

**RECIPE UNLIMITED CORPORATION**  
**Management's Discussion and Analysis**  
**For the 13 weeks ended June 28, 2020**

The following Management's Discussion and Analysis ("MD&A") for Recipe Unlimited Corporation ("Recipe" or the "Company") provides information concerning the Company's financial condition and results of operations for the 13 and 26 weeks ended June 28, 2020 and June 30, 2019 ("second quarter", "Q2", "the quarter" or "the period"). This MD&A should be read in conjunction with the Company's unaudited Condensed Consolidated Interim Financial Statements and accompanying notes as at June 28, 2020. The consolidated results from operations for the 13 and 26 weeks ended June 28, 2020 are compared to the 13 and 26 weeks ended June 30, 2019. Recipe's fiscal year ends on the last Sunday in December.

Some of the information contained in this MD&A contains forward-looking statements that involve risks and uncertainties. See "Forward-looking Statements" and "Risk and Uncertainties" for a discussion of the uncertainties, risks and assumptions associated with these statements. Actual results may differ materially from those indicated or underlying forward-looking statements as a result of various factors, including those described in "Risk and Uncertainties" and elsewhere in this MD&A.

This MD&A was prepared as at August 6, 2020. Additional information relating to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Basis of Presentation**

The Interim Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") and all amounts presented are in Canadian dollars unless otherwise indicated.

### **Impact of COVID-19**

In 2020 the Company was impacted by the COVID-19 pandemic and the corresponding government mandated closures of non-essential services in March 2020. As at June 28, 2020, 90.7% of restaurants locations (or 1,228 locations) were open or partially open for off-premise sales and/or patio dining, and 9.3% of our Canadian corporate and franchise restaurants (or 126 locations) remained completely closed. The Company's corporate and franchise restaurants have gradually re-opened or partially re-opened according to the staged approach as set out by the various Provincial governments and public health units. Based on this approach, as of August 6, 2020, all of our locations, with the exception of 18 restaurants in the Windsor-Essex region which remains in stage 2, were permitted to reopen with limited seating capacity. The government mandated closures or partial closures resulted in 11,538 operating weeks in the second quarter of 2020, compared to 16,859 operating weeks in the second quarter of 2019, representing a decrease of 31.6% (an "operating week" is defined as a calendar week where a location generates any sales). The Company's Retail and Catering divisions remained open throughout the pandemic as an essential service continuing to supply branded and private label products to grocery customers.

In response to the COVID-19 disruption, the Company temporarily closed its central office locations and implemented remote work from home protocols, focused on off-premise sales and delivery channels with revised menus, implemented e-commerce platform enhancements and opened a new "Ultimate Kitchen" to offer multi-brand off-premise choices for delivery to customers from a single kitchen. In conjunction with government wage subsidy programs available to the Company and to laid off employees, the Company laid off most restaurant level associates and adjusted the work and compensation arrangements for all central associates. For all corporate and franchise restaurants and central leases, the Company is continuing to negotiate rent deferral or reductions for the COVID-19 disruption period and is applying for CECRA rent subsidies with landlords where applicable.

The Company has taken a number of initiatives to provide direct support to its franchisee partners and the community during this crisis. The 2020 full year cost of these initiatives are expected to be approximately \$44.4 million, of which \$17.8 million was related to the second quarter. These initiatives include:

- The Company introduced a rent certainty program to assist its franchise partners with direct rent support through to the end of 2020. The full year cost estimate of the rent certainty program was recorded in the second quarter. The 2020 estimated cost of the rent certainty program is approximately \$35 million, of which \$14.1 million was related to the second quarter;

- The Company introduced a royalty reduction program to provide direct support to its franchise partners through to the end of 2020. The estimated cost of the royalty reduction program is approximately \$7.5 million, of which \$1.8 million was funded in the second quarter;
- The Company offered a pay premium to the employees that continued to work in our corporate restaurants during the pandemic. The cost of this initiative in the second quarter was approximately \$0.6 million;
- The Company offered a 50% discount for all of our first responders, hospital and police. The cost of this initiative in the second quarter was approximately \$0.5 million; and
- The Company funded \$0.8 million for the purchase of personal protective equipment for both Corporate and Franchise locations to ensure the health and safety of the Company's and franchisees' employees and customers.

The government of Canada has announced additional assistance programs available to the Company and franchise partners. During the second quarter, the Company received \$25.3 million in government wage assistance. These government assistance programs include:

- The government announced a wage subsidy program (CEWS) available to the Company and its franchise partners. During the 13 weeks ended June 28, 2020, the Company received \$25.3 million of wage subsidies for salaries paid to employees in corporate restaurants, food manufacturing and head office locations; and
- The government announced a rent assistance program (CECRA) available in respect of certain franchise locations. The benefit of the government rent assistance program will be realized in the third and fourth quarters for restaurants that qualify and where landlords agree to participate in the program.

The Company has taken various actions to provide sufficient liquidity for the foreseeable future, including:

- On March 17, 2020 the Company drew \$300.0 million on its revolving credit facility to provide liquidity during the COVID-19 period, and subsequently repaid \$56.0 million in the second quarter. For franchise restaurants, the Company is working with each franchisee to arrange lender accommodations and expanded credit facilities;
- On May 7, 2020, the Company amended its lending covenants with its banking syndicate and Private Noteholders. The covenant amendments are effective through to the third quarter of 2021 and should provide adequate liquidity and covenant flexibility during the COVID-19 shutdown and recovery periods;
- The Company suspended its NCIB share buyback program;
- The Company suspended dividend payments for the balance of 2020; and
- The Company suspended many central, new store development and corporate store renovation plans.

As a result of these actions and careful working capital management, the Company's net cash outflow before debt repayment in the quarter was \$25.0 million and after repaying \$56.0 million of debt the Company finished the quarter with a \$231.1 million cash balance.

The Company implemented a number of cost savings measures that resulted in approximately \$2.1 million of cost reductions for the second quarter and \$2.6 million on an annualized basis. These cost savings measures included:

- Temporary salary reductions and the suspension of board fees, which resulted in \$2.1 million of cost savings; and
- During the second quarter of 2020, the Company eliminated 32 positions, which is expected to generate annual cost savings of approximately \$2.6 million.

While the actions taken to provide liquidity during the COVID-19 period are considered sufficient for the foreseeable future, the future effect of COVID-19 on the economy and businesses, in general, remains uncertain. The medium and long term impact to the Company from COVID-19 will depend on the financial solutions achieved with government, lenders, franchisees, and landlords, post COVID-19 consumer dining behaviors, and the macro impact on the overall economy, in particular household debt and levels of disposable income. Potential financial solutions which may be required include, but

are not limited to, obtaining sufficient financial support from government(s) for the Company and its franchisees, lenders, and obtaining rent relief from landlords.

### Highlights for the 13 and 26 weeks ended June 28, 2020:

- System Sales<sup>(1)</sup> for the 13 weeks ended June 28, 2020 decreased \$481.5 million to \$389.8 million compared to \$871.3 million in 2019, representing a decrease of 55.3%. The decrease in System Sales is primarily related to a decline in restaurant sales as a result of the government mandated restaurant closures during the quarter, partially offset by sales increases in the Retail and Catering segment. System Sales<sup>(1)</sup> for the 26 weeks ended June 28, 2020 decreased \$585.0 million to \$1,137.0 million compared to \$1,722.0 million in 2019, representing a decrease of 34.0%. Management will not be reporting and commenting on Same Restaurant Sales ("SRS")<sup>(1)</sup> because the Company's definition of SRS and method that it is calculated does not represent a true reflection of actual performance. Total System Sales changes will be more relevant in this and subsequent quarters.
- Gross revenues for the 13 weeks ended June 28, 2020 was \$140.4 million compared to \$311.9 million, a decrease of \$171.5 million or 55.0%. Gross revenues for the 26 weeks ended June 28, 2020 was \$410.3 million compared to \$616.5 million, a decrease of \$206.2 million or 33.4%. During the mandatory COVID-19 shutdown, the Company continues to generate revenues from its Retail and Catering segment selling product to grocery customers; sales from corporately owned restaurants and its catering segment with its off premise takeout and delivery options; royalties at reduced rates from franchised restaurants also open with off premise options; plus fees from the Company's off-premise call centre business.
- Off-premise System Sales for the 13 weeks ended June 28, 2020 was \$123.7 million compared to \$79.7 million, an increase of \$44.0 million or 55.1%. The number of off-premise orders for the 13 weeks ended June 28, 2020 was 6,819,853, compared to 4,781,548, an increase of 2,038,305 orders or 43%. The increase in off-premise orders reflects a change in consumer behaviour during the COVID-19 disruption period. This change in consumer behaviour is expected to continue and the Company is well positioned with certain brands to build on its off-premise channels because of its established IT platforms.
- Contribution from Retail and Catering for the 13 weeks ended June 28, 2020 was \$14.8 million compared to \$7.2 million in 2019, an increase of \$7.6 million or 105.6%. Contribution from Retail and Catering for the 26 weeks ended June 28, 2020 was \$22.6 million compared to \$15.4 million in 2019, an increase of \$7.2 million or 46.8%. The increase was driven by increased sales to retail grocery customers at higher gross margin rates after the benefit and wage subsidies.
- Operating EBITDA<sup>(1)</sup> for the 13 weeks ended June 28, 2020 decreased to \$15.6 million compared to \$56.0 million in 2019, a decrease of \$40.4 million or 72.1%. Operating EBITDA<sup>(1)</sup> for the 26 weeks ended June 28, 2020 decreased to \$36.3 million compared to \$106.1 million in 2019, a decrease of \$69.8 million or 65.8%. The decrease for the quarter and year-to-date was primarily driven by the impact of COVID-19, which reflects the decline in System Sales as a result of mandatory restaurant closures. The net decrease in operating EBITDA was partially offset by lower SG&A costs as a result of mandatory restaurant closures, government wage subsidies, and various cost saving measures (including temporary suspension of new store development and renovation plans, temporary salary reductions, acceleration of planned closures of underperforming restaurants, and permanent headcount reductions) implemented by the Company.
- Operating EBITDA Margin on System Sales<sup>(1)</sup> for the 13 weeks ended June 28, 2020 was 4.0% compared to 6.4% in 2019. Operating EBITDA Margin on System Sales<sup>(1)</sup> for the 26 weeks ended June 28, 2020 was 3.2% compared to 6.2% in 2019. The change in margin rate was primarily driven by System Sales declines as a result of COVID-19.
- At the end of the first quarter, the Company opened its first Ultimate Kitchen concept in Toronto. The Ultimate Kitchen is a delivery only concept offering customers greater choice from the ability to order from multiple brands on the same order or to simply order from a specific brand. The Ultimate Kitchen represents a significant opportunity for future growth and expansion for Recipe. It is on-point with the shift in consumer behaviour, and is a viable option for us to serve markets where it may otherwise be cost prohibitive to build a

traditional restaurant and its focus on a single channel will enable us to better serve our Guests while being profitable. The Company intends to open up to 4 Ultimate Kitchens in 2020.

- The Company continues to execute the planned closures of restaurants that no longer fit its long-term strategic plan. For the 13 weeks ended June 28, 2020, the Company successfully closed and exited 10 more restaurants, resulting in 28 restaurants being closed in 2020, including 7 corporate, 20 franchise and 1 joint venture locations.
- Net earnings (loss) was (\$40.6) million for the 13 weeks ended June 28, 2020 compared to \$16.6 million in 2019, representing a decrease of \$57.2 million. The \$57.2 million decrease was primarily driven by the decrease in Operating EBITDA of \$40.4 million, an impairment charge of \$47.4 million (primarily from the introduction of the Company's \$35 million rent certainty program), partially offset by an increase in fair value of Exchangeable Keg Partnership units of \$4.1 million and a decrease in net income tax expense of \$19.3 million.
- Net earnings (loss) was (\$81.8) million for the 26 weeks ended June 28, 2020 compared to \$39.3 million in 2019, representing a decrease of \$121.1 million. The \$121.1 million decrease was primarily driven by the decrease in Operating EBITDA of \$69.8 million, an impairment charge of \$63.7 million (due to COVID-19) and a decrease in fair value of Exchangeable Keg Partnership units of \$33.8 million, partially offset by a decrease in net income tax expense of \$36.7 million.
- Adjusted Basic EPS for the 13 weeks ended June 28, 2020 was \$0.11 compared to \$0.38 in 2019, a decrease of \$0.27 or 71.1%. Adjusted Diluted EPS for the 13 weeks ended June 28, 2020 was \$0.11 compared to \$0.37 in 2019, a decrease of \$0.26 or 70.2%.

Adjusted Basic EPS for the 26 weeks ended June 28, 2020 was \$0.24 compared to \$0.67 in 2019, a decrease of \$0.44 or 64.9%. Adjusted Diluted EPS for the 26 weeks ended June 28, 2020 was \$0.23 compared to \$0.65 in 2019, a decrease of \$0.42 or 64.3%.

- Free Cash Flow<sup>(1)</sup> before growth capex, dividends, and share repurchases under the Company's normal course issuer bid ("NCIB") for the 13 weeks ended June 28, 2020 was \$3.6 million compared to \$40.0 million in 2019. Free Cash Flow<sup>(1)</sup> before growth capex, dividends, and share repurchases under the Company's normal course issuer bid ("NCIB") for the 26 weeks ended June 28, 2020 was (\$0.5) million compared to \$75.5 million in 2019.
- Free Cash Flow<sup>(1)</sup> per share before growth capex, dividends, and NCIB on a diluted basis was \$0.06 for the 13 weeks ended June 28, 2020, compared to \$0.63 in 2019. Free Cash Flow<sup>(1)</sup> per share before growth capex, dividends, and NCIB on a diluted basis was (\$0.01) for the 26 weeks ended June 28, 2020, compared to \$1.18 in 2019.

<sup>(1)</sup> See "Non-IFRS Measures" on page 32 for definitions of Free Cash Flow, System Sales, SRS, Adjusted Net Earnings, Operating EBITDA, Operating EBITDA Margin on System Sales, and Adjusted EPS. See pages 8 and 32 for a reconciliation of Net Earnings to these Non-IFRS measures.

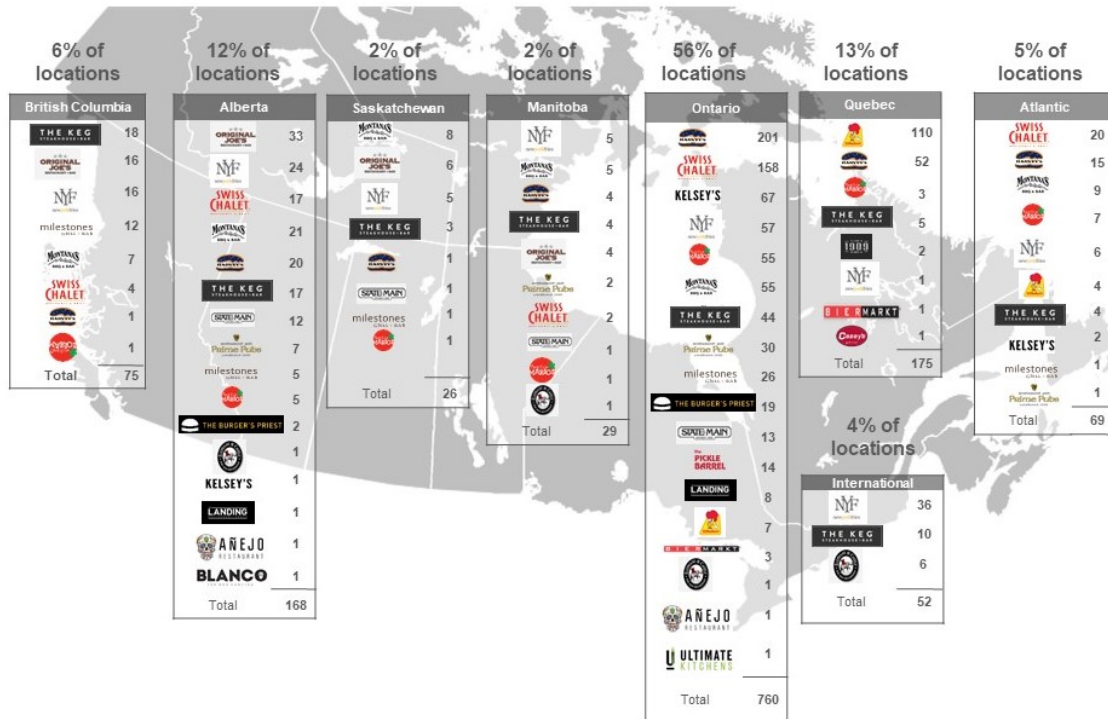
## Subsequent Events

Subsequent to June 28, 2020, the government of Canada announced the continuation of various assistance programs available to the Company and its franchise partners in response to COVID-19. In particular, on July 17, 2020, the government of Canada announced the extension of the Canada Emergency Wage Subsidy ("CEWS") program until December 19, 2020. In addition to applying for these government assistance programs, the Company has continued a number of cost reduction measures, including various overhead cost reductions, reductions to planned capital expenditures, suspension of dividends, and suspension of share repurchases. The Company also continues to work with its landlord partners to complete short term lease modifications in response to COVID-19.

The Company continues to review its portfolio of restaurants to maximize site potential, the quality of sales and profitability to the Company and franchisees. In some instances, the Company may buy back previously franchised restaurants to operate corporately or to permanently close. Subsequent to June 28, 2020, the Company completed seven buy backs of franchise restaurants at an aggregate cost of \$5.5 million.

## Overview

Recipe is a full service restaurant company that franchises and operates iconic restaurant brands. As at June 28, 2020, Recipe had 24 brands and 1,354 restaurants, 85% of which are operated by franchisees and joint venture partners, operating in 11 countries (Canada, USA, Bahrain, China, India, Macao, Oman, Panama, Qatar, Saudi Arabia and the UAE).



Unit count (unaudited)	As at June 28, 2020				As at December 29, 2019			
	Corporate	Franchise	Joint Venture	Total	Corporate	Franchise	Joint Venture	Total
Swiss Chalet	14	187	—	201	14	193	—	207
Harvey's	10	284	—	294	8	287	—	295
Montana's	5	100	—	105	5	100	—	105
Kelsey's	5	65	—	70	5	65	—	70
East Side Mario's <sup>(1)</sup>	4	69	—	73	3	72	—	75
Prime Pubs	3	37	—	40	3	38	—	41
Bier Markt	4	—	—	4	5	—	—	5
Milestones	26	17	2	45	26	16	2	44
Landing	9	—	—	9	9	—	—	9
New York Fries	17	133	—	150	17	140	—	157
St-Hubert	11	110	—	121	11	112	—	123
Original Joe's	16	29	14	59	17	29	14	60
State & Main	7	14	6	27	7	13	7	27
Elephant & Castle	8	1	—	9	8	1	—	9
Burger's Priest	—	—	21	21	—	—	21	21
1909 Taverne Moderne	—	—	2	2	—	—	2	2
Pickle Barrel	14	—	—	14	13	—	—	13
The Keg	49	56	—	105	49	58	—	107
Anejo	2	—	—	2	1	—	—	—
Blanco Cantina	1	—	—	1	1	—	—	—
Fresh	—	—	—	—	—	—	—	—
Casey's	—	1	—	1	—	1	—	1
Ultimate Kitchen	1	—	—	1	—	—	—	—
<b>Total restaurants</b>	<b>206</b>	<b>1,103</b>	<b>45</b>	<b>1,354</b>	<b>202</b>	<b>1,125</b>	<b>46</b>	<b>1,373</b>
	<b>15.2%</b>	<b>81.5%</b>	<b>3.3%</b>	<b>100.0%</b>	<b>14.7%</b>	<b>81.9%</b>	<b>3.4%</b>	<b>100.0%</b>

(1). Unit count excludes East Side Mario restaurants located in the United States.

## Selected Financial Information

The following table summarizes Recipe's System Sales Growth, number of restaurants, Selling, general and administrative expenses, Operating EBITDA, Operating EBITDA Margin, Operating EBITDA on System Sales, and Free Cash Flow.

(C\$ millions unless otherwise stated)	13 weeks ended		26 weeks ended	
	June 28, 2020	June 30, 2019	June 28, 2020	June 30, 2019
<b>System Sales</b> <sup>(1)</sup>	\$ 389.8	\$ 871.3	\$ 1,137.0	\$ 1,722.0
System Sales Growth <sup>(1)</sup>	(55.3)%	(0.3)%	(34.0)%	5.6 %
Number of corporate restaurants	206	209	206	209
Number of joint venture restaurants	45	46	45	46
Number of franchised restaurants	1,103	1,129	1,103	1,129
<b>Total number of restaurants (at period end)</b>	<b>1,354</b>	<b>1,384</b>	<b>1,354</b>	<b>1,384</b>
Total gross revenue	\$ 140.4	\$ 311.9	\$ 410.3	\$ 616.5
<b>Operating EBITDA</b> <sup>(1)</sup>	<b>\$ 15.6</b>	<b>\$ 56.0</b>	<b>\$ 36.3</b>	<b>\$ 106.1</b>
Operating EBITDA Margin <sup>(1)</sup>	11.1 %	18.0 %	8.8 %	17.2 %
Operating EBITDA Margin on System Sales <sup>(1)</sup>	4.0 %	6.4 %	3.2 %	6.2 %
<b>Free cash flow</b> <sup>(1)</sup> , before growth capex, dividends and NCIB	<b>\$ 3.6</b>	<b>\$ 40.0</b>	<b>\$ (0.5)</b>	<b>\$ 75.5</b>
Free cash flow <sup>(1)</sup> per share - Basic (in dollars)	\$ 0.06	\$ 0.65	\$ (0.01)	\$ 1.23
Free cash flow <sup>(1)</sup> per share - Diluted (in dollars)	\$ 0.06	\$ 0.63	\$ (0.01)	\$ 1.18
Free cash flow <sup>(1)</sup> , after growth capex, dividends and NCIB	\$ (6.4)	\$ 7.5	\$ (15.7)	\$ 31.4
Free cash flow <sup>(1)</sup> per share - Basic (in dollars)	\$ (0.11)	\$ 0.12	\$ (0.28)	\$ 0.51
Free cash flow <sup>(1)</sup> per share - Diluted (in dollars)	\$ (0.11)	\$ 0.12	\$ (0.27)	\$ 0.49
<b>Net earnings (loss)</b>	<b>\$ (40.6)</b>	<b>\$ 16.6</b>	<b>\$ (81.8)</b>	<b>\$ 39.3</b>
Basic EPS (in dollars)	\$ (0.72)	\$ 0.27	\$ (1.44)	\$ 0.64
Diluted EPS (in dollars)	\$ (0.72)	\$ 0.26	\$ (1.44)	\$ 0.61
<b>Adjusted Net Earnings</b> <sup>(1)</sup>	<b>\$ 6.2</b>	<b>\$ 23.4</b>	<b>\$ 13.3</b>	<b>\$ 41.4</b>
Adjusted Basic EPS <sup>(1)</sup> (in dollars)	\$ 0.11	\$ 0.38	\$ 0.24	\$ 0.67
Adjusted Diluted EPS <sup>(1)</sup> (in dollars)	\$ 0.11	\$ 0.37	\$ 0.23	\$ 0.65

<sup>(1)</sup> See "Non-IFRS Measures" on page 32 for definitions of Free Cash Flow, System Sales, SRS, Adjusted Net Earnings, Operating EBITDA, Operating EBITDA Margin on System Sales, and Adjusted EPS. See pages 8 and 32 for a reconciliation of Net Earnings to these Non-IFRS measures.

The following table summarizes results of Recipe's operations for the 13 and 26 weeks ended June 28, 2020, and June 30, 2019:

(C\$ millions unless otherwise stated)	13 weeks ended		26 weeks ended	
	June 28, 2020	June 30, 2019	June 28, 2020	June 30, 2019
<b>System Sales</b> <sup>(2)</sup>	\$ 389.8	\$ 871.3	\$ 1,137.0	\$ 1,722.0
Sales	\$ 120.5	\$ 264.6	\$ 350.3	\$ 524.0
Franchise revenues	19.9	47.3	60.0	92.5
<b>Total gross revenue</b> <sup>(1)</sup>	<b>\$ 140.4</b>	<b>\$ 311.9</b>	<b>\$ 410.3</b>	<b>\$ 616.5</b>
Cost of inventories sold	(66.5)	(111.5)	(169.4)	(219.9)
Selling, general and administrative expenses				
Corporate restaurant expenses	(33.6)	(112.4)	(137.4)	(223.6)
Advertising fund transfers	(9.1)	(16.1)	(22.2)	(31.3)
The Keg royalty expense	(0.8)	(6.1)	(6.5)	(12.8)
Franchise assistance and bad debt	(0.5)	(0.5)	(1.5)	(1.6)
Depreciation & amortization	(25.7)	(28.4)	(52.1)	(55.8)
Net gain/ (loss) on disposal of property, plant and equipment and other assets	(0.5)	0.1	(0.7)	(0.5)
Gain/ (Loss) on settlement of lease liabilities	(0.3)	—	(0.4)	—
Other	(0.5)	(0.1)	(12.8)	(2.6)
Selling, general and administrative expenses <sup>(1)</sup>	(71.1)	(163.4)	(233.6)	(328.3)
Impairment of assets, net of reversals	(47.4)	(4.0)	(63.7)	(4.0)
Restructuring and other	(1.9)	(0.7)	(0.8)	(0.5)
<b>Operating income (loss)</b> <sup>(1)</sup>	<b>\$ (46.5)</b>	<b>\$ 32.3</b>	<b>\$ (57.2)</b>	<b>\$ 63.9</b>
Net interest expense and other financing charges	(9.5)	(7.5)	(15.9)	(12.0)
Share of gain (loss) from investment in joint ventures	0.1	(0.1)	0.2	(0.7)
<b>Earnings (loss) before change in fair value and income taxes</b> <sup>(1)</sup>	<b>\$ (55.9)</b>	<b>\$ 24.7</b>	<b>\$ (72.9)</b>	<b>\$ 51.2</b>
Change in fair value of exchangeable Partnership units and Keg Royalty Income Fund units	3.2	(0.9)	(29.9)	3.9
<b>Earnings (loss) before income taxes</b> <sup>(1)</sup>	<b>\$ (52.7)</b>	<b>\$ 23.8</b>	<b>\$ (102.8)</b>	<b>\$ 55.1</b>
Income taxes - current	(4.5)	(6.3)	(6.9)	(13.4)
Income taxes - deferred	16.6	(0.9)	27.8	(2.4)
<b>Net earnings (loss)</b> <sup>(1)</sup>	<b>\$ (40.6)</b>	<b>\$ 16.6</b>	<b>\$ (81.8)</b>	<b>\$ 39.3</b>
<b>Adjusted Net Earnings</b> <sup>(2)</sup>	<b>\$ 6.2</b>	<b>\$ 23.4</b>	<b>\$ 13.3</b>	<b>\$ 41.4</b>
<b>Earnings per share attributable to common shareholders</b>				
Basic EPS	\$ (0.72)	\$ 0.27	\$ (1.44)	\$ 0.64
Diluted EPS	\$ (0.72)	\$ 0.26	\$ (1.44)	\$ 0.61
Adjusted Basic EPS <sup>(2)</sup>	\$ 0.11	\$ 0.38	\$ 0.24	\$ 0.67
Adjusted Diluted EPS <sup>(2)</sup>	\$ 0.11	\$ 0.37	\$ 0.23	\$ 0.65

<sup>(1)</sup> Figures may not total due to rounding.

<sup>(2)</sup> See "Non-IFRS Measures" on page 32 for definitions of Free Cash Flow, System Sales, SRS, Adjusted Net Earnings, Operating EBITDA, Operating EBITDA Margin on System Sales, and Adjusted EPS. See pages 8 and 32 for a reconciliation of Net Earnings to these Non-IFRS measures.

(C\$ millions unless otherwise stated)	13 weeks ended		26 weeks ended	
	June 28, 2020	June 30, 2019	June 28, 2020	June 30, 2019
<b>Reconciliation of Net Earnings to Adjusted Net Earnings <sup>(2)</sup></b>				
Net earnings (loss)	\$ (40.6)	\$ 16.6	\$ (81.8)	\$ 39.3
Transaction costs	0.2	0.3	0.2	0.2
Impairment charges	47.4	4.0	63.7	4.0
Restructuring and other	1.9	0.7	0.7	0.4
Write off of deferred financing fees	—	1.0	—	1.0
Change in fair value of Exchangeable Partnership and KRIF units	(3.2)	0.9	29.9	(3.9)
Amortization of unearned conversion fees income	(0.1)	(0.1)	(0.1)	(0.2)
(Gains)/losses on early buyout/cancellation of equipment rental contracts	(0.2)	0.1	(0.2)	0.1
Net loss (gain) on disposal of property, plant and equipment	0.5	(0.1)	0.7	0.5
Loss on settlement of lease liabilities	0.3	—	0.4	—
<b>Adjusted Net Earnings <sup>(1)(2)</sup></b>	<b>\$ 6.2</b>	<b>\$ 23.4</b>	<b>\$ 13.3</b>	<b>\$ 41.4</b>
<b>Reconciliation of Net Earnings to EBITDA <sup>(2)</sup></b>				
Net earnings (loss)	\$ (40.6)	\$ 16.6	\$ (81.8)	\$ 39.3
Net interest expense and other financing charges	9.5	7.5	15.9	12.0
Income taxes	(12.1)	7.2	(20.9)	15.8
Depreciation and amortization	26.3	28.9	53.3	56.9
<b>EBITDA <sup>(2)</sup></b>	<b>\$ (16.9)</b>	<b>\$ 60.2</b>	<b>\$ (33.5)</b>	<b>\$ 124.0</b>
<b>Reconciliation of EBITDA <sup>(2)</sup> to Operating EBITDA <sup>(2)</sup>:</b>				
Transaction costs	\$ 0.2	\$ 0.3	\$ 0.2	\$ 0.2
Impairment charges	47.4	4.0	63.7	4.0
Restructuring and other	1.9	0.7	0.7	0.4
Change in fair value non-controlling interest liability and	—	—	—	—
Change in fair value of Exchangeable Partnership and KRIF units	(3.2)	0.9	29.9	(3.9)
Income on Partnership and Fund units	1.2	2.7	3.9	5.5
Amortization of unearned conversion fees income	(0.1)	(0.1)	(0.1)	(0.2)
(Gains)/Losses on early buyout/cancellation of equipment rental contracts	(0.2)	0.1	(0.2)	0.1
Net loss (gain) on disposal of property, plant and equipment	0.5	(0.1)	0.7	0.5
Loss on settlement of lease liabilities	0.3	—	0.4	—
Stock based compensation	0.4	1.8	0.9	3.7
Change in onerous contract provision	—	0.4	—	0.2
Proportionate share of joint venture results	(1.4)	0.2	(1.8)	0.5
Rent impact from IFRS 16 Leases	(14.5)	(15.0)	(28.5)	(28.9)
<b>Operating EBITDA <sup>(1)(2)</sup></b>	<b>\$ 15.6</b>	<b>\$ 56.0</b>	<b>\$ 36.3</b>	<b>\$ 106.1</b>
<b>Reconciliation of Operating EBITDA <sup>(2)</sup> to Free Cash Flow <sup>(2)</sup>:</b>				
Maintenance capex	\$ (4.0)	\$ (5.6)	\$ (7.8)	\$ (10.7)
Interest on long-term debt	(6.8)	(4.1)	(12.3)	(7.8)
Interest expense on note payable to The Keg Royalties IF	(1.1)	(1.1)	(2.1)	(2.1)
Cash taxes	—	(5.2)	(14.5)	(10.0)
<b>Free Cash Flow <sup>(2)</sup> before Growth capex, dividends and NCIB <sup>(1)</sup></b>	<b>\$ 3.6</b>	<b>\$ 40.0</b>	<b>\$ (0.4)</b>	<b>\$ 75.5</b>
Growth capex	\$ (3.4)	\$ (7.9)	\$ (8.4)	\$ (12.5)
Proceeds on sale of assets	—	0.9	0.1	0.9
Dividends	(6.6)	(13.8)	(6.6)	(13.8)
NCIB	—	(11.7)	(0.3)	(18.8)
<b>Free Cash Flow <sup>(2)</sup> after Growth capex, dividends and NCIB <sup>(1)</sup></b>	<b>\$ (6.4)</b>	<b>\$ 7.5</b>	<b>\$ (15.7)</b>	<b>\$ 31.4</b>

<sup>(1)</sup> Figures may not total due to rounding.

<sup>(2)</sup> See “Non-IFRS Measures” on page 32 for definitions of Free Cash Flow, System Sales, SRS, Adjusted Net Earnings, Operating EBITDA, Operating EBITDA Margin on System Sales, and Adjusted EPS. See pages 8 and 32 for a reconciliation of Net Earnings to these Non-IFRS measures.



### **Restaurant Portfolio Management and Continuous Network Improvement**

At the end of fiscal 2019, Management completed a thorough strategic planning process, which included a complete review of all corporate, franchised and joint venture locations. From this review management identified locations that no longer fit the long-term plan for the company and/or restaurants that are currently under-performing. For corporate restaurant locations that no longer fit the long-term strategic plan of the Company, Management is taking steps to exit these sites. For franchise locations that are under-performing, the Company will work with the franchisees to help them achieve sustainable success which may include the Company providing financial support in the form of royalty relief or rent assistance.

During the 13 weeks ended June 28, 2020, Management successfully closed and exited 10 locations, resulting in 28 locations being closed in 2020, including 7 corporate, 20 franchise and 1 joint venture locations, as part of the Company's strategic portfolio plan. The permanent closure of non-strategic locations has accelerated faster than originally planned because of the COVID-19 shutdown and successful landlord exit negotiations.

The success of new restaurants is dependent on a number of factors, including: availability of suitable sites; negotiation of acceptable lease terms for new locations; attracting qualified franchisees with suitable financing; availability, training and retention of management and other employees necessary to operate new corporate restaurants; and other factors, some of which are beyond Recipe's control. Management will continue to review the Company's portfolio of restaurants to maximize site potential, the quality of sales and profitability to the Company and franchisees.

Restaurant renovations also contribute to network improvement and demonstrate commitment by franchisees to reinvest in their business. However, the timing of renovations is dependent on having sufficient term remaining on both the particular franchise agreement and lease agreement. Franchisees are responsible for financing franchise restaurant renovations. We have found that renovations are most successful when they include changes to the exterior and interior coupled with a fresh approach to guest service and experience. During the 26 weeks ended June 28, 2020, the Company completed 7 renovations. As a result of COVID-19, Management will be temporarily pausing restaurant renovations for the balance of 2020 and will focus on maximizing sales and cash flow for corporate and franchise locations.

The Company contributes towards renovation incentive programs for certain brands to assist franchisees with the cost of major renovations that are expected to generate long-term SRS increases from enhanced guest experiences across all 4 Pillars of Operational Excellence. For the 26 weeks ended June 28, 2020, the Company contributed \$0.2 million towards these renovation incentive programs which supported the completion of 7 restaurant renovations.

Recipe's restaurant network consists of company-owned corporate locations and franchised locations. As at the end of June 28, 2020, there were 1,354 restaurants. The following table presents the changes in Recipe's restaurant unit count:

Unit count (unaudited)	For the 26 weeks ended June 28, 2020							
	June 28, 2020				June 30, 2019			
	Corporate	Franchised	Joint Venture	Total	Corporate	Franchised	Joint Venture	Total
Beginning of year <sup>(1)</sup>	202	1,125	46	1,373	208	1,128	46	1,382
Acquisitions <sup>(2)</sup>	—	—	—	—	2	—	—	2
New openings	5	4	—	9	1	20	2	23
Closures	(7)	(20)	(1)	(28)	(10)	(12)	(1)	(23)
Casey's closures	—	—	—	—	—	—	—	—
Corporate buybacks <sup>(3)</sup>	6	(6)	—	—	9	(9)	—	—
Restaurants re-franchised <sup>(4)</sup>	—	—	—	—	(1)	2	(1)	—
<b>End of period</b>	<b>206</b>	<b>1,103</b>	<b>45</b>	<b>1,354</b>	<b>209</b>	<b>1,129</b>	<b>46</b>	<b>1,384</b>

(1) Unit count excludes East Side Mario's restaurants located in the United States.

(2) Anejo and Blanco Cantina was acquired on May 25, 2019.

(3) Corporate buy backs represent previously franchised restaurants acquired by the Company to operate corporately.

(4) Restaurants re-franchised represent corporate restaurants re-franchised to be operated by a franchisee.

## **Financial results**

### ***System Sales***

System Sales for the 13 and 26 weeks ended June 28, 2020 were \$389.8 million and \$1,137.0 million compared to \$871.3 and \$1,722.0 million in 2019, representing a decrease of \$481.5 million or 55.3% for the quarter and a decrease of \$585.0 or 34.0% year to date. The decrease in System Sales is primarily related to a decline in restaurant sales as a result of the government mandated restaurant closures during the quarter, partially offset by sales increases in the Retail and Catering segment.

### ***Total gross revenue***

Total gross revenue represents sales from corporate restaurants and catering division, franchise revenues (including royalty fees net of agreed subsidies, new franchise fees, marketing fund contributions, property and equipment rental income and corporate to franchise conversion fees), fees generated from Recipe's off-premise call centre business, new restaurant development revenue, and St-Hubert food processing and distribution revenues from sales to retail grocery customers and to its franchise network.

Total gross revenue was \$140.4 million and \$410.3 million for the 13 and 26 weeks ended June 28, 2020 compared to \$311.9 million and \$616.5 million in 2019, representing a decrease of \$171.5 or 55.0% for the quarter and a decrease of \$206.2 million or 33.4% for year-to-date. The decrease in the gross revenues for the quarter was primarily related to the slowdown in restaurant sales as a result of government mandated restaurant closures during the quarter, partially offset by sales increases in the Retail and Catering segment.

### ***Selling, general and administrative expenses***

SG&A expenses represent direct corporate restaurant costs such as labour, other direct corporate restaurant operating costs (e.g. supplies, utilities, net marketing, property taxes), overhead costs, marketing fund transfers, franchisee rent assistance and bad debts, central overhead costs, The Keg royalty expense, costs related to the food processing and distribution division, losses on early buyout / cancellation of equipment rental agreements and depreciation and amortization on other assets. These expenses are offset by vendor purchase allowances.

Direct corporate restaurant labour costs and other direct corporate restaurant operating and overhead costs are impacted by the number of corporate restaurants, provincial minimum wage increases and the Company's ability to manage input costs through its various cost monitoring programs. Central overhead costs are impacted by general inflation, market conditions for attracting and retaining key personnel and management's ability to control discretionary costs. Food processing and distribution costs are impacted by minimum wage increases, union contract negotiations, volume of sales and the Company's ability to manage controllable costs related to the promotion, manufacture and distribution of products. Franchisee rent assistance and bad debts are impacted by franchisee sales and overall franchisee profitability. Vendor purchase allowances are impacted by the volume of purchases, inflation and fluctuations in the price of negotiated products and services. Losses on early buyout/cancellation of equipment rental contracts, recognition of lease cost and tenant inducements, and depreciation and amortization represent non-cash expenses generally related to historical transactions where corporate restaurants were converted to franchise.

(C\$ thousands unless otherwise stated)	13 weeks ended		26 weeks ended	
	June 28, 2020	June 30, 2019	June 28, 2020	June 30, 2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Corporate restaurant expenses	\$ 33.6	\$ 112.4	\$ 137.4	\$ 223.6
Advertising fund transfers	9.1	16.1	22.2	31.3
Franchise assistance and bad debt	0.5	0.5	1.5	1.6
The Keg royalty expense	0.8	6.1	6.5	12.8
Depreciation and amortization	25.7	28.4	52.1	55.8
Net loss/ (gain) on disposal of property, plant and	0.5	(0.1)	0.7	0.5
Loss on settlement of lease liabilities	0.3	—	0.4	—
Other	0.5	0.1	12.8	2.6
<b>Total selling, general and administrative expenses</b> <sup>(1)</sup>	<b>\$ 71.1</b>	<b>\$ 163.4</b>	<b>\$ 233.6</b>	<b>\$ 328.3</b>

<sup>(1)</sup> Figures may not total due to rounding.

SG&A expenses for the 13 and 26 weeks ended June 28, 2020 were \$71.1 million and \$233.6 million compared to \$163.4 million and \$328.3 million in 2019, representing a decrease of \$92.3 million or 56.5% for the quarter and a decrease of \$94.7 million or 28.8% year to date. The decrease in the quarter is largely related to a decrease in corporate restaurant expenses of \$78.7 million, which reflects the effects of restaurant closures, a reduction in vendor purchase allowances related to the decrease in system sales, partially offset by Federal Government wage subsidies of \$25.3 million and other cost reduction initiatives taken by the Company.

#### *Impairment of assets*

The Company recorded asset impairment charges of \$47.4 million and \$63.7 million for the 13 and 26 weeks ended June 28, 2020, compared to \$4.0 million for the 13 and 26 weeks ended June 30, 2019, representing an increase of \$43.4 million in the quarter and an increase of \$59.7 million year to date. The increase is primarily related to the introduction of the Company's rent certainty program in the second quarter and recording the full year cost estimate of the rent assistance in the second quarter, negative sales impact from COVID-19 and expected slower recovery back to 2019 sales levels, and accelerated planned closures of non-strategic and under-performing restaurants (see "Restaurant Portfolio Management and Continuous Network Improvement" on page 11).

#### *Net interest expense and other financing charges*

Finance costs are derived from Recipe's financing activities which include the Existing Credit Facility, amortization of financing fees, interest income on The Keg Partnership units and net interest expense related to the lease standard.

(C\$ thousands unless otherwise stated)	13 weeks ended		26 weeks ended	
	June 28, 2020	June 30, 2019	June 28, 2020	June 30, 2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Interest expense on long-term debt</b>	\$ 6.8	\$ 4.1	\$ 12.3	\$ 7.8
Interest expense on note payable to The Keg				
Royalties Income Fund	1.1	1.1	2.1	2.1
Financing costs	0.3	0.2	0.5	0.4
Interest expense - other	0.2	0.1	0.3	0.1
Write off of deferred financing fees	—	1.0	—	1.0
Interest income on Partnership units and KRIF units	(1.2)	(2.7)	(3.9)	(5.5)
Interest income	(0.7)	(0.4)	(1.6)	(0.9)
Interest on lease obligations	7.4	8.8	15.0	16.4
Interest income on lease receivable	(4.4)	(4.8)	(8.9)	(9.5)
<b>Total net interest expense and other financing charges</b> <sup>(1)</sup>	<b>\$ 9.5</b>	<b>\$ 7.5</b>	<b>\$ 15.9</b>	<b>\$ 12.0</b>
<b>Total debt (excluding financing costs)</b>	<b>\$ 718.3</b>	<b>\$ 397.3</b>	<b>\$ 718.3</b>	<b>\$ 397.3</b>

<sup>(1)</sup> Figures may not total due to rounding.

Net interest expense and other financing charges were \$9.5 million and \$15.9 million compared to \$7.5 million and \$12.0 million in 2019 for the 13 and 26 weeks ended June 28, 2020, an increase of \$2.0 million for the quarter and an increase of \$3.9 million year to date. The increase is primarily related to increases in debt related to the SIB in the fourth quarter of 2019, the \$300.0 million draw on the Company's credit facility at the end of March to provide liquidity during COVID-19 and higher interest charges after the Company's debt amendment on May 7, 2020.

### ***Income taxes***

The Company recorded a current income tax expense of \$4.5 million and \$6.9 million for the 13 and 26 weeks ended June 28, 2020, compared to \$6.3 million and \$13.4 million in 2019, representing a decrease of \$1.8 million for the quarter and a decrease of \$6.5 million year to date. The decrease in current income tax expense is primarily related to the reduction in taxable income during the quarter.

The Company recorded a net deferred income tax recovery of \$16.6 million and \$27.8 million for the 13 and 26 weeks ended June 28, 2020, compared to an expense of \$0.9 million and \$2.4 million in 2019, representing a decrease in deferred income tax expense of \$17.5 million for the quarter and a decrease of \$30.2 million year to date. The deferred income tax recovery is primarily related to the recognition of a deferred tax asset in respect of non-capital losses, franchise rent subsidy costs and other timing differences such as non-cash fair value adjustments to The Keg Royalty Income Fund units.

### ***Net earnings***

Net earnings (loss) were (\$40.6) million and (\$81.8) million for the 13 and 26 weeks ended June 28, 2020 compared to \$16.6 million and \$39.3 million in 2019, representing a decrease of \$57.2 million for the quarter and a decrease of \$121.1 million year to date. The \$57.2 million decrease in the quarter was primarily driven by the decrease in sales (due to COVID-19) and impairment charges of \$47.4 million (due to COVID-19), partially offset by a decrease in net income tax expense of \$19.3 million and by the change in fair value of Exchangeable Keg Partnership units of \$4.1 million.

### **Segment Performance**

Recipe divides its operations into the following four business segments: corporate restaurants, franchise restaurants, retail and catering, and central operations.

The Corporate restaurant segment includes the operations of the company-owned restaurants, the proportionate results from the Company's joint venture restaurants from the Original Joe's investment, the Burger's Priest investment, and 1909 Taverne Moderne joint venture, which generate revenues from the direct sale of prepared food and beverages to consumers.

Franchised restaurants represent the operations of its franchised restaurant network operating under the Company's several brand names from which the Company earns royalties calculated at an agreed upon percentage of franchise and joint venture restaurant sales. Recipe provides financial assistance to certain franchisees and the franchise royalty income reported is net of any assistance being provided.

Retail and catering represent sales of St-Hubert, Swiss Chalet, Montana's and Keg branded products; and other private label products produced and shipped from the Company's manufacturing plant and distribution centers to retail grocery customers and to its network of St-Hubert restaurants. Catering represents sales and operating expenses related to the Company's catering divisions which operate under the names of Pickle Barrel, Rose Reisman, and Marigolds and Onions.

Central operations includes sales from call centre services which earn fees from off-premise phone, mobile and web orders processed for corporate and franchised restaurants; income generated from the lease of buildings and certain equipment to franchisees; and the collection of new franchise and franchise renewal fees. Central operations also includes corporate (non-restaurant) expenses which include head office people and non-people overhead expenses, finance and IT support, occupancy costs, and general and administrative support services offset by vendor purchase allowances. The Company has determined that the allocation of corporate (non-restaurant) revenues and expenses which include finance and IT support, occupancy costs, and general and administrative support services would not reflect how the Company manages the business and has not allocated these revenues and expenses to a specific segment.

The CEO and the CFO are the chief operating decision makers and they regularly review the operations and performance by segment. The CEO and CFO review operating income as a key measure of performance for each segment and to make decisions about the allocation of resources. The accounting policies of the reportable operating segments are the same as those described in the Company's summary of significant accounting policies. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

### Operating EBITDA

Operating EBITDA<sup>(1)</sup> for the 13 weeks ended June 28, 2020 decreased to \$15.6 million compared to \$56.0 million in 2019, a decrease of \$40.4 million or 72.1%. Operating EBITDA<sup>(1)</sup> for the 26 weeks ended June 28, 2020 decreased to \$36.3 million compared to \$106.1 million in 2019, a decrease of \$69.8 million or 65.8%. The decrease for the quarter was driven by the decline in System Sales (due to COVID-19), partially offset by lower SG&A costs as a result of mandatory restaurant closures, government wage subsidies, and various cost saving measures (including temporary suspension of new store development and renovation plans, temporary salary reductions, acceleration of planned closures of underperforming restaurants, and permanent headcount reductions) implemented by the Company.

(unaudited) (C\$ thousands unless otherwise stated)	13 weeks ended June 28, 2020				
	Corporate	Franchised	Retail & Catering	Central	Total
<b>System Sales</b> .....	\$ 40,614	\$ 266,153	\$ 83,011	\$ —	\$ 389,778
<b>Corporate Results</b>					
Sales.....	\$ 37,669	\$ —	\$ —	3,682	\$ 41,351
Cost of inventories sold and cost of labour.....	(18,387)	—	—	—	(18,387)
Restaurant contribution before other costs.....	19,282	—	—	3,682	22,964
Restaurant contribution before other costs %.....	51.2 %	—	—	—	—
Other operating costs.....	(32,757)	—	—	—	(32,757)
<b>Total Contribution</b> .....	\$ (13,475)	—	—	\$ 3,682	\$ (9,793)
<b>Franchise Results</b>					
Franchise royalty income.....	—	\$ 10,096	—	—	10,096
Franchise royalty income as a % of franchise sales.....	—	3.8 %	—	—	—
New franchise fees, property and equipment rent.....	—	—	—	1,932	1,932
Franchise rent assistance and bad debt.....	—	(1,015)	—	—	(1,015)
<b>Contribution from franchise restaurants</b> .....	—	\$ 9,081	—	\$ 1,932	\$ 11,013
<b>Contribution from Retail and Catering</b> .....	—	—	\$ 14,765	—	14,765
<b>Net Central contribution</b> .....	—	—	—	\$ (924)	(924)
<b>Operating EBITDA<sup>(1)(2)</sup> before royalty expense</b> .....	\$ (13,475)	\$ 9,081	\$ 14,765	\$ 4,690	\$ 15,061
Net royalty income/ (expense).....	—	—	—	\$ 499	\$ 499
<b>Operating EBITDA<sup>(1)(2)</sup></b> .....	\$ (13,475)	\$ 9,081	\$ 14,765	\$ 5,189	\$ 15,560
Contribution as a % of corporate sales.....	(35.8)%	—	—	—	—
Contribution as a % of franchise sales.....	—	3.4 %	—	—	—
Contribution as a % of total System Sales.....	—	—	17.8 %	1.2 %	4.0 %

(unaudited)

13 weeks ended June 30, 2019

(CS thousands unless otherwise stated)	Corporate	Franchised	Retail & Catering	Central	Total
<b>System Sales</b> .....	\$ 200,638	\$ 595,878	\$ 74,772	\$ —	\$ 871,288
<b>Corporate Results</b>					
Sales.....	\$ 196,217	\$ —	\$ —	2,640	\$ 198,857
Cost of inventories sold and cost of labour.....	(125,077)	—	—	—	(125,077)
Restaurant contribution before other costs.....	71,140	—	—	2,640	73,780
<i>Restaurant contribution before other costs %</i> .....	36.3 %	—	—	—	—
Other operating costs.....	(50,594)	—	—	—	(50,594)
<b>Total Contribution</b> .....	\$ 20,546	—	—	\$ 2,640	\$ 23,186
<b>Franchise Results</b>					
Franchise royalty income.....	—	\$ 27,417	—	—	27,417
<i>Franchise royalty income as a % of franchise sales</i> .....	—	4.6 %	—	—	—
New franchise fees, property and equipment rent.....	—	—	—	3,696	3,696
Franchise rent assistance and bad debt.....	—	(535)	—	—	(535)
<b>Contribution from franchise restaurants</b> .....	—	\$ 26,882	—	\$ 3,696	\$ 30,578
<b>Contribution from Retail and Catering</b> <sup>(3)</sup> .....	—	—	\$ 7,195	—	7,195
<b>Net Central contribution</b> <sup>(3)</sup> .....	—	—	—	\$ (1,510)	(1,510)
<b>Operating EBITDA</b> <sup>(1)(2)</sup> before royalty expense.....	\$ 20,546	\$ 26,882	\$ 7,195	\$ 4,826	\$ 59,449
Net royalty expense.....	—	—	—	\$ (3,454)	\$ (3,454)
<b>Operating EBITDA</b> <sup>(1)(2)</sup> .....	\$ 20,546	\$ 26,882	\$ 7,195	\$ 1,372	\$ 55,995
Contribution as a % of corporate sales.....	10.5 %	—	—	—	—
<i>Contribution as a % of franchise sales</i> .....	—	4.5 %	—	—	—
<i>Contribution as a % of total System Sales</i> .....	—	—	9.6 %	0.2 %	6.4 %

<sup>(1)</sup> See "Non-IFRS Measures" on page 32 for definitions of Operating EBITDA and page 8 for a reconciliation of Net Earnings to Operating EBITDA.<sup>(2)</sup> Figures may not total due to rounding.<sup>(3)</sup> The allocation of overhead costs related to retail and catering have been restated to more accurately reflect actual overhead costs incurred in this segment.

(unaudited)

26 weeks ended June 28, 2020

(CS thousands unless otherwise stated)	Corporate	Franchised	Retail & Catering	Central	Total
<b>System Sales</b> .....	\$ 203,307	\$ 774,758	\$ 158,948	\$ —	\$ 1,137,013
<b>Corporate Results</b>					
Sales.....	\$ 195,818	\$ —	\$ —	6,410	\$ 202,228
Cost of inventories sold and cost of labour.....	(130,033)	—	—	—	(130,033)
Restaurant contribution before other costs.....	65,785	—	—	6,410	72,195
<i>Restaurant contribution before other costs %</i> .....	33.6 %	—	—	—	—
Other operating costs.....	(79,679)	—	—	—	(79,679)
<b>Total Contribution</b> .....	\$ (13,894)	—	—	\$ 6,410	\$ (7,484)
<b>Franchise Results</b>					
Franchise royalty income.....	—	\$ 32,945	—	—	32,945
<i>Franchise royalty income as a % of franchise sales</i> .....	—	4.3 %	—	—	—
New franchise fees, property and equipment rent.....	—	—	—	4,618	4,618
Franchise rent assistance and bad debt.....	—	(1,978)	—	—	(1,978)
<b>Contribution from franchise restaurants</b> .....	—	\$ 30,967	—	\$ 4,618	\$ 35,585
<b>Contribution from Retail and Catering</b> .....	—	—	\$ 22,644	—	22,644
<b>Net Central contribution</b> .....	—	—	—	\$ (12,026)	(12,026)
<b>Operating EBITDA</b> <sup>(1)(2)</sup> before royalty expense.....	\$ (13,894)	\$ 30,967	\$ 22,644	\$ (998)	\$ 38,719
Net royalty expense.....	—	—	—	\$ (2,461)	\$ (2,461)
<b>Operating EBITDA</b> <sup>(1)(2)</sup> .....	\$ (13,894)	\$ 30,967	\$ 22,644	\$ (3,459)	\$ 36,258
Contribution as a % of corporate sales.....	(7.1)%	—	—	—	—
Contribution as a % of franchise sales.....	—	4.0 %	—	—	—
Contribution as a % of total System Sales.....	—	—	14.2 %	(0.3)%	3.2 %

(unaudited)

26 weeks ended June 30, 2019

(C\$ thousands unless otherwise stated)	Corporate	Franchised	Retail & Catering	Central	Total
<b>System Sales</b> .....	\$ 397,612	\$ 1,177,196	\$ 147,225	\$ —	\$ 1,722,033
<b>Corporate Results</b>					
Sales.....	\$ 388,827	\$ —	\$ —	5,529	\$ 394,356
Cost of inventories sold and cost of labour.....	(247,990)	—	—	—	(247,990)
Restaurant contribution before other costs.....	140,837	—	—	5,529	146,366
Restaurant contribution before other costs %.....	36.2 %				
Other operating costs.....	(101,826)	—	—	—	(101,826)
<b>Total Contribution</b> .....	\$ 39,011	—	—	\$ 5,529	\$ 44,540
<b>Franchise Results</b>					
Franchise royalty income.....	—	\$ 53,996	—	—	53,996
Franchise royalty income as a % of franchise sales.....	—	4.6 %	—	—	
rent.....	—	—	—	6,720	6,720
Franchise rent assistance and bad debt.....	—	(1,625)	—	—	(1,625)
<b>Contribution from franchise restaurants</b> .....	—	\$ 52,371	—	\$ 6,720	\$ 59,091
<b>Contribution from Retail and Catering<sup>(3)</sup></b> .....	—	—	\$ 15,393	—	15,393
<b>Net Central contribution<sup>(3)</sup></b> .....	—	—	—	\$ (5,662)	(5,662)
<b>Operating EBITDA<sup>(1)(2)</sup> before royalty expense</b> .....	\$ 39,011	\$ 52,371	\$ 15,393	\$ 6,587	\$ 113,362
Net royalty expense.....	—	—	—	\$ (7,307)	\$ (7,307)
<b>Operating EBITDA<sup>(1)(2)</sup></b> .....	\$ 39,011	\$ 52,371	\$ 15,393	\$ (720)	\$ 106,055
Contribution as a % of corporate sales	10.0 %	—	—	—	—
Contribution as a % of franchise sales	—	4.4 %	—	—	—
Contribution as a % of total System Sales	—	—	10.5 %	— %	6.2 %

<sup>(1)</sup> See “Non-IFRS Measures” on page 32 for definitions of Operating EBITDA and page 8 for a reconciliation of Net Earnings to Operating EBITDA.

<sup>(2)</sup> Figures may not total due to rounding.

<sup>(3)</sup> The allocation of overhead costs related to retail and catering have been restated to more accurately reflect actual overhead costs incurred in this segment.

## Corporate

As at June 28, 2020, the corporate segment restaurant count consisted of 206 restaurants compared to 202 at December 29, 2019. During the 26 weeks ended June 28, 2020, the Company opened 5 new restaurants, completed 6 corporate buybacks, and closed 7 under-performing restaurants. The corporate restaurant segment includes the proportionate results from the Company’s 45 joint venture restaurants from the Original Joe’s investment, the Burger’s Priest investment, and 1909 Taverne Moderne joint venture.

## Sales

Sales represent food and beverage sales from Recipe’s corporate restaurants. Corporate restaurant sales are impacted by SRS Growth and the change in number of corporate restaurants. Sales were \$37.7 million and \$195.8 million for the 13 and 26 weeks ended June 28, 2020 compared to \$196.2 million and \$388.8 million in 2019, a decrease of \$158.5 or 80.8% for the quarter and a decrease of \$193.0 million or 49.6% year to date. The decrease was primarily related to the government mandated restaurant closures as a result of COVID-19, partially offset by sales increases from off-premise, takeout and delivery in certain brands.

## Cost of inventories sold and cost of labour

Cost of inventories sold represents the net cost of food, beverage and other inventories sold at Recipe’s corporate restaurants. Cost of inventories sold and cost of labour is impacted by the number of corporate restaurants, fluctuations in the volume of inventories sold, food prices, provincial minimum wage increases, and Recipe’s ability to manage input costs at the restaurant level. Recipe manages input costs through various cost monitoring programs and through the negotiation of favourable contracts on behalf of its corporate and franchise restaurant network.

Cost of inventories sold and cost of labour was 18.4 million and \$130.0 million for the 13 and 26 weeks ended June 28, 2020 compared to \$125.1 million and \$248.0 million in 2019, a decrease of \$106.7 million or 85.3% for the quarter and a decrease

of \$118.0 million or 47.6% year to date. The decrease in the quarter directly related to the decrease in sales as a result of restaurant closures due to COVID-19 and Federal government wage subsidies that reduced labour costs.

#### *Contribution from Corporate segment*

Total contribution from corporate restaurants for the 13 and 26 weeks ended June 28, 2020 was (\$13.5) million and (\$13.9) million compared to \$20.5 million and \$39.0 million in 2019, a decrease of \$34.0 or 165.9% for the quarter and a decrease of \$52.9 million or 135.6% year to date. The decrease is related to the sales decrease and full period fixed costs (including rent), partially offset by a decrease of variable and overhead costs as a result of corporate restaurant closures and wage subsidies.

For the 13 and 26 weeks ended June 28, 2020, total contribution from corporate restaurants as a percentage of corporate sales was (35.8)% and (7.1)% compared to 10.5% and 10.0% for the 13 and 26 weeks in 2019.

#### **Franchise**

As at June 28, 2020, the franchise restaurant segment consisted of 1,103 restaurants compared to 1,125 at December 29, 2019. For the 26 weeks ended June 28, 2020, the Company completed 4 new restaurant openings, partially offset by 20 closures, and 6 corporate buybacks. The franchise segment includes the proportionate share of royalties earned from the joint venture restaurants from the Original Joe's transaction.

Franchise segment System Sales were \$266.2 million and \$774.8 million during the 13 and 26 weeks ended June 28, 2020 compared to \$595.9 million and \$1,177.2 million in 2019, a decrease of \$329.7 million or 55.3% for the quarter and a decrease of \$402.4 million or 34.2% year to date. The decrease was primarily related the government mandated restaurant closures of restaurant dining rooms as a result of COVID-19, partially offset by sales increases from off-premise, takeout and delivery in certain brands.

#### *Franchise revenues*

Franchise revenues represent royalty fees charged to franchisees as a percentage of restaurant sales net of contractual subsidies and temporary assistance to certain franchisees.

The primary factors impacting franchise revenues are SRS Growth and net new restaurant activity, as well as the rate of royalty fees (net of contractual subsidies and temporary assistance) paid to Recipe by its franchisees. In certain circumstances, the royalty rate paid to Recipe can be less than Recipe's standard 5% royalty rate due to different contractual rates charged for certain brands (e.g. St-Hubert's standard royalty rate is 4%) and contractual subsidies primarily associated with prior year's conversion transactions or agreements to temporarily assist certain franchisees. The addition of The Keg will also increase Recipe's overall net royalty rate as new and renewed Keg franchisees pay 6% royalty while others pay 5% until their franchise agreement is renewed. In response to COVID-19, the Company introduced a royalty subsidy program to provide direct support to its franchise partners. The royalty subsidy program reduces the royalty rate by 1% and will continue until the end of 2020.

Franchise revenues were \$10.1 million and \$32.9 million for the 13 and 26 weeks ended June 28, 2020 compared to \$27.4 million and \$54.0 million in 2019, a decrease of \$17.3 million or 63.1% for the quarter and a decrease of \$21.1 million or 39.1% for year to date. The decrease in the quarter is related to System Sales decreases caused by the COVID-19 mandated closure of restaurants, permanent restaurant closures, as well as a decrease of \$1.8 million as a result of the Company's 2020 royalty reduction program.

#### *Contribution from franchise segment*

Total contribution from franchise restaurants was \$9.1 million and \$31.0 million for the 13 and 26 weeks ended June 28, 2020 compared to \$26.9 million and \$52.4 million in 2019, a decrease of \$17.8 million or 66.2% for the quarter and a decrease of \$21.4 million or 40.8% year to date. The effective net royalty rate for the 13 and 26 weeks ended June 28, 2020 was 3.8% and 4.3% compared to 4.6% and 4.6% in 2019. The decrease is related the negative sales impact as a result of COVID-19 and reflects the Company's direct support to its franchise partners, including the royalty subsidy.



## ***Retail and Catering***

### *Sales*

Sales from the retail segment relate to the manufacture and distribution of fresh, frozen and non-perishable food products under St-Hubert, Montana's, The Keg, and Swiss Chalet brand names as well as under several private label brands. Retail sales are impacted by orders from franchised restaurant locations and by the volume of orders generated from retail grocery chains.

Catering sales relate to food and beverage sales from Recipe's catering divisions operating under the names of Pickle Barrel, Rose Reisman, and Marigolds and Onions. Catering sales are impacted by the number of customer orders and the number of contracts obtained by the divisions.

### *Contribution from retail and catering*

Contribution from Retail and Catering for the 13 and 26 weeks ended June 28, 2020 was \$14.8 million and \$22.6 million compared to \$7.2 million and \$15.4 million in 2019, an increase of \$7.6 million or 105.6% for the quarter and an increase of \$7.2 million or 46.8% year to date. The increase has been driven primarily from increased sales to retail grocery customers due to COVID-19. The retail grocery and catering business has remained in full operation during the COVID-19 disruption.

For the 13 and 26 weeks ended June 28, 2020, total contribution from the retail and catering segment as a percentage of sales was 17.8% and 14.2% compared to 9.6% and 10.5% for the 13 and 26 weeks in 2019 driven by higher gross margins and wage subsidies received in the second quarter.

## ***Central***

### *Sales*

Sales in the central segment consist of sales from the Company's off-premise call centre business representing fees generated from delivery, call-ahead, web and mobile-based meal orders.

The call centre business receives fees from restaurants to recover administrative costs associated with processing guest orders. Call centre revenues are impacted by the volume of guest orders as well as by the mix of fee types charged on the orders received (e.g. higher fees are received on phone orders compared to mobile or web orders).

Total central segment sales were \$3.7 million and \$6.4 million for the 13 and 26 weeks ended June 28, 2020 compared to \$2.6 million and \$5.5 million in 2019, representing an increase of \$1.1 million or 42.3% for the quarter and an increase of \$0.9 million or 16.4% year to date. The increase is related to increases in off-premise and delivery orders as a result of COVID-19.

### *New franchise fees, rent revenue and equipment rent*

Recipe grants franchise agreements to independent operators ("franchisees") for new locations. Recipe also renews franchise agreements in situations where a previous franchise agreement has expired and is extended. As part of these franchise agreements, franchisees pay new franchise and/or renewal fees and, in the case of converting established locations from corporate to franchise, conversion fees. New franchise fees and conversion fees, if applicable, are collected at the time the franchise agreement is entered into. Renewal fees are collected at the time of renewal. Rent revenue relates to properties owned by the Company which are leased to franchisees.

Franchise fees, property rent and equipment rent revenues from franchisees were \$1.9 million and \$4.6 million for the 13 and 26 weeks ended June 28, 2020 compared to \$3.7 million and \$6.7 million in 2019. The decreases are primarily related to less property rent charged as a percent of sales due to COVID-19 and reductions in equipment rental revenue related to the expiry of equipment rental agreements.

### *Contribution from central segment*

Central segment contribution before the net royalty expense for the 13 and 26 weeks ended June 28, 2020 was \$4.7 and (\$1.0) million compared to \$4.8 million and \$6.6 million in 2019, representing a decrease of \$0.1 million or 2.1% for the

quarter and a decrease of \$7.6 million or 115.2% year to date. The \$7.6 million central segment contribution decrease is primarily the result of full period overhead fixed costs in the first quarter without wage subsidies.

## Selected Quarterly Information

The following table provides selected historical information and other data of the Company which should be read in conjunction with the annual consolidated financial statements of the Company.

	Q2 – 2020 Jun 28, 2020	Q1 – 2020 Mar 29, 2020	Q4 – 2019 Dec 29, 2019	Q3 – 2019 Sept 29, 2019	Q2 – 2019 Jun 30, 2019	Q1 – 2019 Mar 31, 2019	Q4 – 2018 Dec 30, 2018	Q3 – 2018 Sept 30, 2018	Q2 – 2018 July 1, 2018
(C\$ millions unless otherwise stated) <sup>(1)</sup>									
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>System Sales<sup>(1)</sup></b> .....	<b>\$ 389.8</b>	<b>\$ 747.2</b>	<b>\$ 895.8</b>	<b>\$ 869.1</b>	<b>\$ 871.3</b>	<b>\$ 850.7</b>	<b>\$ 905.4</b>	<b>\$ 879.8</b>	<b>\$ 874.2</b>
Total System Sales Growth <sup>(1)</sup> .....	(55.3)%	(12.2)%	(1.1)%	(1.2)%	(0.3)%	12.5%	16.8%	28.5%	32.3%
Number of restaurants (at period end).....	1,354	1,363	1,373	1,375	1,384	1,373	1,382	1,370	1,379
<b>Operating EBITDA<sup>(1)</sup></b> .....	<b>\$ 15.6</b>	<b>\$ 20.5</b>	<b>\$ 60.5</b>	<b>\$ 49.5</b>	<b>\$ 56.0</b>	<b>\$ 50.1</b>	<b>\$ 63.3</b>	<b>\$ 51.2</b>	<b>\$ 54.0</b>
<b>Operating EBITDA Margin on System Sales<sup>(1)</sup></b> .....	<b>4.0%</b>	<b>2.7%</b>	<b>6.8%</b>	<b>5.7%</b>	<b>6.4%</b>	<b>5.9%</b>	<b>7.0%</b>	<b>5.8%</b>	<b>6.2%</b>
Corporate restaurant sales.....	\$ 37.7	\$ 158.1	\$ 192.6	\$ 191.3	\$ 196.2	\$ 192.6	\$ 205.0	\$ 199.0	\$ 203.6
Number of corporate restaurants.....	206	203	202	208	209	202	208	207	212
<b>Contribution from Corporate segment</b> .....	<b>\$ (13.5)</b>	<b>\$ (0.4)</b>	<b>\$ 19.3</b>	<b>\$ 16.8</b>	<b>\$ 20.5</b>	<b>\$ 18.5</b>	<b>\$ 21.5</b>	<b>\$ 21.6</b>	<b>\$ 24.3</b>
Contribution as a % of corporate sales.....	(35.8)%	(0.3)%	10.0%	8.8%	10.5%	9.6%	10.7%	10.8%	12%
Number of joint venture restaurants.....	45	45	46	44	46	47	46	46	54
Franchise restaurant sales.....	\$ 266.2	\$ 508.6	\$ 606.1	\$ 597.1	\$ 595.9	\$ 581.3	\$ 615.3	\$ 607.2	\$ 596.8
Number of franchised restaurants.....	1,103	1,115	1,125	1,123	1,129	1,124	1,128	1,117	1,113
<b>Contribution from Franchise segment</b> .....	<b>\$ 9.1</b>	<b>\$ 21.9</b>	<b>\$ 26.6</b>	<b>\$ 26.1</b>	<b>\$ 26.9</b>	<b>\$ 25.5</b>	<b>\$ 26.6</b>	<b>\$ 25.7</b>	<b>\$ 24.7</b>
Contribution as a % of Franchise sales.....	3.8%	4.3%	4.4%	4.4%	4.6%	4.4%	4.3%	4.2%	4.1%
Retail and Catering sales.....	\$ 83.0	\$ 75.9	\$ 92.3	\$ 76.9	\$ 74.8	\$ 72.5	\$ 85.0	\$ 69.9	\$ 70.0
<b>Contribution from Retail and Catering</b> .....	<b>\$ 14.8</b>	<b>\$ 7.6</b>	<b>\$ 13.1</b>	<b>\$ 8.0</b>	<b>\$ 7.2</b>	<b>\$ 8.2</b>	<b>\$ 12.5</b>	<b>\$ 8</b>	<b>\$ 6.8</b>
Contribution as a % of Retail & Catering sales.....	17.8%	10.1%	14.2%	10.4%	9.6%	11.3%	14.7%	11.4%	9.7%
Contribution from Central segment before The Keg royalty.....	\$ 4.7	\$ (5.7)	\$ 5.0	\$ 1.9	\$ 4.8	\$ 1.8	\$ 6.5	\$ (0.4)	\$ 1.7
Contribution as a % of total System Sales.....	1.2%	(0.8)%	0.6%	0.6%	1.0%	0.2%	1.1%	0.3%	0.6%
Total gross revenue.....	\$ 140.4	\$ 269.9	\$ 327.0	\$ 309.0	\$ 311.9	\$ 304.6	\$ 328.2	\$ 312.4	\$ 309.5
Operating EBITDA Margin <sup>(1)</sup> .....	11.1%	7.6%	18.5%	16.0%	18.0%	16.4%	19.3%	16.4%	17.3%
<b>Earnings (loss) before income taxes</b> .....	<b>\$ (52.7)</b>	<b>\$ (50.1)</b>	<b>\$ (6.0)</b>	<b>\$ 11.9</b>	<b>\$ 23.8</b>	<b>\$ 31.3</b>	<b>\$ 15.4</b>	<b>\$ 31.4</b>	<b>\$ 28.5</b>
Net earnings (loss).....	\$ (40.6)	\$ (41.2)	\$ (1.9)	\$ 6.7	\$ 16.6	\$ 22.7	\$ 9	\$ 23.8	\$ 19.5
<b>Adjusted Net Earnings<sup>(1)</sup></b> .....	<b>\$ 6.2</b>	<b>\$ 7.3</b>	<b>\$ 44.8</b>	<b>\$ 19.5</b>	<b>\$ 23.4</b>	<b>\$ 18.3</b>	<b>\$ 35</b>	<b>\$ 25.3</b>	<b>\$ 24.5</b>
Net earnings (loss) attributable to common shareholders of the Company.....	\$ (40.3)	\$ (41.0)	\$ (1.6)	\$ 6.8	\$ 16.6	\$ 22.5	\$ 9	\$ 23.6	\$ 19.5
EPS attributable to common shareholders of the Company (in dollars).....									
Basic EPS.....	\$ (0.72)	\$ (0.73)	\$ (0.03)	\$ 0.11	\$ 0.27	\$ 0.36	\$ 0.15	\$ 0.38	\$ 0.31
Diluted EPS.....	\$ (0.72)	\$ (0.73)	\$ (0.03)	\$ 0.11	\$ 0.26	\$ 0.35	\$ 0.14	\$ 0.37	\$ 0.3
<b>Adjusted Basic EPS<sup>(1)</sup></b> .....	<b>\$ 0.11</b>	<b>\$ 0.13</b>	<b>\$ 0.79</b>	<b>\$ 0.32</b>	<b>\$ 0.39</b>	<b>\$ 0.30</b>	<b>\$ 0.57</b>	<b>\$ 0.41</b>	<b>\$ 0.39</b>
<b>Adjusted Diluted EPS<sup>(1)</sup></b> .....	<b>\$ 0.11</b>	<b>\$ 0.13</b>	<b>\$ 0.77</b>	<b>\$ 0.31</b>	<b>\$ 0.37</b>	<b>\$ 0.29</b>	<b>\$ 0.55</b>	<b>\$ 0.39</b>	<b>\$ 0.38</b>
<b>Free Cash Flow before growth capex, dividends, and NCIB<sup>(1)</sup></b> .....	<b>\$ 3.6</b>	<b>\$ (4.3)</b>	<b>\$ 44.3</b>	<b>\$ 36.1</b>	<b>\$ 40.0</b>	<b>\$ 35.5</b>	<b>\$ 47.2</b>	<b>\$ 37.3</b>	<b>\$ 41.0</b>
Free Cash Flow per share - basic (in dollars).....	\$ 0.06	\$ (0.08)	\$ 0.79	\$ 0.59	\$ 0.65	\$ 0.58	\$ 0.76	\$ 0.6	\$ 0.66
Free Cash Flow per share - diluted (in dollars).....	\$ 0.06	\$ (0.08)	\$ 0.76	\$ 0.58	\$ 0.63	\$ 0.56	\$ 0.74	\$ 0.58	\$ 0.63

<sup>(1)</sup> See “Non-IFRS Measures” on page 32 for definitions of Free Cash Flow, System Sales, SRS, Adjusted Net Earnings, Operating EBITDA, Operating EBITDA Margin on System Sales, and Adjusted EPS. See pages 8 and 32 for a reconciliation of Net Earnings to these Non-IFRS measures.

The Company's quarterly operating results may fluctuate significantly because of numerous factors, including, but not limited to:

- restaurant and other complimentary acquisitions;
- the timing of restaurant openings and closures;
- increases and decreases in same restaurant sales growth;
- atypical weather as it relates to restaurant sales, for example the impact of snow storms on customer traffic, and patio sales are impacted by weather during the summer months;
- royalty recovery rates and the extent to which Recipe provides financial assistance or incurs bad debts with franchisees;
- restaurant operating costs for corporate-owned restaurants;
- labour availability and costs for hourly and management personnel at corporate-owned restaurants and at its manufacturing and distribution facilities;
- profitability of the corporate-owned restaurants, especially in new markets;
- fluctuations in sales to retail grocery chains, including seasonality;
- changes in interest rates;
- impairment of long-lived assets and any loss on restaurant closures for corporate-owned restaurants;
- macroeconomic conditions, both nationally and locally;
- changes in consumer preferences and competitive conditions;
- expansion in new markets;
- increases in fixed costs;
- fluctuations in commodity prices; and
- public health issues and related matters.

### **Commentary on Quarterly Results**

Seasonal factors and the timing of holidays cause the Company's revenue to fluctuate from quarter to quarter. Adverse weather conditions may also affect customer traffic during the quarter. The Company has outdoor patio seating at some of its restaurants, and the effects of adverse weather may impact the use of these areas and may negatively impact the Company's revenue. Food processing and distribution sales are typically highest in the fourth quarter, followed by the third quarter, then the first quarter, with the second quarter being lowest. During the quarters with higher sales, food processing and distribution contribution rate is also higher as fixed overhead costs are covered by higher gross margin.

System Sales decreased from \$871.3 million in Q2 2019 to \$389.8 million in Q2 2020. The decrease in Q2 2019 was driven by the government mandated temporary restaurant closures in March 2020 related to COVID-19. The mandated temporary restaurant dining room closures or partial closures were in effect for the entirety of Q2 2020.

Operating EBITDA declined from \$56.0 million in Q2 of 2019 to \$15.6 million Q2 2020. Excluding The Keg royalty, Operating EBITDA in Q2 2019 was \$59.4 million and \$15.1 million in Q2 2020. The decrease in Q2 2020 was primarily related to the COVID-19 restaurant closures in the quarter.

Operating EBITDA Margin on System Sales decreased from 6.4% in Q2 2019 to 4.0% in Q2 2020. Operating EBITDA has been impacted by the System Sales declines and restaurant closure costs as a result of COVID-19.

Contribution dollars from the corporate restaurant segment have fluctuated (year over year) each quarter as a result of the addition and sale of corporate restaurants and from taking back under-performing previously subsidized franchise locations. Quarterly contribution from the corporate segment decreased from \$20.5 million in Q2 2019 and to (\$13.5) million in Q2 2020. Contribution in Q2 2020 declined as a result of the COVID-19 related system sales decrease, full period fixed costs (including rent), partially offset by a decrease of variable overhead costs as a result of corporate restaurant closures and wage subsidies.

The franchise restaurant segment contribution as a percentage of System Sales was 3.8% in Q2 2020 compared to 4.6% in 2019. Quarterly contribution from the franchise segment has declined from \$26.9 million in Q2 2019 to \$9.1 million in Q2 2020. The decrease is driven by the negative sales impact as a result of COVID-19 and reflects the Company's direct support to its franchise partners, including the 2020 royalty reduction program.

Contribution from retail and catering has grown from \$7.2 million in Q2 2019 to \$14.8 million in Q2 2020. The increases are related increased sales to retail grocery customers due to COVID-19 and the receipt of wage subsidies.

Contribution from the central segment before The Keg royalty expense changed from \$4.8 million in Q2 2019, and to \$4.7 million in Q2 2020. The net change reflects an increase in off-premise and delivery orders as a result of COVID-19, wage subsidies, offset by decreases in vendor volume rebates, less property rent and reductions in equipment rental revenue related to the expiry of equipment rental agreements with franchisees.

Total gross revenue decreased from \$311.9 million in Q2 2019 to \$140.4 million Q2 2020. The decrease in Q2 2020 was related to the sharp decrease in restaurant sales as a result of government mandated restaurant closures due to COVID-19, partially offset by sales increases in the Retail and Catering segment.

Quarterly earnings before income taxes has changed from \$23.8 million in Q2 2019 and to a loss of \$52.7 million in Q2 2020.

Free Cash Flow before growth capex, dividends, and NCIB has decreased from \$40.0 million in Q2 2019 to \$3.6 million in Q2 2020. On a diluted per share basis, Free Cash Flow before growth capex, dividends, and NCIB has decreased from \$0.63 in Q2 2019 and to \$0.06 in Q2 2020. Historically, the strong Free Cash Flows have been used to pay and increase dividends to shareholders, to reduce the Company's borrowings from various acquisitions, to invest in the Company's core brands, and to repurchase the Company's subordinate voting shares.

## Liquidity and Capital Resources

Recipe's principal uses of funds are for operating expenses (including net lease payments), capital expenditures, finance costs, debt service, dividends and the repurchase of its subordinate voting shares through its NCIB. Management believes that cash generated from operations, together with amounts available under its credit facility (refer to page 23), will be sufficient to meet its future operating expenses, capital expenditures, future debt service costs, discretionary dividends, and discretionary share repurchases. However, Recipe's ability to fund future debt service costs, operating expenses, capital expenditures and dividends will depend on its future operating performance which will be affected by general economic, financial and other factors including factors beyond its control. See "Risk and Uncertainties" (refer to page 38). Recipe's management reviews acquisition and investment opportunities in the normal course of its business and, if suitable opportunities arise, may make selected acquisitions and investments to implement Recipe's business strategy. Historically, the funding for any such acquisitions or investments have come from cash flow from operating activities, additional debt, or the issuance of equity. Similarly, from time to time, Recipe's management reviews opportunities to dispose of non-core assets and may, if suitable opportunities arise, sell certain non-core assets.

(C\$ millions unless otherwise stated)	June 28, 2020	December 29 2019	June 30, 2019
Revolving credit facility.....	\$ 550.0	\$ 550.0	\$ 550.0
Add: Private notes.....	250.0	250.0	250.0
Add: The Keg credit facilities.....	60.0	60.0	47.0
<b>Subtotal - credit availability</b> .....	<b>\$ 860.0</b>	<b>\$ 860.0</b>	<b>\$ 847.0</b>
Less: Draw on revolving credit facility.....	(449.3)	(210.3)	(128.3)
Less: Draw on private notes.....	(250.0)	(250.0)	(250.0)
Less: Draw on The Keg credit facilities.....	(19.0)	(19.0)	(19.0)
<b>Subtotal - credit remaining</b> .....	<b>\$ 141.7</b>	<b>\$ 380.7</b>	<b>\$ 449.7</b>
Cash.....	231.1	40.4	42.7
<b>Liquidity<sup>(1)(2)</sup></b> .....	<b>\$ 372.8</b>	<b>\$ 421.1</b>	<b>\$ 492.4</b>
	<b>June 28, 2020</b>	<b>December 29 2019</b>	<b>June 30, 2019</b>
Draw on revolving credit facility.....	\$ (449.3)	\$ (210.3)	\$ (128.3)
Draw on private notes.....	(250.0)	(250.0)	(250.0)
Draw on The Keg credit facilities.....	(19.0)	(19.0)	(19.0)
<b>Subtotal - total debt</b> .....	<b>\$ (718.3)</b>	<b>\$ (479.3)</b>	<b>\$ (397.3)</b>
Cash.....	231.1	40.4	42.7
<b>Net debt</b> .....	<b>\$ (487.2)</b>	<b>\$ (438.9)</b>	<b>\$ (354.6)</b>
	<b>26 weeks ended June 28, 2020</b>	<b>52 weeks ended Dec 29, 2019</b>	<b>26 weeks ended June 30, 2019</b>
Operating EBITDA <sup>(4)</sup> .....	\$ 36.3	\$ 216.0	\$ 106.1
Net debt to Operating EBITDA <sup>(4)</sup> .....	3.6x	2.2x	1.7x
Free cash flow <sup>(4)</sup> , before growth capex, dividends and NCIB.....	\$ (0.5)	\$ 155.9	\$ 75.5
Free cash flow <sup>(4)</sup> , after growth capex, dividends and NCIB.....	\$ (15.7)	\$ 65.0	\$ 31.4

(1). Liquidity excludes \$250 million Accordion feature that is available but subject to lender approval.

(2). Minimum liquidity for 2020 under the Company's amended debt covenant is \$100 million.

(3). Under the Company's amended debt covenants, the Net Debt to EBITDA leverage covenant will not be tested in the second or third quarters of 2020.

(4). See "Non-IFRS Measures" on page 32 for definitions of Operating EBITDA and Free Cash Flow. See page 8 for a reconciliation of Net Earnings to Operating EBITDA and to Free Cash Flow.

## Working Capital

A working capital deficit is typical of restaurant operations, where the majority of sales are for cash and there are rapid turnover of inventories. In general, the turnover of accounts receivable and inventories is faster than accounts payable, resulting in negative working capital. Sales of Recipe's Ultimate Gift Card and The Keg gift card significantly improves the Company's liquidity in the fourth quarter as cash is received within one to two weeks from time of sale. Gift card sales are highest in November and December followed by high redemptions in the January to March period. Recipe's gift card liability at June 28, 2020 was \$131.2 million compared to \$167.6 million at December 29, 2019, a decrease of \$36.4 million which reflects seasonality and partially offset by lower gift card redemptions during the period as a result of COVID-19. The following table presents Recipe's working capital as at June 28, 2020 compared to December 29, 2019:

(C\$ millions unless otherwise stated)	June 28, 2020	December 29, 2019	change in working capital
Cash.....	\$ 231.1	\$ 40.4	\$ (190.7)
Accounts receivable.....	78.0	117.3	39.3
Inventories.....	40.6	39.8	(0.8)
Current taxes receivable.....	2.5	—	(2.5)
Prepaid expenses and other assets.....	7.9	6.5	(1.4)
Current portion of lease receivables.....	58.2	80.3	22.1
<b>Total Current Assets</b> <sup>(1)</sup> .....	<b>\$ 418.4</b>	<b>\$ 284.3</b>	<b>\$ (134.0)</b>
Accounts payable and accrued liabilities.....	\$ 120.8	\$ 124.6	\$ (3.8)
Provisions.....	2.3	4.7	(2.4)
Gift card liability.....	131.2	167.6	(36.4)
Income taxes payable.....	7.2	12.0	(4.8)
Current portion of lease liability.....	121.7	121.8	(0.1)
<b>Total Current Liabilities</b> <sup>(1)</sup> .....	<b>\$ 383.2</b>	<b>\$ 430.8</b>	<b>\$ (47.5)</b>
<b>Working capital surplus/ (deficit)</b> <sup>(1)</sup> .....	<b>\$ 35.2</b>	<b>\$ (146.5)</b>	<b>\$ (181.5)</b>

<sup>(1)</sup> Figures may not total due to rounding.

At June 28, 2020, Recipe had a working capital of \$35.2 million compared to a deficit of \$146.5 million at December 29, 2019. The change in working capital of \$181.5 million was related to the \$300.0 million drawn from the Company's credit facility at the end of March to increase liquidity in response to COVID-19, offset by the subsequent repayment of \$56.0 million in the second quarter.

Investment in working capital may be affected by fluctuations in the prices of food and other supply costs, vendor terms and the seasonal nature of the business. While Recipe has availability under its credit facility, historically it chooses to apply available cash flow against its facility to lower financing costs, rather than to reduce its current liabilities, while still paying within its payment terms. Management believes that once restaurants are fully open it will continue to operate in a working capital deficit position as the nature of its business is not expected to change.

## Cash Flows

The following table presents Recipe's cash flows for the 13 and 26 weeks ended June 28, 2020 compared to the 13 and 26 weeks ended June 30, 2019:

<u>(C\$ millions unless otherwise stated)</u>	<u>13 weeks ended</u>		<u>26 weeks ended</u>	
	<u>June 28,</u> <u>2020</u>	<u>June 30,</u> <u>2019</u>	<u>June 28,</u> <u>2020</u>	<u>June 30,</u> <u>2019</u>
Cash flows from (used in) operating activities.....	\$ 20.6	\$ 61.3	\$ 27.2	\$ 90.4
Cash flows from (used in) investing activities.....	\$ 10.3	\$ 3.8	\$ 22.2	\$ 15.4
Cash flows (used in) from financing activities.....	\$ (111.8)	\$ (63.8)	\$ 141.6	\$ (112.7)
Change in cash during the period <sup>(1)</sup>	<u>\$ (81.0)</u>	<u>\$ 1.3</u>	<u>\$ 191.0</u>	<u>\$ (6.9)</u>

<sup>(1)</sup> Figures may not total due to rounding.

### *Cash flows from operating activities of continuing operations*

Cash flows from operating activities were \$20.6 million and \$27.2 million for the 13 and 26 weeks ended June 28, 2020 compared to \$61.3 million and \$90.4 million in 2019, a decrease of \$40.7 for the quarter and a decrease of \$63.2 million year to date. The decrease was primarily related to decrease earnings, and an increase in accounts receivable.



### *Cash flows used in investing activities of continuing operations*

The following table presents Recipe's capital expenditures for the 13 and 26 weeks ended June 28, 2020 compared to the 26 weeks ended June 30, 2019:

(C\$ millions unless otherwise stated)	13 weeks ended		26 weeks ended	
	June 28, 2020	June 30, 2019	June 28, 2020	June 30, 2019
Purchase of property, plant and equipment:				
<u>Maintenance:</u>				
Corporate restaurants .....	\$ 1.6	\$ 1.1	\$ 3.6	\$ 2.8
Central / IT expenditures / Other .....	2.4	4.5	4.2	7.8
Total maintenance .....	\$ 4.0	\$ 5.6	\$ 7.8	\$ 10.6
<u>Growth initiatives:</u>				
Major renovations .....	\$ 2.1	\$ 2.9	\$ 2.7	\$ 4.0
New builds .....	1.2	5.0	5.7	8.5
Total growth .....	\$ 3.3	\$ 7.9	\$ 8.4	\$ 12.5
<b>Total purchase of property, plant and equipment <sup>(1)</sup> .....</b>	<b>\$ 7.4</b>	<b>\$ 13.5</b>	<b>\$ 16.3</b>	<b>\$ 23.1</b>
Common control transactions, net of cash assumed:				
Acquisitions .....	\$ —	\$ 5.0	\$ —	\$ 5.4
Buy backs .....	1.2	—	1.2	3.4
<b>Total common control transactions, net of cash assumed .....</b>	<b>\$ 1.2</b>	<b>\$ 5.0</b>	<b>\$ 1.2</b>	<b>\$ 8.8</b>
Total purchase of property, plant and equipment .....	\$ (7.4)	\$ (13.5)	\$ (16.3)	\$ (23.1)
Acquisitions .....	—	(5.0)	—	(5.4)
Buy backs <sup>(1)</sup> .....	(1.2)	—	(1.2)	(3.4)
Proceeds on disposal of property, plant and equipment .....	—	0.9	0.1	0.9
Proceeds on early buyout of equipment and rental contracts .....	1.0	0.1	1.7	0.1
Investment in joint ventures .....	1.1	—	0.6	—
Additions to other assets .....	—	—	(1.1)	—
Share of loss from investment in associates in joint ventures .....	(0.1)	0.1	(0.2)	0.7
Lease payments received or receivable .....	22.4	22.7	45.3	46.3
Change in long term receivables .....	(5.5)	(1.5)	(6.7)	(0.7)
<b>Total cash flows from (used in) investing activities <sup>(1)</sup> .....</b>	<b>\$ 10.3</b>	<b>\$ 3.8</b>	<b>\$ 22.2</b>	<b>\$ 15.4</b>

<sup>(1)</sup> Figures may not total due to rounding.

Cash flows from investing activities were \$10.3 million and \$22.2 million for the 13 and 26 weeks ended June 28, 2020 compared to cash used in investing activities of \$3.8 million and \$15.4 million in 2019, a change of \$6.5 million for the quarter and a change of \$6.8 million for the quarter.

### *Commitments for Capital Expenditures*

The Company incurs on-going capital expenditures in relation to the operation of its buildings, corporate restaurants, manufacturing equipment and distribution centers, maintenance and upgrades to its head office and restaurant IT infrastructure, and to its call centre operations. The Company will also invest in major renovations and new corporate store growth opportunities. Recipe's capital expenditures are generally funded from operating cash flows and through its existing Credit Facility.

### Cash flows (used in) from financing activities

The following table presents Recipe's cash used in financing activities for the 13 and 26 weeks ended June 28, 2020 compared to the 13 and 26 weeks ended June 30, 2019:

(C\$ millions unless otherwise stated)	13 weeks ended		26 weeks ended	
	June 28, 2020	June 30, 2019	June 28, 2020	June 30, 2019
Issuance of long-term debt .....	\$ —	\$ 265.0	\$ 300.0	\$ 265.0
Repayment of long-term debt .....	(56.0)	(257.7)	(61.0)	(258.7)
Deferred financing costs .....	(0.3)	(2.9)	(0.3)	(2.9)
Issuance of subordinated voting common shares .....	—	0.6	—	1.9
Share re-purchase .....	—	(11.7)	(0.3)	(18.8)
Change in lease liabilities .....	(6.8)	—	(6.8)	—
Lease liabilities paid or payable .....	(31.3)	(38.7)	(69.0)	(76.2)
Interest paid on long-term debt and note payable .....	(10.9)	(4.6)	(14.4)	(9.3)
Dividends paid on subordinate and multiple voting shares .....	(6.6)	(13.8)	(6.6)	(13.8)
<b>Cash flows (used in) from financing activities <sup>(1)</sup> .....</b>	<b>\$ (111.8)</b>	<b>\$ (63.8)</b>	<b>\$ 141.6</b>	<b>\$ (112.7)</b>

<sup>(1)</sup> Figures may not total due to rounding.

Cash flows used in financing activities were \$111.8 million for the 13 weeks ended June 28, 2020. Cash used in financing activities in the second quarter primarily consist of debt repayments of \$56.0 million and lease liability payments of (\$31.3) million. Cash flows from financing activities were \$141.6 million for the 26 weeks ended June 28, 2020. Cash from financing activities year to date primarily consists of an increase of \$300.0 million related to the credit facility increase at the end of March to increase liquidity during COVID-19, partially offset by lease liability payments of \$69.0 million and debt repayments of \$61.0 million.

### Impact of COVID-19

(C\$ millions unless otherwise stated)	13 weeks ended	26 weeks ended
	June 28, 2020	June 28, 2020
Change in cash during the period .....	\$ (81.0)	\$ 191.0
Debt repayments .....	(56.0)	(61.0)
Change in cash before debt repayments .....	<u>\$ (25.0)</u>	<u>\$ 252.0</u>

On March 17, 2020, the Company drew \$300.0 million on its revolving credit facility to provide liquidity during the COVID-19 period, and subsequently repaid \$56.0 million in the second quarter. Through prudent cash management, change in cash before debt repayments was (\$25.0) million for the 13 weeks ended June 28, 2020. This reflects cash used in the Company's regular operating, financing and investing activities, as well as the various initiatives taken by the Company to provide direct support to its franchisee partners during the COVID-19 period. For the second quarter, the cost of these initiatives were approximately \$17.8 million and was offset by the cash received from the government wage subsidies of \$25.3 million in the second quarter.

The Company will continue to prudently manage its cash flow during the COVID-19 period. The initiatives taken by the Company to provide direct support to franchise partners will continue to the end of 2020. The cash cost of the rent certainty and royalty subsidy programs is expected to be approximately \$26.6 million for the third and fourth quarters. The Company expects to continue to be eligible for government wage subsidies as the government program was extended to December 19, 2020. The Company also expects certain franchise locations receive government rent assistance in the third quarter.

## **Debt**

### **Private debt**

On May 1, 2019, the Company issued \$250.0 million First Lien 10 year Senior Secured Notes by way of a private placement (the “Notes”). The Notes rank pari passu in right of payment with the lenders under the Company’s amended and restated credit agreement (“New Credit Facility”), are secured on a first lien basis on the assets that secure the Company’s New Credit Facility, and are guaranteed by all material subsidiaries and holding companies of the Company on the same basis as the New Credit Facility. The Notes bear interest from their date of issue at a rate of 4.72% per annum, payable semi-annually and maturing on May 1, 2029. On May 7, 2020, the Company amended its lending covenants with its private lenders, which resulted in a temporary increase in the interest rate by 0.85% per annum, until December 27, 2020. From December 28, 2020 until September 26, 2021, the additional interest rate will vary, subject to quarterly leverage ratio levels. As at June 28, 2020, there were \$250.0 million (December 29, 2019 - \$250.0 million; June 30, 2019 - \$250.0 million) of Notes outstanding.

### **Term credit facility**

On May 1, 2019, the Company amended and extended the terms of its existing syndicated bank credit facility. The New Credit Facility, the fifth amended and restated credit agreement, is comprised of a revolving credit facility in the amount of \$550.0 million with an accordion feature of up to \$250.0 million. The \$550.0 million revolving facility includes a \$400.0 million tranche that matures on May 1, 2024 and a \$150.0 million tranche that matures on May 1, 2022. The \$250.0 million accordion feature is applicable to either tranche and it has been upsized from \$50.0 million under the Company’s previous credit facility.

The interest rate applied on amounts drawn by the Company under its new credit facility is the effective bankers’ acceptance rate or prime rate plus a spread. The spread is based on the Company’s total funded net debt to Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”) ratio, as defined in the new credit agreement, measured using EBITDA for the four most recently completed fiscal quarters.

On March 17, 2020, the Company drew \$300.0 million from its credit facility in response to COVID-19 shut-down measures to provide the Company additional liquidity. The Company then repaid \$56.0 million during the second quarter. On May 7, 2020, the Company amended its lending covenants with its syndicated lenders. As at June 28, 2020, \$449.3 million (December 29, 2019 - \$210.3 million; June 30, 2019 - \$128.3 million) was drawn under the amended and extended credit facilities. For the 26 weeks ended June 28, 2020, the effective interest rate was 3.60% representing bankers acceptance rate of 0.92% plus 2.28% borrowing spread, standby fees and the amortization of deferred financing fees of 0.40%. As at June 28, 2020, the effective interest rate was 3.54%, representing bankers acceptance rate of 0.52% plus 2.30% borrowing spread, standby fees and the amortization of deferred financing fees of 0.72%. As a result of the covenant amendments, and included in the aforementioned rates, the borrowing spread interest rate increased by 0.85% and standby fees interest rate increased by 0.17%.

The Company is also required to pay a standby fee of between 0.20% and 0.46% per annum on the undrawn portion of the \$550.0 million revolving facility. The standby fee, like the interest rate, is based on the Company’s total funded net debt to EBITDA ratio. As of June 28, 2020 the standby fee rate was 0.46%.

As at June 28 2020, the Company was in compliance with all covenants and has not exceeded any covenant levels requiring early repayments. On May 7, 2020, the Company amended its lending covenants with both its syndicated lenders and private note holders. The covenant amendments are effective through Q3 2021 and are expected to be responsive to the financial impacts from continued dining room closures and gradual System Sales recoveries as guests return to restaurants. In return for the covenant amendments, the Company will incur higher interest costs subject to quarterly leverage ratio levels.

At the end of June 28, 2020, the Company had a Net Debt to EBITDA ratio of 3.6x. However, under the Company's amended covenants the Net Debt to EBITDA leverage ratio covenant will not be tested in the second and third quarters of 2020, instead the Company is required to maintain at least \$100 million of liquidity measured as cash on hand plus availability under its revolving credit facilities. At the end of Q2 2020, the Company had liquidity of \$359.8 million.

## **The Keg Facility**

On September 28, 2013, Keg Restaurants Ltd. ("KRL") entered into an amended multi-option credit agreement with its Canadian banking syndicate for the expansion of restaurant operations. The revolving credit and term loan facilities, with a syndicate of two Canadian banks, are available to finance the construction of certain new corporate restaurants and major renovations in Canada.

On November 29, 2019, the Company renegotiated the terms of its credit agreement with its existing banking syndicate to modify it from a revolving credit/term loan facility to an all revolving facility, increased the size of the facility to \$60.0 million, reduced the interest rate and extended the maturity date. The credit facility is now comprised of a \$55.0 million revolving facility with no set term of repayments and a \$5.0 million revolving demand operating facility. The Company's credit facility bears interest at a rate between bank prime plus 0% to bank prime plus 0.75%, based on certain financial criteria, rather than at bank prime plus 0.25% to bank prime plus 1.0%. The maturity date was extended from October 1, 2020 to July 4, 2022.

On June 26, 2020, KRL entered in to an amended and re-stated credit agreement with its Canadian banking syndicate. The amendment eliminates certain financial covenants and revises others until September 26, 2021. A new financial covenant that requires KRL's liquidity (the sum of cash on hand and available but undrawn credit) to not be less than certain specified values until December 27, 2020, tested on a quarterly basis. The interest rate on the bank debt will be increased from its existing level of bank prime to bank prime plus 1.75% effective June 29, 2020 until December 27, 2020.

As at June 28, 2020, \$19.0 million of this facility has been drawn (December 29, 2019 - \$19.0 million; June 30, 2019 - \$19.0 million).

The above credit facilities are secured by a general security agreement and hypothecation over KRL's Canadian and US assets and a pledge of all equity interests in the Partnership. As at June 28, 2020, KRL was in compliance with all bank covenants associated with these facilities.

## **Off Balance Sheet Arrangements**

### *Letters of credit*

Recipe has outstanding letters of credit amounting to \$0.6 million as at June 28, 2020, primarily for various utility companies that provide services to the corporate owned locations and support for certain franchisees' external financing used to fund their initial conversion fee payable to Recipe.

## **Outstanding Share Capital**

The Company's authorized share capital consists of an unlimited number of common shares and an unlimited number of non-voting common shares. As at August 6, 2020, there were 56,352,907 subordinate and multiple voting shares (December 29, 2019 – 56,378,425) issued and outstanding.

The Company has a common share stock option plan for its directors, CEO and employees. The total number of options granted and outstanding as at August 6, 2020 is 6,487,639.

## **Related Parties**

### *Shareholders*

As at June 28, 2020, the Principal Shareholders hold 70.7% of the total issued and outstanding shares and have 98.1% of the voting control attached to all the shares. Cara Holdings holds 22.6% of the total issued and outstanding shares, representing 36.5% voting control. Fairfax holds 48.1% of the total issued and outstanding shares, representing 61.7% voting control.

Fairfax and the Company are parties to a Shared Services and Purchasing Agreement. Under this agreement, Fairfax is authorized to enter into negotiations on behalf of the Company (and Fairfax associated restaurant companies) to source shared services and purchasing arrangements for any aspect of Recipe's operations, including food and beverages, information technology, payment processing, marketing and advertising or other logistics. There were no transactions under this agreement for the 26 weeks ended June 28, 2020 and June 30, 2019.

The Company's policy is to conduct all transactions and settle all balances with related parties on market terms and conditions.

### Insurance Provider

Some of Recipe's insurance policies are held by a company that is a subsidiary of Fairfax. The transaction is on market terms and conditions. As at June 28, 2020, no payments were outstanding.

### Investment in The Keg Partnership (the "Partnership") and The Keg Royalties Income Fund ("KRIF")

The Company's equity investment in the Partnership is represented by the investment in The Keg GP Ltd ("KGP"). The value of the equity investment in the Partnership is nominal as substantially all of the cash flows from the Partnership are attributable to the Class C and Class A, B and D Partnership units ("Exchangeable Partnership units" or "Exchangeable units").

#### *Investment in The Keg Royalties Income Fund*

During the 13 and 26 weeks ended June 28, 2020, the Company purchased nil KRIF units (52 weeks ended December 29, 2019 - 250,000 shares for \$4.0 million, 13 and 26 weeks ended June 30, 2019 - nil). The KRIF units held by the Company are measured at fair value through profit or loss. The closing market price of a Fund unit as at June 28, 2020 was \$9.48. Distributions on KRIF units are recorded as interest income on Partnership and Fund units in the consolidated statement of earnings.

#### *Exchangeable Unit Investment in the Partnership*

The Exchangeable unit investment in the Partnership is comprised of the Exchangeable Partnership units held by the Company, and measured at fair value through profit or loss. The closing market price of a Fund unit as at June 28, 2020 was \$9.48 (December 29, 2019 - \$15.37, June 30, 2019 - \$17.19).

During the 13 and 26 weeks ended June 28, 2020, the Company recorded income of \$3.2 million and a loss of (\$29.9) million representing the change in market price to \$9.48.

(in thousands of Canadian dollars)	June 28, 2020		December 29, 2019		June 30, 2019	
	# of units	Fair Value	# of units	Fair Value	# of units	Fair Value
Class A Partnership units.....	905,944	\$ 8,588	905,944	\$ 13,924	905,944	\$ 15,763
Class B Partnership units.....	176,700	1,675	176,700	2,716	176,700	3,075
Class D Partnership units.....	3,679,692	34,884	3,325,280	51,110	3,236,213	56,310
Exchangeable unit investment in the Partnership.....	4,762,336	\$ 45,148	4,407,924	\$ 67,750	4,318,857	\$ 75,148
Class C unit investment in the Partnership.....	5,700,000	57,000	5,700,000	57,000	5,700,000	57,000
<b>Investment in the Partnership.....</b>	<b>10,462,336</b>	<b>\$ 102,148</b>	<b>10,107,924</b>	<b>\$ 124,750</b>	<b>10,018,857</b>	<b>\$ 132,148</b>
Investment in KRIF units.....	250,000	2,370	250,000	3,843	—	—
Distributions earned on KRIF units..	—	129	—	47	—	—
	<b>10,712,336</b>	<b>\$ 104,647</b>	<b>10,357,924</b>	<b>\$ 128,640</b>	<b>10,018,857</b>	<b>\$ 132,148</b>

## **Other**

As at June 28, 2020, long-term receivables include a non-interest bearing employee demand note in the amount \$0.8 million (December 29, 2019 - \$0.8 million, June 30, 2019 - \$0.8 million).

As at June 28, 2020, the Company has a \$0.8 million royalty fee payable, including GST, to the Fund (December 29, 2019 - \$2.9 million, June 30, 2019 - \$2.5 million) and a \$0.3 million interest payable amount due to the Fund on the Keg Loan (December 29, 2019 - \$0.3, June 30, 2019 - \$0.4 million) included in accounts payable and accrued liabilities.

As at June 28, 2020, the Company has \$0.5 million in distributions receivable from the Partnership (December 29, 2019 - \$1.2 million June 30, 2019 - \$1.0 million) related to its ownership of the Class C and Exchangeable Partnership units. These amounts were received from the Partnership when due, subsequent to the above periods.

The Company performs accounting services for a company owned by a director. For 26 weeks ended June 28, 2020, KRL earned \$nil for these services (26 weeks ended June 30, 2019 – \$0.1 million).

The Company incurs royalty expense with respect to the license and royalty agreement between the Company and the Partnership. As a result of the common directors on the board of the Company and on the board of The Keg GP, the general partner of the Partnership, the royalty expense is treated as a related party transaction. The Company incurred royalty expense of \$6.5 million for the 26 weeks ended June 28, 2020 (26 weeks ended June 30, 2019 – \$12.8 million).

The Company also records investment income on its investment in Exchangeable units of the Partnership, Class C units of the Partnership, and investment in The Keg Royalties Income Fund units which is presented as interest income on Partnership and Fund units in the statements of earnings and comprehensive income. During 26 weeks ended June 28, 2020, the Company recorded investment income of \$3.9 million related to these units (26 weeks ended June 30, 2019 – \$5.5 million).

## **Investment in Original Joe's joint venture companies**

The Company has joint venture arrangements with certain Original Joe's franchises. The Company has an equity investment in these restaurants at varying ownership interests as well as term loans and demand loans related to new restaurant construction, renovation and working capital. As at June 28, 2020 there was a due from related party balance of \$15.7 million (December 29, 2019 - \$13.2 million, June 30, 2019 - \$11.6 million) which consists of term loans and demand loans secured by restaurant assets of the joint venture company which has been recorded at fair value and will be accreted up to the recoverable value over the remaining term of the loans. The term loans bear interest at rates ranging from 7.75% to 9.76% and all mature September 21, 2020. The term loans are reviewed and renewed on an annual basis. The expected current portion of these loans is \$1.0 million (December 29, 2019 - \$1.0 million, June 30, 2019 - \$1.0 million). The demand loans bear interest at 5% and have no specific terms of repayment. Pooling arrangements between the joint venture companies to share costs and repay the loans exist such that restaurants within a certain restaurant pool of common ownership agree that available cash from restaurants can be used to apply against balances outstanding among the group. For the 26 weeks ended June 28, 2020, the Company charged interest in the amount of \$37 thousand (26 weeks ended June 30, 2019 - \$0.1 million) on the term loans and demand loans.

The Company charges Original Joe's joint venture franchises a royalty and marketing fee of 5% and 2%, respectively, on net sales. As at June 28, 2020 the accounts receivable balance included \$0.2 million (December 29, 2019 - \$0.1 million, June 30, 2019 - \$0.1 million) due from related parties in relation to these royalty and marketing payments. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties in accordance with the franchise agreement.

The Company's investment in joint ventures are increased by the proportionate share of income earned. For the 26 weeks ended June 28, 2020, a decrease of \$0.1 million (26 weeks ended June 30, 2019 - \$38.0 thousand increase) to the investment balance was recorded in relation to the Company's proportionate share of income or loss for the period and included in share of income from investment in joint ventures on the statement of earnings.

## **Investment in Burger's Priest joint venture**

The Company has a 79.4% ownership interest in New & Old Kings and Priests Restaurants Inc. ("Burger's Priest") with the remaining 20.6% owned by a third party who has an earn-out agreement that can grow their ownership interest to 50% if

certain earnings targets are met. Both parties have joint control and all relevant activities require the unanimous consent from both parties. The Company has accounted for the investment by using the equity method.

The Company's investment is increased by the proportionate share of income earned. For the 13 and 26 weeks ended June 28, 2020, there investment balance increased by \$nil and \$0.2 million respectively (13 and 26 weeks ended June 30, 2019 - an increase of \$0.1 million and a decrease of \$0.2 million, respectively). The changes were recorded in relation to the Company's proportionate share of income for the period and included in share of loss from investment in joint ventures on the statement of earnings.

#### **Investment in 1909 Taverne Moderne joint venture**

The Company has an investment in a joint venture to operate two 1909 Taverne Moderne restaurants with a third party. As at June 28, 2020, the Company has invested \$5.3 million, recorded in long-term receivables (December 29, 2019 - \$4.7 million, June 30, 2019 - \$4.0 million). The loan receivable is unsecured, non-interest bearing and does not have defined repayment terms. As at June 28, 2020, an allowance of \$5.2 million (December 29, 2019 - \$4.7 million, June 30, 2019 - \$nil) has been provided against the long-term receivable. The Company and the third party each have a 50% ownership interest in the joint venture. Both parties have joint control and all relevant activities require the unanimous consent from both parties. The Company has accounted for the investment by using the equity method.

The Company's investment is increased by the proportionate share of income earned. For the 13 and 26 weeks ended June 28, 2020, there was \$nil recorded in the long term receivable balance (13 and 26 weeks ended June 30, 2019 - a decrease of \$0.2 million and \$0.5 million respectively) was recorded in relation to the Company's proportionate share of loss for the period and included in share of losses from investment in joint ventures on the statement of earnings.

#### **Investment in Rose Reisman Catering joint venture**

In connection with the acquisition of Pickle Barrel on December 1, 2017, the Company had a 50% ownership interest in Rose Reisman Catering and is considered a joint venture arrangement as both parties have joint control and all relevant activities require the unanimous consent from both parties.

On January 31, 2020, the Company purchased the remaining 50% interest in Rose Reisman Catering for an immaterial amount. The results of the business are fully included in the consolidated financial statements from February 1, 2020 to June 28, 2020.

All entities above are related by virtue of being under joint control with, or significant influence by, the Company.

## Outlook

The effects of COVID-19 on many businesses, especially restaurants, have been unexpected, sudden and unprecedented. Early estimates from industry data indicates food service sales in Canada have fallen by over 60%. The future effect of COVID -19 on the economy and businesses, in general, remains uncertain. The path that governments will follow in easing restrictions on business operations, and in particular restaurants, is yet to be determined and could last many months. It is also unclear how quickly consumer demand will resume or what capacity restraints may be enforced by various government authorities. Various levels of government have announced a number of important programs which are expected to be helpful to the success of individual restaurant businesses, including the Company's franchisees.

While Management's actions taken to provide liquidity during the COVID-19 shut down and recovery periods are considered to be sufficient for the foreseeable future, the future effect of COVID-19 on the economy and businesses, in general, remains uncertain. The medium and long term impact to the Company from COVID-19 will depend on the length of time restaurants are closed or are partially closed, if restaurants are forced to close again after they open, the capacity at which restaurants can operate once dining rooms are reopened, the financial solutions achieved with government, lenders, franchisees, and landlords and post COVID-19 consumer dining behaviours. Potential financial solutions which may be required include, but are not limited to, obtaining sufficient financial support from government(s) for the Company and its franchisees, obtaining rent relief from landlords and getting additional lender support if current lending accommodations are not sufficient.

Management expects that post COVID-19, the restaurant industry will be very different. There will be less restaurant seats in the market from competitors that will not re-open and from changes in consumer behaviour. Management believes it is well positioned with certain brands to build on its off-premise (takeout and delivery) and retail channels because of its established business platforms (IT investments in digital apps for online ordering, relationships with grocery chains). Management also believes that its brands and franchisees will manage through 2020 because of Recipe rent, royalty and cash flow assistance programs provided to franchisees, existing lender accommodations to Recipe and franchisees, wage subsidies from the Federal Government and continued focus on off-premise sales channels in addition to dining room offerings. Consequently, Recipe brands and franchisees should enter 2021 well positioned to compete without lingering hardships from COVID-19.

Management will be redefining its key initiatives and priorities for the balance of fiscal 2020 and 2021, as it evaluates the impact of COVID-19 on its business and the changes the Company will need to implement in response to the expected changes in consumer behaviour.

Focus on the short to medium term will include:

- a. Expanding dining room sales by maximizing seating capacity and table turns through strategic seating plans, table separations and/ or safety shields between tables and reservation systems, while still maintaining social distancing protocols with focus on keeping our associates and guests safe;
- b. Reducing menu size and complexity to deliver on the 4-Pillar strategy of exceeding customer expectations for food quality, service, value and ambiance, while improving profitability flow through;
- c. Manage and improve the long-term health of its network & restaurant profitability by providing tools and guidance to government assistance programs (in particular the CEWS program), providing rent assistance through the Recipe Rent Certainty Program, reducing and/or deferring non-essential restaurant costs, and working with our franchisee lending partners to defer franchisee loan payments and to ensure our franchisees have full access to the emergency loan programs that the government has introduced in response to COVID-19;
- d. Actively negotiating early exit and permanent closure of under-performing restaurants that were identified at the end of 2019;
- e. Continue to expand the Company's off premise business for all brands with digital and mobile order applications and brand appropriate features including curb-side pick-up, preorder and pay, other payment convenience options and multi-brand offerings like Ultimate Kitchens;
- f. Reduce and adjust overhead cost structure in response to slower growth and revenue reductions, including rent and overhead cost reductions, and taking advantage of government initiatives like the wage subsidies to help offset the



reduction in revenues. The Company expects it will continue to qualify for the government wage subsidy program (CEWS) for the balance of 2020 and will report the recoveries earned in future quarters.

At the end of the first quarter, the Company opened its first Ultimate Kitchen concept in Toronto. The Ultimate Kitchen is a delivery only concept offering customers greater choice from the ability to order from multiple brands on the same order or to simply order from a specific brand. The Ultimate Kitchen represents a significant opportunity for future growth and expansion for Recipe. It is on-point with the shift in consumer behaviour, and is a viable option for us to serve markets where it may otherwise be cost prohibitive to build a traditional restaurant and its focus on a single channel will enable us to better serve our Guests while being profitable. The Company intends to open up to 4 Ultimate Kitchens in 2020.

The foregoing description of Recipe's outlook is based on management's current strategies and its assessment of the outlook for the business and the Canadian Restaurant Industry as a whole, may be considered to be forward-looking information for purposes of applicable Canadian securities legislation. Readers are cautioned that actual results may vary. See "Forward-Looking Information" and "Risk & Uncertainties" for a description of the risks and uncertainties that impact the Company's business and that could cause actual results to vary.

### **Future Accounting Changes**

New standards and amendments to existing standards have been issued and may be applicable to the Company for its annual periods beginning on or after December 30, 2019. See note 3 of the Company's consolidated financial statements for the year ended December 29, 2019 for a summary of new accounting standards adopted during 2019 and note 4 for a summary of future accounting standards not yet adopted.

### **Controls and Procedures**

There were no material changes in the Company's internal controls over financial reporting during the 13 weeks ended June 28, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

### **Critical Accounting Judgments and Estimates**

The preparation of the condensed consolidated interim financial statements requires management to make various judgements, estimates and assumptions in applying the Company's accounting policies except those adopted using the judgements from the first quarter on 2019 and the key sources of estimation of uncertainty were the same as those that applied to the Company's audited annual consolidated financial statements as at and for the year ended December 29, 2019.

### **Non-IFRS Measures**

This MD&A makes reference to certain non-IFRS measures. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under IFRS. The Company uses non-IFRS measures including "System Sales", "SRS Growth", "EBITDA", "Operating EBITDA", "Operating EBITDA Margin", "Operating EBITDA Margin on System Sales", "Adjusted Net Earnings", "Adjusted Basic EPS", and "Adjusted Diluted EPS", and "Free Cash Flow" to provide investors with supplemental measures of its operating performance and thus highlight trends in its core business that may not otherwise be apparent when relying solely on IFRS financial measures. The Company also believes that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. The Company's management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets, and to determine components of management compensation.

"**System Sales**" represents top-line sales from restaurant guests at both corporate and franchise restaurants including take-out and delivery customer orders. System Sales includes sales from both established restaurants as well as new restaurants. System sales also includes sales received from its food processing and distribution division. Management believes System Sales provides meaningful information to investors regarding the size of Recipe's restaurant network, the total market share

of the Company's brands sold in restaurant and grocery and the overall financial performance of its brands and restaurant owner base, which ultimately impacts Recipe's consolidated financial performance.

**"System Sales Growth"** is a metric used in the restaurant industry to compare System Sales over a certain period of time, such as a fiscal quarter, for the current period against System Sales in the same period in the previous year.

**"SRS Growth"** is a metric used in the restaurant industry to compare sales earned in established locations over a certain period of time, such as a fiscal quarter, for the current period against sales in the same period in the previous year. SRS Growth helps explain what portion of sales growth can be attributed to growth in established locations and what portion can be attributed to the opening of net new restaurants. Recipe defines SRS Growth as the percentage increase or decrease in sales during a period of restaurants open for at least 24 complete fiscal months relative to the sales of those restaurants during the same period in the prior year. Recipe's SRS Growth results excludes Casey's restaurants as the Company is in the process of winding down its operations; and sales from international operations from New York Fries and East Side Mario's in the US.

**"EBITDA"** is defined as net earnings before: (i) net interest expense and other financing charges; (ii) income taxes; (iii) depreciation of property, plant and equipment; (iv) amortization of other assets and deferred gain.

**"Operating EBITDA"** is defined as net earnings before: (i) net interest expense and other financing charges; (ii) income taxes; (iii) depreciation of property, plant and equipment; (iv) amortization of other assets and deferred gain; (v) impairment of assets, net of reversals; (vi) losses on early buyout / cancellation of equipment rental contracts; (vii) restructuring and other; (viii) conversion fees; (ix) net (gain) / loss on disposal of property, plant and equipment; (x) stock based compensation, costs related to its restricted share units, and one-time cash payments related to the exercise and settlement of stock options; (xi) changes in onerous contract provision; (xii) expense impact from fair value inventory adjustment resulting from the St-Hubert purchase relating to inventory sold during the period; (xiii) acquisition related transaction costs; (xiv) change in fair value of non-controlling interest liability; (xv) change in fair value of Exchangeable Partnership units; (xvi) the Company's proportionate share of equity accounted investment in joint ventures; (xvii) interest income from the Partnership units; and the rent expense impact related to the implementation of IFRS 16, "Leases".

**"Operating EBITDA Margin"** is defined as Operating EBITDA divided by total gross revenue.

**"Operating EBITDA Margin on System Sales"** is defined as Operating EBITDA divided by System Sales.

**"Net Debt to Operating EBITDA"** is defined as Total Net Funded Debt divided by the trailing 12 months EBITDA as defined under the amended credit agreement.

**"Free Cash Flow before capex, dividends and NCIB"** is defined as Operating EBITDA less (i) cash interest paid; (ii) maintenance capex; and (iii) cash taxes paid.

**"Free Cash Flow after capex, dividends and NCIB"** is defined as Operating EBITDA less (i) cash interest paid; (ii) maintenance capex; (iii) cash taxes paid; (iv) growth capex; (v) dividends paid; (vi) shares repurchased under the NCIB; and (vii) proceeds from sale of assets.

**"Adjusted Net Earnings"** is defined as net earnings plus (i) change in fair value of non-controlling interest liability; (ii) change in fair value of Exchangeable Partnership units; (iii) one-time transaction costs; (iv) non-cash impairment charges; (v) restructuring and other; (vi) amortization of unearned conversion fees income; (vii) losses on early buyout/cancellation of equipment rental contracts; (viii) net gain on disposal of property, plant and equipment and other assets; and (ix) write-off of deferred financing fees.

**"Adjusted Basic EPS"** is defined as Adjusted Net Earnings divided by the weighted average number of shares outstanding.

**"Adjusted Diluted EPS"** is defined as Adjusted Net Earnings divided by the weighted average number of shares outstanding plus the dilutive effect of stock options and RSUs.

The following table provides reconciliations of Net Earnings and Adjusted Net Earnings:

	Q2 – 2020	Q1 – 2020	Q4 – 2019	Q3 – 2019
	Jun 28	Mar 29	Dec 29	Sep 29
(C\$ millions unless otherwise stated)	2020	2020	2019	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Reconciliation of net earnings to Adjusted Net Earnings</b>				
Net earnings (loss).....	\$ (40.6)	\$ (41.2)	\$ (1.9)	\$ 6.7
Transaction costs.....	0.2	0.1	1.8	0.1
Write off of deferring financing fees.....	—	—	—	(1.0)
Impairment charges.....	47.4	16.3	47.6	5.7
Restructuring and other.....	1.9	(1.1)	3.6	2.6
Change in fair value of non-controlling interest liability.....	—	—	(10.3)	—
Change in fair value of exchangeable Partnership units.....	(3.2)	33.1	5.1	3.1
Amortization of unearned conversion fees income.....	(0.1)	—	—	0.3
(Gains)/ Losses on early buyout/cancellation of equipment rental contracts.....	(0.2)	—	1.5	1.6
Loss on settlement of lease liabilities.....	0.3	0.1	1.4	—
Net (gain) loss on disposal of property, plant and equipment and other assets.....	0.5	0.2	(1.3)	0.5
<b>Adjusted Net Earnings <sup>(1)</sup></b> .....	<b>\$ 6.2</b>	<b>\$ 7.3</b>	<b>\$ 47.5</b>	<b>\$ 19.5</b>
	Q2 – 2019	Q1 – 2019	Q4 – 2018	Q3 – 2018
	Jun 30	Mar 31	Dec 30	Sep 30
(C\$ millions unless otherwise stated)	2019	2019	2018	2018
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Reconciliation of net earnings to Adjusted Net Earnings</b>				
Net earnings.....	\$ 16.6	\$ 22.7	\$ 9.0	\$ 23.8
Transaction costs.....	0.3	0.1	1.7	\$ 0.5
Write off of deferring financing fees.....	1.0	—	—	\$ —
Impairment charges.....	4.0	—	6.8	\$ —
Restructuring and other.....	0.7	(0.2)	8.9	\$ 2.6
Change in fair value of non-controlling interest liability.....	—	—	1.5	\$ 1.0
Change in fair value of exchangeable Partnership units.....	0.9	(4.8)	6.4	\$ (0.4)
Amortization of unearned conversion fees income.....	(0.1)	—	0.5	(0.7)
Losses on early buyout/cancellation of equipment rental contracts.....	0.1	—	0.4	0.3
Net (gain) loss on disposal of property, plant and equipment and other assets.....	(0.1)	0.6	(1.2)	(1.8)
<b>Adjusted Net Earnings <sup>(1)</sup></b> .....	<b>\$ 23.4</b>	<b>\$ 18.3</b>	<b>\$ 34.0</b>	<b>\$ 25.3</b>

<sup>(1)</sup> Figures may not total due to rounding.

The following table provides reconciliations of EBITDA and Operating EBITDA:

	<b>Q2 - 2020</b>	<b>Q1 - 2020</b>	<b>Q4 - 2019</b>	<b>Q3 - 2019</b>
<b>(C\$ millions unless otherwise stated)</b>	<b>Jun 28 2020</b>	<b>Mar 29 2020</b>	<b>Dec 29 2019</b>	<b>Sep 29 2019</b>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Reconciliation of net earnings from continuing operations to EBITDA:</b>				
Net earnings (loss) .....	\$ (40.6)	\$ (41.2)	\$ (1.9)	6.7
Net interest expense and other financing charges.....	9.5	6.4	6.4	4.9
Income taxes .....	(12.1)	(8.8)	(4.1)	5.2
Depreciation and amortization.....	26.3	27.0	29.5	28.4
<b>EBITDA<sup>(1)</sup></b> .....	<b>(16.9)</b>	<b>(16.6)</b>	<b>29.9</b>	<b>45.2</b>
<b>Reconciliation of EBITDA to Operating EBITDA:</b>				
Transaction costs .....	\$ 0.2	\$ 0.1	\$ 1.8	\$ 0.1
Impairment charges .....	47.4	16.3	47.6	5.7
Restructuring and other .....	1.9	(1.1)	3.6	2.6
Change in fair value non-controlling interest liability.....	—	—	(10.3)	—
Change in fair value of exchangeable partnership units.....	(3.2)	33.1	5.1	3.1
Income on Partnership units.....	1.2	2.7	2.8	2.8
Amortization of unearned conversion fees income.....	(0.1)	—	—	0.3
(Gains)/ Losses on early buyout/cancellation of equipment rental contracts.....	(0.2)	—	1.5	1.6
Loss (Gain) on settlement of lease liability.....	0.3	0.1	(1.4)	—
Net gain (loss) on disposal of property, plant and equipment and other assets.....	0.5	0.2	(1.3)	0.5
Stock based compensation.....	0.4	0.5	(5.4)	2.1
Change in onerous contract provision.....	—	—	—	(0.6)
Proportionate share of equity accounted joint venture.....	(1.4)	(0.6)	0.8	0.3
Rent impact from IFRS 16 Leases .....	(14.5)	(14.2)	(14.1)	(14.1)
<b>Operating EBITDA<sup>(1)</sup></b> .....	<b>\$ 15.6</b>	<b>\$ 20.5</b>	<b>\$ 60.5</b>	<b>\$ 49.5</b>

	Q2 - 2019	Q1 - 2019	Q4 - 2018	Q3 - 2018
	Jun 30	Mar 31	Dec 30	Sep 30
(C\$ millions unless otherwise stated)	2019	2019	2018	2018
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Reconciliation of net earnings from continuing operations to EBITDA:</b>				
Net earnings .....	\$ 16.6	\$ 22.7	\$ 9.0	\$ 23.8
Net interest expense and other financing charges .....	7.5	4.5	2.8	2.8
Income taxes .....	7.2	8.6	6.4	7.6
Depreciation and amortization .....	28.9	27.9	16.2	12.6
<b>EBITDA<sup>(1)</sup></b> .....	<b>\$ 60.2</b>	<b>\$ 63.7</b>	<b>\$ 34.4</b>	<b>\$ 46.8</b>
<b>Reconciliation of EBITDA to Operating EBITDA:</b>				
Transaction costs .....	\$ 0.3	\$ 0.1	\$ 1.7	\$ 0.4
Impairment charges .....	4.0	—	6.8	—
Restructuring and other .....	0.7	(0.2)	8.9	2.6
Change in fair value non-controlling interest liability .....	—	—	—	—
Change in fair value of exchangeable partnership units .....	0.9	(4.8)	7.9	0.6
Income on Partnership units .....	2.7	2.8	2.7	2.7
Amortization of unearned conversion fees income .....	(0.1)	(0.1)	0.5	(0.7)
(Gains)/ Losses on early buyout/cancellation of equipment rental contracts .....	0.1	—	0.5	0.3
Net (gain) on disposal of property, plant and equipment .....	(0.1)	0.6	(0.3)	(1.8)
Stock based compensation .....	1.8	1.9	2.1	2.2
Change in onerous contract provision .....	0.4	(0.2)	0.9	(1.4)
Proportionate share of equity accounted joint venture .....	0.1	0.2	(1.4)	0.6
Rent impact from adoption of IFRS 16 "Leases" <sup>(2)</sup> .....	(15.0)	(13.9)	(1.2)	(1.2)
<b>Operating EBITDA<sup>(1)</sup></b> .....	<b>\$ 56.0</b>	<b>\$ 50.1</b>	<b>\$ 63.6</b>	<b>\$ 51.1</b>

<sup>(1)</sup> Figures may not total due to rounding.

The following table provides reconciliations from Operating EBITDA to Free Cash Flow:

	Q2 - 2020	Q1 - 2020	Q4 - 2019	Q3 - 2019
	Jun 28	Mar 29	Dec 29	Sep 30
(C\$ millions unless otherwise stated)	2020	2020	2019	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Operating EBITDA .....	\$ 15.6	\$ 20.5	\$ 60.5	\$ 49.5
Maintenance capex .....	(4.0)	(3.8)	(5.0)	(3.8)
Interest on long-term debt .....	(6.8)	(5.4)	(5.5)	(4.5)
Interest expense on note payable to The Keg Royalties Income Fund .....	(1.1)	(1.1)	(1.1)	(1.1)
Cash taxes .....	—	(14.5)	(4.6)	(4.0)
<b>Free Cash Flow before growth capex, dividends, NCIB<sup>(1)</sup></b> .....	<b>\$ 3.6</b>	<b>\$ (4.3)</b>	<b>\$ 44.3</b>	<b>\$ 36.1</b>
Growth capex .....	(3.4)	(5.0)	(8.9)	(8.2)
Proceeds on sale of assets .....	—	0.1	0.2	(0.3)
Dividends .....	(6.6)	—	(6.3)	(6.8)
NCIB .....	—	(0.3)	—	(16.5)
<b>Free Cash Flow after growth capex, dividends, NCIB<sup>(1)</sup></b> .....	<b>\$ (6.4)</b>	<b>\$ (9.6)</b>	<b>\$ 29.4</b>	<b>\$ 4.2</b>

	<b>Q2 - 2019</b>	<b>Q1 - 2019</b>	<b>Q4 - 2018</b>	<b>Q3 - 2018</b>
	<b>Jun 30</b>	<b>Mar 31</b>	<b>Dec 30</b>	<b>Sep 30</b>
<b>(C\$ millions unless otherwise stated)</b>	<b>2019</b>	<b>2019</b>	<b>2018</b>	<b>2018</b>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Operating EBITDA .....	\$ 56.0	\$ 50.1	\$ 63.3	\$ 51.2
Maintenance capex .....	(5.6)	(5.5)	(9.1)	(7.0)
Cash taxes .....	(4.1)	(3.6)	(1.7)	(1.7)
Interest on long-term debt .....	(1.1)	(1.1)	(4.2)	(4.1)
Interest expense on note payable to The Keg Royalties Income Fund .....	(5.2)	(4.8)	(1.1)	(1.1)
<b>Free Cash Flow before growth capex, dividends, NCIB<sup>(1)</sup> .....</b>	<b>\$ 40.0</b>	<b>\$ 35.1</b>	<b>\$ 47.2</b>	<b>\$ 37.3</b>
Growth capex .....	\$ (7.9)	\$ (4.5)	\$ (4.2)	\$ (3.9)
Proceeds on sale of assets .....	0.9	—	5.3	5.9
Dividends declared .....	(13.8)	(6.9)	(6.7)	(6.7)
Share repurchased .....	(11.7)	(7.1)	(14.5)	(0.7)
<b>Free Cash Flow after growth capex, dividends, NCIB<sup>(1)</sup> .....</b>	<b>\$ 7.5</b>	<b>\$ 16.6</b>	<b>\$ 27.2</b>	<b>\$ 31.9</b>

<sup>(1)</sup> Figures may not total due to rounding.

## **Forward-Looking Information**

Certain statements in this MD&A may constitute “forward-looking” statements within the meaning of applicable Canadian securities legislation which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company or the industry in which they operate, to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this MD&A, such statements use words such as “may”, “will”, “expect”, “believe”, “plan” and other similar terminology. These statements reflect management’s current expectations regarding future events and operating performance and speak only as of the date of this MD&A. These forward-looking statements involve a number of risks and uncertainties, including those related to: (a) the Company’s ability to maintain profitability and manage its growth including System Sales Growth, increases in net income, Operating EBITDA, Operating EBITDA Margin on System Sales, Free Cash Flow, and Adjusted net earnings; (b) competition in the industry in which the Company operates; (c) the general state of the economy; (d) integration of acquisitions by the Company; (e) risk of future legal proceedings against the Company. These risk factors and others are discussed in detail under the heading “Risk Factors” in the Company’s Annual Information Form dated March 27, 2020. New risk factors may arise from time to time and it is not possible for management of the Company to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance or achievements of the Company to be materially different from those contained in forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this MD&A.

## **Risks and Uncertainties**

The financial performance of the Company is subject to a number of factors that affect the commercial food service industry generally and the full-service restaurant and limited-service restaurant segments of this industry in particular. The Canadian restaurant industry is intensely competitive with respect to price, value proposition, service, location and food quality. There are many well-established competitors, including those with greater financial and other resources than the Company. Competitors include national and regional chains, as well as numerous individually owned restaurants. Recently, competition has increased in the mid-price, full-service, casual dining segment of this industry in which many of the Company’s restaurants operate. Some of the Company’s competitors may have restaurant brands with longer operating histories or may be better established in markets where the Company’s restaurants are located or may be located. If the Company is unable to successfully compete in the segments of the Canadian Restaurant industry in which it operates, the financial condition and results of operations of the Company may be adversely affected.

The Canadian restaurant industry business is also affected by changes in demographic trends, traffic patterns, and the type, number and locations of competing restaurants. In addition, factors such as inflation, increased food, labour and benefit costs, and the availability of experienced management and hourly employees may adversely affect the restaurant industry in general and the Company in particular. Changing consumer preferences and discretionary spending patterns and factors affecting the availability of certain foodstuffs could force the Company to modify its restaurant content and menu and could result in a reduction of revenue. Even if the Company is able to successfully compete with other restaurant companies, it may be forced to make changes in one or more of its concepts in order to respond to changes in consumer tastes or dining patterns. If the Company changes a restaurant concept, it may lose additional customers who do not prefer the new concept and menu, and it may not be able to attract a sufficient new customer base to produce the revenue needed to make the restaurant profitable. Similarly, the Company may have different or additional competitors for its intended customers as a result of such a concept change and may not be able to successfully compete against such competitors. The Company’s success also depends on numerous other factors affecting discretionary consumer spending, including general economic conditions, disposable consumer income, consumer confidence and consumer concerns over food safety, the genetic origin of food products, public health issues and related matters. Adverse changes in these factors could reduce guest traffic or impose practical limits on pricing, either of which could reduce revenue and operating income, which would adversely affect the Company.

Please refer to the Company’s Annual Information Form available on SEDAR at [www.sedar.com](http://www.sedar.com) for a more comprehensive list.