				
Food sales (note 10)	46,527	45,785	93,397	90,712
Royalties, franchise fees and other revenue (note 11)	7,477	7,050	14,741	14,310
Total revenues	**54,004**	**52,835**	**108,138**	**105,022**
Cost of food sales	(37,689)	(36,735)	(75,198)	(72,494)
General and administrative expenses (note 12)	(10,090)	(10,860)	(20,158)	(20,478)
Royalty payments	(8,580)	(8,509)	(17,222)	(16,948)
Equity income from Pizza Pizza Royalty Limited Partnership (note 3)	1,580	1,269	3,173	3,193
Equity income from jointly controlled companies (note 4)	1,275	1,704	2,565	3,542
Gain on sale of Company-owned restaurants	245	43	331	131
Operating income (loss)	**745**	**(253)**	**1,629**	**1,968**
Interest and other income	341	479	745	1,010
Amortization of deferred gain	583	583	1,165	1,165
Gain on sale of Class B Partnership Units	-	7	-	28,970
Income from Class D vend-in	-	-	-	38
Interest on borrowings	(13)	(5)	(21)	(7)
Income for the period before income taxes	**1,656**	**811**	**3,518**	**33,144**
Current income tax recovery (expense)	210	287	58	(9,974)
Deferred tax recovery (expense)	(193)	251	(413)	3,323
Income for the period attributable to the shareholders	**1,673**	**1,349**	**3,163**	**26,493**

Pizza Pizza Limited
Unaudited Interim Consolidated Statements of Comprehensive Income
For the 13-week and 26-week periods ended July 3, 2016 and June 28, 2015
(Expressed in thousands of Canadian dollars)

	For the 13-week period ended July 3, 2016	For the 13-week period ended June 28, 2015	For the 26-week period ended July 3, 2016	For the 26-week period ended June 28, 2015
Income for the period	**1,673**	**1,349**	**3,163**	**26,493**
Other comprehensive income (loss)				
Items that may be reclassified subsequently to net income:				
Sale of Class B Partnership Units	-	-	-	59
Share of other comprehensive income (loss) of the Pizza Pizza Royalty Limited Partnership (note 3)	19	(40)	(26)	(33)
Deferred tax impact of share of other comprehensive income (loss) of Pizza Pizza Royalty Limited Partnership	(5)	11	7	9
Total comprehensive income attributable to shareholders	**1,687**	**1,320**	**3,144**	**26,528**

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

Pizza Pizza Limited
Unaudited Interim Consolidated Statements of Changes in Shareholders' Deficiency
For the 26-week periods ended July 3, 2016 and June 28, 2015
(Expressed in thousands of Canadian dollars)

	Common shares and special voting shares $	Accumulated other comprehensive income (loss) $	Deficit $	Total $
As at January 3, 2016	-	**(198)**	**(99,719)**	**(99,917)**
Comprehensive income (loss)				
Income for the 26-week period ended July 3, 2016	-	-	3,163	3,163
Share of other comprehensive loss on Pizza Pizza Royalty Limited Partnership's cash flow hedge	-	(26)	-	(26)
Tax effect of cash flow hedge	-	7	-	7
Total comprehensive income (loss)	-	(19)	3,163	3,144
As at July 3, 2016	**-**	**(217)**	**(96,556)**	**(96,773)**
As at December 28, 2014	**-**	**(192)**	**(88,911)**	**(89,103)**
Comprehensive income (loss)				
Income for the 26-week period ended June 28, 2015	-	-	26,493	26,493
Sale of Class B Partnership Units	-	59	-	59
Share of other comprehensive loss on Pizza Pizza Royalty Limited Partnership's cash flow hedge	-	(33)	-	(33)
Tax effect of cash flow hedge	-	9	-	9
Total comprehensive income		35	26,493	26,528
Transaction with shareholder				
Dividend paid to shareholder	-	-	(39,000)	(39,000)
As at June 28, 2015	**-**	**(157)**	**(101,418)**	**(101,575)**

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

Pizza Pizza Limited
Unaudited Interim Consolidated Statements of Cash Flows
For the 26-week periods ended July 3, 2016 and June 28, 2015
(Expressed in thousands of Canadian dollars)

	July 3, 2016 $	June 28, 2015 $
Operating activities		
Income for the period	3,163	26,493
Depreciation of property, plant and equipment	1,183	1,165
Amortization of intangible assets	168	204
Amortization of leasehold inducements	-	(1)
Amortization of unearned vendor allowances	(265)	(349)
Amortization of deferred gain	(1,165)	(1,165)
Provision for notes receivable	(101)	(294)
Net provisions during the period	(228)	(51)
Gain on sale of Company-owned restaurants	(331)	(131)
Net gain on sale of Class B Partnership Units	-	(28,904)
Income from Class D vend-in	-	(38)
Equity income from Pizza Pizza Royalty Limited Partnership (note 3)	(3,173)	(3,193)
Equity income from jointly controlled companies (note 4)	(2,565)	(3,542)
Deferred income tax expense (recovery)	406	(3,322)
	(2,908)	**(13,128)**
Changes in non-cash operating elements of working capital (note 15)	(15,963)	6,061
Cash used in operating activities	**(18,871)**	**(7,067)**
Investing activities		
Additions to property, plant and equipment	(2,368)	(3,529)
Proceeds from sale of Company-owned restaurants	1,055	1,454
Net proceeds from sale of Class B Partnership Units	-	39,906
Proceeds from Class D vend-in	-	322
Distributions from Pizza Pizza Royalty Limited Partnership (note 3)	3,277	3,631
Dividends from jointly-controlled companies (note 4)	2,818	3,584
Repayment of notes receivable	3,261	5,211
Issuance of notes receivable	(3,770)	(4,434)
Contributions to renovation funds	5,878	6,248
Disbursement from renovation funds	(5,530)	(6,704)
Redemption of short-term investments	13,000	-
Cash provided by investing activities	**17,621**	**45,689**
Financing activities		
Proceeds from borrowings	447	389
Repayments of borrowings	(46)	(160)
Advances from related party	9	39,175
Repayment of advances from related party	(1,105)	(34,778)
Dividend paid to shareholders	-	(39,000)
Cash used in financing activities	**(695)**	**(34,374)**
Increase (decrease) in cash and cash equivalents	**(1,945)**	**4,248**
Cash and cash equivalents, beginning of period	14,360	14,272
Cash and cash equivalents, end of period	**12,415**	**18,520**

See supplementary cash flow information (note 15).
The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

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

1. Nature of Business

Pizza Pizza Limited ("PPL" or the "Company"), a privately-held corporation incorporated by Articles of Incorporation under the *Business Corporations Act* (Canada) on December 27, 1989, operates in the food service industry primarily throughout Ontario and Alberta and primarily franchises and operates quick-service restaurant ("QSR") businesses under the brand names of Pizza Pizza and Pizza 73. PPL derives revenues from franchises through the sale of franchise restaurants, food, beverages and receipt of royalties. PPL also derives revenues from Company-owned and managed restaurants through sales to retail customers.

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

During the 26-week period ended July 3, 2016, PPL acquired five traditional franchises (26-week period ended June 28, 2015 – six) and franchised 13 traditional restaurants (26-week period ended June 28, 2015 – seven). Below are the number of traditional and non-traditional franchisees and licensees as at:

	July 3, 2016	June 28, 2015
Franchisees and licensees	662	651
Jointly controlled restaurants	75	73
Company-owned restaurants	9	15

2. Significant Accounting Policies

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

a) Fiscal year-end and interim period

PPL has a floating year-end on the Sunday closest to December 31; accordingly, interim periods consist of four 13-week periods with an additional week added to the last interim period every 5 to 6 years.

b) Basis of preparation

PPL prepares its unaudited interim condensed consolidated financial statements in accordance with IAS 34 – Interim Financial Reporting ("IAS 34"). Accordingly, these unaudited interim condensed consolidated financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements as at and for the 53-week period ended January 3, 2016.

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the unaudited interim condensed consolidated financial statements, were the same as those that applied to the Company's audited consolidated financial statements as at and for the 53-week period ended January 3, 2016.

The accounting policies adopted in the preparation of these unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual audited consolidated financial statements as at and for the 53-week period ended January 3, 2016.

The Directors approved the unaudited interim condensed consolidated financial statements on August 9, 2016, and have the power to amend the unaudited interim condensed consolidated financial statements once issued.

c) Changes in accounting policies and disclosure

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

IFRS 9, Financial Instruments ("IFRS 9")
IFRS 9, as issued in 2014, introduces new requirements for the classification and measurement of financial instruments, a new expected-loss impairment model that will require more timely recognition of expected credit losses and a substantially reformed model for hedge accounting, with enhanced disclosures about risk management activity. IFRS 9 also removes the volatility in profit or loss that was caused by changes in an entity's own credit risk for liabilities elected to be measured at fair value. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. PPL has not yet begun the process of evaluating the impact of this standard on its consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")
In May 2014, the IASB issued IFRS 15, which covers principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. On July 22, 2015, the IASB confirmed a one-year deferral of the effective date of the revenue standard to January 1, 2018. PPL is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

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

d) Basis of consolidation

These unaudited interim condensed consolidated financial statements incorporate the assets and liabilities of PPL and its subsidiaries as at July 3, 2016 and January 3, 2016 and the results of these entities for the 13-week and 26-week periods ended July 3, 2016 and June 28, 2015, respectively.

PPL consolidates the results of its investments over which it exercises control. Specifically, an investor controls an investee when it has power over the investee, it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date on which control is transferred to PPL and de-consolidated from the date that control ceases. Inter-entity transactions, balances and unrealized gains/losses on transactions between entities are eliminated. On May 1, 2016, PPL sold 50% of its ownership in a Pizza 73 restaurant, converting the restaurant from a corporately owned company to jointly controlled company, and therefore no longer consolidates the results of that restaurant effective May 1, 2016.

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 20.4% (January 3, 2016 – 28.0%) 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 20.4% 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.

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

PPL assesses at each period-end whether there is any objective evidence that its interest in the Partnership is impaired. If impaired, the carrying value of PPL's share of the underlying assets of the Partnership is written down to its estimated recoverable amount, being the higher of fair value less cost to sell and value in use, and the write-down is charged to the unaudited interim consolidated statements of income.

Investments in joint ventures

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

PPL accounts for its 50% (January 3, 2016 – 50%) share interest in the 75 jointly controlled companies as an investment in joint ventures and applies equity accounting whereby PPL's investment is increased by its 50% share of income for the period of the joint ventures and reduced for distributions received during the joint ventures' fiscal period. The jointly controlled companies' financial and fiscal periods differ from PPL's, as the joint ventures have a floating year-end of the Saturday immediately preceding July 31.

PPL assesses at each period-end whether there is any objective evidence that its interest in the joint ventures is impaired. If impaired, the carrying value of PPL's share of the underlying assets of the joint ventures is written down to its estimated recoverable amount, being the higher of fair value less cost to sell and value in use, and the write-down is charged to the unaudited interim consolidated statements of income.

3. Investment in Pizza Pizza Royalty Limited Partnership

a) PPL owns Class B and Class D Partnership Units that are exchangeable for Pizza Pizza Royalty Corp. ("PPRC") Shares based on the exchange multiplier applicable at the exchange date and represent an effective 20.4% interest in the Partnership as at July 3, 2016 (January 3, 2016 – 20.4%).

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

	For the 26-week period ended July 3, 2016	For the 53-week period ended January 3, 2016
Balance – beginning of period	23,562	34,874
Equity income of the Partnership	3,173	6,483
Distributions received from Partnership	(3,277)	(6,764)
Share of Partnership other comprehensive loss	(26)	(88)
Disposal of Class B Partnership Units	-	(10,943)
Balance – end of period	**23,432**	**23,562**

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

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

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

	As at June 30, 2016	As at December 31, 2015
Total assets	344,082	341,357
Total liabilities	80,738	81,282

	For the 13-week period ended July 3, 2016	For the 13-week period ended June 28, 2015	For the 26-week period ended July 3, 2016	For the 26-week period ended June 28, 2015
Revenues	8,580	8,509	17,222	16,948
Profit for the period	8,200	6,815	16,466	14,703

b) PPRC Outstanding Shares

In exchange for adding the forecasted Pizza Pizza system sales to the Royalty Pool, PPL has received 54,001 additional equivalent Shares (through the change to the Class B Exchange Multiplier). These represent 80% of the forecasted equivalent Shares entitlement to be received (67,501 equivalent Shares represent 100%), with the final equivalent Shares entitlement to be determined when the new restaurants' 2016 actual sales performance is known with certainty in early 2017.

In exchange for adding the forecasted Pizza 73 system sales to the Royalty Pool, PPL has received 35,975 additional equivalent Shares (through the change to the Class D Exchange Multiplier). These represent 80% of the forecasted equivalent Shares entitlement to be received (44,969 equivalent Shares represent 100%), with the final equivalent Shares entitlement to be determined when the new restaurants' 2016 actual sales performance is known with certainty in early 2017.

After giving effect to PPL's entitlement to additional equivalent Shares as at July 3, 2016, PPL owns equivalent Shares representing 20.4% of the Partnership's fully diluted shares.

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

Shares outstanding & issuable on July 3, 2016		
Shares outstanding		24,618,392
Class B equivalent Shares held by PPL at December 31, 2015	4,487,900	
PPL additional Class B equivalent Shares - True-up Holdback as at December 31, 2015	17,641	
Additional PPL Class B equivalent Shares as of January 1, 2016	54,001	4,559,542
Class D equivalent Shares held by PPL at December 31, 2015	1,636,233	
PPL additional Class D equivalent Shares - True-up Holdback as at December 31, 2015	71,099	
Additional PPL Class D equivalent Shares as of January 1, 2016	35,975	1,743,307
Number of fully diluted shares		30,921,241
PPL's proportion of all shares outstanding and available for exchange		20.4%

c) 2016 Royalty Pool Adjustment – Class B Exchange Multiplier

On January 1, 2016, six net Pizza Pizza restaurants were added to the Royalty Pool as a result of 24 new restaurants opening and 18 closing from January 1, 2015 to December 31, 2015. The additional system sales from the 24 new restaurants are estimated at $4,887 annually less sales of $3,630 from 18 permanently closed Pizza Pizza restaurants resulting in net estimated Pizza Pizza sales of $1,257 added to the Royalty Pool. The total number of Pizza Pizza restaurants in the Royalty Pool has increased to 636. The yield of the shares was determined to be 5.89% calculated using $13.85 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, 2016. 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 0.021529; the new Class B Multiplier is 1.817826. 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, 2016, once the actual performance of the new restaurants is determined in early 2017.

d) 2016 Royalty Pool Adjustment – Class D Exchange Multiplier

On January 1, 2016, the Pizza 73 Royalty Pool remained unchanged as a result of two new restaurants opening between September 2, 2014 and September 1, 2015 and two restaurants closing between January 1, 2015 and December 31, 2015. The forecasted additional system sales from the two new restaurants are estimated at $1,070 annually less $512 in system sales attributable to the two closed restaurant. The total number of Pizza 73 restaurants in the Royalty Pool remains at 100 for 2016. The yield of and the weighted average share price used in the calculation of the Class D multiplier is determined in the same manner as that of the Class B multiplier calculation at 5.89% and $13.85, respectively. 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 0.35975; the new Class D Multiplier is 17.43307. 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, 2016, once the actual performance of the new restaurants is determined in early 2017.

e) 2015 Royalty Pool Adjustment – Class B Exchange Multiplier

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, 2015. As a result of the adjustments, the new Class B Exchange Multiplier is 1.796297 and Class B Units can be exchanged for 4,505,541 shares, which is an increase of 17,641 shares, effective January 1, 2015.

f) 2015 Royalty Pool Adjustment – Class D Exchange Multiplier

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, 2015. As a result of the adjustments, the new Class D Exchange Multiplier is 17.07332 and Class D Units can be exchanged for 1,707,332 shares, which is an increase of 71,099 shares, effective January 1, 2015.

4. Investment in Jointly Controlled Companies

Jointly controlled companies are joint ventures, consisting of PPL's 50% interest in 75 Pizza 73 restaurants (January 3, 2016 – 74 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.

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

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

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

	For the 26-week period ended July 3, 2016	For the 53-week period ended January 3, 2016
Balance – beginning of period	18,937	18,818
Pizza 73 restaurant converted to jointly controlled	(5)	-
Equity income from jointly controlled companies	2,565	6,413
Dividends received from jointly controlled companies	(2,818)	(6,294)
Balance – end of period	**18,679**	**18,937**

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

	For the 13-week period ended July 3, 2016	For the 13-week period ended June 28, 2015	For the 26-week period ended July 3, 2016	For the 26-week period ended June 28, 2015
Revenue	9,970	10,961	20,140	22,288
Expenses	(8,695)	(9,257)	(17,575)	(18,746)
Income for the period after income tax	**1,275**	**1,704**	**2,565**	**3,542**

5. Borrowings

	As at July 3, 2016	As at January 3, 2016
Notes payable, bearing interest from 5.8% to 8%, repayable in varying monthly principal amounts, maturing between 2016 and 2019. These notes were secured by specific company-owned restaurant assets. The effective interest rate at July 3, 2016 was 6.5% (January 3, 2016 – 6.9%).	822	421
	822	**421**
Less: current portion	(256)	(64)
Total non-current borrowings	**566**	**357**

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

6. Provisions

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

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

	For the 26-week period ended July 3, 2016	For the 53-week period ended January 3, 2016
Movements in the provision for onerous leases		
Opening balance	934	475
Arising during the period	-	647
Utilized during the period	(316)	(245)
Imputed interest	88	57
Closing balance	**706**	**934**

7. Commitments and Contingencies

Commitments

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

	Third parties	Related parties
Not later than 1 year	28,292	2,055
Later than 1 year and no later than 5 years	79,236	6,108
Later than 5 years	19,732	8,496

During the 26-week period ended July 3, 2016, lease payments of approximately $11,764 (53-week period ended January 3, 2016 - $21,401) were recovered under sub-lease agreements with various franchised restaurants. These recoveries are offset against rent expense.

The amounts receivable under future committed subleases are as follows:

	Third parties	Related parties
Not later than 1 year	23,877	-
Later than 1 year and no later than 5 years	67,918	-
Later than 5 years	17,928	-

Contingencies

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

PPL has entered into an agreement with certain lenders to establish a line of credit of $33,730 (January 3, 2016 – $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 $3,373 (January 3, 2016 – $3,373). PPL has the right to increase the limit under these credit facilities by providing additional letters of credit.

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

As security for repayment of a borrowing facility held by the Partnership in the amount of $47,000, PPL has granted a continuing, general security interest, subject to certain exceptions, in all present and acquired property of PPL, which may not be assigned without the prior consent of PPL. With respect to the Partnership's borrowing facility, PPL must comply with certain financial covenants. As at July 3, 2016 and January 3, 2016, PPL was in compliance with these financial covenants.

8. Common Shares and Special Voting Shares

	As at July 3, 2016	As at January 3, 2016
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 voting shares	**200**	**200**

9. Capital Disclosures

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

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

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

10. Food Sales

Food sales include the following:

	For the 13-week period ended July 3, 2016	For the 13-week period ended June 28, 2015	For the 26-week period ended July 3, 2016	For the 26-week period ended June 28, 2015
Food sales	42,551	41,376	84,671	82,099
Company owned restaurant sales	3,976	4,409	8,726	8,613
Total food sales	**46,527**	**45,785**	**93,397**	**90,712**

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

11. Royalties, Franchise Fees and Other Revenue

Royalties, franchise fees and other revenue include the following:

	For the 13-week period ended July 3, 2016	For the 13-week period ended June 28, 2015	For the 26-week period ended July 3, 2016	For the 26-week period ended June 28, 2015
Royalties	5,896	5,651	11,952	11,385
Initial and renewal franchise fees	562	343	824	733
Construction fees	341	325	600	707
Administration and accounting fees	678	731	1,365	1,485
Total royalties, franchise fees and other revenue	**7,477**	**7,050**	**14,741**	**14,310**

12. Expenses by Nature

	For the 13-week period ended July 3, 2016	For the 13-week period ended June 28, 2015	For the 26-week period ended July 3, 2016	For the 26-week period ended June 28, 2015
Depreciation of property, plant and equipment	520	444	990	864
Amortization of intangible assets	40	43	79	86
Operating lease payments	812	743	1,512	1,431
Employee benefit expense	4,772	5,091	9,060	9,280

13. Related Party Transactions

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

	For the 13-week period ended July 3, 2016	For the 13-week period ended June 28, 2015	For the 26-week period ended July 3, 2016	For the 26-week period ended June 28, 2015
Rent expense(i)	644	761	1,303	1,357
Food purchases(i)	2,182	3,550	5,583	6,761
Recovery of expenses(i)	150	225	300	450
Administration and accounting fee revenue(ii)	678	731	1,365	1,485

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

As at July 3, 2016, PPL has trade payables of $732 (as at January 3, 2016 - $807) payable to a company under common management control.

As at July 3, 2016, PPL has included in trade and other payables amounts payable of $2,427 (as at January 3, 2016 - $2,790) to the Partnership, which were paid subsequent to the end of the period.

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

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

	As at July 3, 2016	As at January 3, 2016
Receivables from jointly-controlled companies	952	1,182
Advances from related party	(17,782)	(18,878)

Advances from related party are due to the parent company. Advances from related party and receivables from jointly-controlled companies are non-interest bearing, have no specified terms of repayment and are unsecured. The related party has waived the right to demand repayment prior to July 4, 2017. Accordingly, the advances from related party have been classified as long-term.

14. Segmented Information

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

For the 13-week period ended July 3, 2016	Eastern	Western	Eliminations	Total
Food sales	46,491	10,006	(9,970)	46,527
Royalties, franchise fees and other revenue	6,792	685	-	7,477
Interest and other income	292	57	(8)	341
Cost of food sales	37,673	4,148	(4,132)	37,689
General and administrative expenses	9,568	4,479	(3,957)	10,090
Equity income from jointly controlled companies	-	-	1,275	1,275
Interest on borrowings	13	3	(3)	13
Income for the period before income taxes	2,083	1,069	(1,496)	1,656
Segment income for the period	2,101	843	(1,271)	1,673
Property, plant and equipment additions	1,157	64	(64)	1,157

As at July 3, 2016				
Total assets	144,151	28,562	(2,738)	169,975
Intangible assets	116	169	-	285

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

For the 13-week period ended June 28, 2015	Eastern	Western	Eliminations	Total
Food sales	45,656	11,090	(10,961)	45,785
Royalties, franchise fees and other revenue	6,318	732	-	7,050
Interest and other income	415	65	(1)	479
Cost of food sales	36,680	4,561	(4,506)	36,735
General and administrative expenses	9,994	5,318	(4,452)	10,860
Equity income from jointly controlled companies	-	-	1,704	1,704
Interest on borrowings	6	-	(1)	5
Income for the period before income taxes	1,187	1,627	(2,003)	811
Segment income for the period	1,724	1,330	(1,705)	1,349
Property, plant and equipment additions	2,272	23	(18)	2,277

As at January 3, 2016				
Total assets	157,963	29,300	(3,035)	184,228
Intangible assets	205	248	-	453

For the 26-week period ended July 3, 2016	Eastern	Western	Eliminations	Total
Food sales	93,238	20,299	(20,140)	93,397
Royalties, franchise fees and other revenue	13,370	1,371	-	14,741
Interest and other income	586	171	(12)	745
Cost of food sales	75,132	8,405	(8,339)	75,198
General and administrative expenses	19,012	9,540	(8,394)	20,158
Equity income from jointly controlled companies	-	-	2,565	2,565
Interest on borrowings	21	4	(4)	21
Income for the period before income taxes	4,380	2,158	(3,020)	3,518
Segment income for the period	4,025	1,703	(2,565)	3,163
Property, plant and equipment additions	2,359	129	(120)	2,368

For the 26-week period ended June 28, 2015	Eastern	Western	Eliminations	Total
Food sales	90,455	22,545	(22,288)	90,712
Royalties, franchise fees and other revenue	12,825	1,485	-	14,310
Interest and other income	852	162	(4)	1,010
Cost of food sales	72,388	9,243	(9,137)	72,494
General and administrative expenses	19,029	10,433	(8,984)	20,478
Equity income from jointly controlled companies	-	-	3,542	3,542
Interest on borrowings	7	2	(2)	7
Income for the period before income taxes	33,465	3,844	(4,165)	33,144
Segment income for the period	26,813	3,223	(3,543)	26,493
Property, plant and equipment additions	3,503	78	(52)	3,529

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

15. Statements of Cash Flows Information

Changes in non-cash working capital are as follows:

	For the 26-week period ended July 3, 2016	For the 26-week period ended June 28, 2015
Trade and other receivables	139	(1,011)
Inventories	1,513	2,907
Income taxes receivable	(58)	396
Receivables from jointly-controlled companies	230	263
Recoverable franchisee expenses	(2,381)	(165)
Trade and other payables	(7,745)	(6,291)
Income taxes payable	(7,651)	9,575
Deposits from franchisee	(10)	387
	(15,963)	6,061

16. Financial Risk Management

PPL's objective is to minimize risk with respect to financial instruments by monitoring the performance of its franchisees and jointly controlled companies, maintaining restaurants in different geographic regions and having the ability to assume the operations of franchisees for inadequate financial performance and/or default under the franchise agreement.

Fair Values

The carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables approximate fair values given the short-term maturity of these instruments and are level 3 instruments.

A reasonable estimate of fair value could not be made for receivables from jointly-controlled companies, advances from related party, recoverable franchisee expenses, renovation funds and deposits from franchisees as there are no fixed terms of repayment.

The fair value of the non-current notes receivable is based on the estimated future discounted cash flows using a comparable market rate of interest as at July 3, 2016 of 6.0% (January 3, 2016 – 6.5%).

The fair value of the borrowings is based on the estimated future discounted cash flows using a comparable market rate of interest as at July 3, 2016 of prime plus a spread varying by loan (January 3, 2016 - 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.

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

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

		As at July 3, 2016		As at January 3, 2016	
	Category	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Cash and cash equivalents	L&R	12,415	12,415	14,360	14,360
Trade and other receivables	L&R	12,549	12,549	12,688	12,688
Notes receivable	L&R	12,914	12,090	12,304	11,481
Trade and other payables	OFL	35,745	35,745	43,490	43,490
Borrowings	OFL	822	710	421	358

Financial instruments category guide:
L&R Loans and receivables
OFL Other financial liabilities

The different fair value hierarchy levels are as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical financial assets or financial liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the financial asset or financial liability, either directly or indirectly; and
- Level 3: Inputs for the financial asset or financial liability that are not based on observable market data.

Credit Risk

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

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

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

	As at July 3, 2016	As at January 3, 2016
Past due 0-30 days	1,006	1,176
Past due 31-120 days	901	1,115
Total trade receivables past due but not impaired	1,907	2,291

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

Liquidity Risk

PPL is subject to liquidity risk with respect to the items outlined in the table below. The risk is mitigated as the majority of PPL's revenue is earned from franchisees and jointly controlled companies, which have agreements with PPL and whose activities are closely monitored by PPL. In the case of franchisees, the majority of PPL's business, PPL is able to assume operations of the franchises if there is inadequate financial performance and/or default under the franchise agreement. Liquidity requirements are monitored by PPL's head office functions in order to guarantee effective access to financial resources.

Management believes that currently available funds and credit facilities, apart from those which will be generated by operating and financing activities, will allow PPL to satisfy its requirements for investment, working capital management, and borrowing repayment at maturity.

The following are the contractual undiscounted cash flows of financial liabilities as at July 3, 2016:

	Carrying amount	0 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
Trade and other payables	35,745	35,745	-	-	-
Deposits from franchisees	2,360	2,360	-	-	-
Borrowings	822	256	220	121	225
Advances from related party	17,782	-	17,782	-	-

Interest Rate Risk

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

17. Seasonality

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