RECIPE UNLIMITED CORPORATION
Management's Discussion and Analysis
For the 13 and 52 weeks ended December 29, 2019

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 52 weeks ended December 29, 2019 and December 30, 2018 ("fourth quarter", "Q4", "the quarter" or "the period"). This MD&A should be read in conjunction with the Company's Financial Statements and accompanying notes as at December 29, 2019. The consolidated results from operations for the 13 and 52 weeks ended December 29, 2019 are compared to the December 30, 2018. 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 March 5, 2020. Additional information relating to the Company can be found on SEDAR at www.sedar.com.

Basis of Presentation

The 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.

Highlights for the 13 and 52 weeks ended December 29, 2019:

- Free Cash Flow per share before growth capex, dividends, and NCIB on a diluted basis was $0.76 and $2.52 for the 13 and 52 weeks ended December 29, 2019, compared to $0.74 and $2.49 in 2018.

- Free Cash Flow before growth capex, dividends, and share repurchases under the Company's normal course issuer bid ("NCIB") for the 13 and 52 weeks ended December 29, 2019 was $44.3 million and $155.9 million compared to $47.3 million and $158.7 million in 2018, respectively.

- The Company generates significant Operating EBITDA and Free Cash Flow(1) which provides the Company with stable and recurring earnings to fund growth and to enhance shareholder returns. The Company continues to have low leverage with available debt capacity of $617.7 million, thus enabling the Company to take advantage of strategic opportunities for growth and to enhance shareholder returns.

  During the 52 weeks ended December 29, 2019, the Company repurchased and canceled 5,952,500 subordinate voting shares for $160.7 million under the Company's NCIB and a substantial issuer bid ("SIB") that was completed on September 25, 2019. As at December 29, 2019, the Company had 56,378,425 shares outstanding compared to 61,755,594, as at December 30, 2018, a decrease of 5,377,169 shares or 8.7%, that will increase Free Cash Flow and Earnings per share on a go forward basis by approximately 6%-7%, or $0.05 Free Cash Flow per share and $0.02 EPS.

- System Sales(1) for the 13 weeks ended December 29, 2019 was $895.8 million compared to $905.4 million in 2018, representing a decrease of $9.6 million or 1.1%. The decrease is primarily related to SRS decreases, temporary restaurant closures related to renovations resulting in lost System Sales of $1.7 million during the quarter, and restaurant closures offset by new restaurant openings and growth in retail and catering sales. System Sales(1) for the 52 weeks ended December 29, 2019 grew $71.6 million to $3,486.9 million compared to $3,415.3 million in 2018, representing an increase of 2.1%. The increase in System Sales is primarily related to the addition of The Keg in February 2018, growth in the retail and catering segment from the Swiss Chalet branded products sold at grocery, the addition of Montana's ribs sold at grocery during the fourth quarter, increases in frozen pot pie sales from the addition of the new pie production line, and the addition of Marigolds and Onions in December 2018, partially offset by temporary restaurant closures related to renovations resulting in lost System Sales of $9.2 million during the year.

- Same Restaurant Sales ("SRS") Growth[1] for the 13 and 52 weeks ended December 29, 2019 was a decrease of 2.6% and a decrease of 2.3%, respectively, compared to the same 13 and 52 weeks in 2018. Recipe and the full service restaurant industry, as a whole, faced headwinds in 2019 that continued through Q4. Early progress on our 4 pillar operating model (Quality of Food, Quality of Service, Value for the Experience and Ambiance) continues to yield higher guest satisfaction metrics, which management believes to be a key indicator for long term guest loyalty and revisit intent. Management believes that there is more upside potential by continuing to create more compelling and relevant consumer propositions for both dine-in and off-premise channels.

- Operating EBITDA[1][2] for the 13 weeks ended December 29, 2019 was $60.5 million compared to $63.3 million in 2018, a decrease of $2.8 million or 4.4% for the quarter. Operating EBITDA[1][2] for the 52 weeks ended December 29, 2019 increased to $216.0 million compared to $214.7 million in 2018, an improvement of $1.3 million or 0.6%. The increase for the year was primarily driven by the improved contribution from the franchise, retail and catering segments of $2.3 million or 6.7%, and the central segment of $0.7 million or 5.4%, that more than offset a decrease in corporate contribution and strategic costs incurred by the Company related to renovation incentives to franchisees of $1.6 million and lost EBITDA from the temporary closure of restaurants during the renovation periods, to support major renovations expected to generate long-term SRS increases.

- Operating EBITDA Margin on System Sales[1] before The Keg royalty expense was 7.1% for the quarter compared to 7.4% in 2018. Operating EBITDA Margin on System Sales[1] before The Keg royalty expense for the 52 weeks ended December 29, 2019 was 6.6% compared to 6.6% in 2018. Operating EBITDA Margin on System Sales after The Keg royalty expense for the 13 and 52 weeks ended December 29, 2019 was 6.8% and 6.2% compared to 7.0% and 6.3% in 2018, respectively. The change in margin rate was primarily driven by improved franchise contribution margin offset by lower corporate contribution margin. The decreases in the corporate contribution margin were driven by lower system sales and taking back and operating under-performing franchise locations.

- Impairment of assets and lease receivables were $47.6 million and $57.2 million for the 13 and 52 weeks ended December 29, 2019, respectively, as compared to $6.8 million and $8.1 million for the same periods in 2018. These increases were driven primarily by the impact of restructuring certain non-strategic or under-performing corporate and franchise restaurants, and providing for anticipated future rent support for franchisees (see "Restaurant Portfolio Restructuring"). Management believes that the restructuring will have a positive impact on future Operating EBITDA and will contribute to the long-term health and success of the Company.

- Restructuring and other expenses were $3.6 million and $6.6 million for the 13 and 52 weeks ended December 29, 2019, respectively, as compared to $8.9 million and $12.3 million for the same periods in 2018, primarily as a result of the Restaurant Portfolio Restructuring.

- Net earnings (loss) were $(1.9) million for the 13 weeks ended December 29, 2019 compared to $9.0 million in 2018, a decrease of $10.9 million for the quarter. The $10.9 million decrease in the quarter was primarily driven by an increase in impairment of assets of $40.7 million and a decrease in Operating EBITDA of $2.8 million, partially offset by a decrease in contingent liabilities of $10.0 million, a decrease in net income tax expense of $10.5 million, a decrease in stock-based compensation of $7.5 million and a decrease in restructuring expense of $5.3 million.

  Net earnings were $43.9 million for the 52 weeks ended December 29, 2019 compared to $73.8 million in 2018, representing a decrease of $29.9 million. The $29.9 million decrease for the year was primarily driven by an increase in impairment of assets of $49.1 million and an increase in depreciation of $13.1 million, partially offset by a decrease in net income tax expense of $13.9 million, a decrease in contingent liabilities of $10.0 million, a decrease in stock-based compensation of $6.2 million and a decrease in restructuring expense of $5.6 million.

- Adjusted Basic Earnings per Share [1] ("EPS") for the 13 weeks ended December 29, 2019 was $0.79 compared to $0.55 in 2018, an increase of $0.24 or 44.4%. Adjusted Diluted EPS for the 13 weeks ended December 29, 2019 was $0.77 compared to $0.53 in 2018, an increase of $0.24 or 45.0%.

  Adjusted Basic EPS for the 52 weeks ended December 29, 2019 was $1.76 compared to $1.69 in 2018, an increase of $0.07 or 4.3%. Adjusted Diluted EPS for the 52 weeks ended December 29, 2019 was $1.71 compared to $1.63 in 2018, an increase of $0.08 or 4.8%.

[1] See "Non-IFRS Measures" on page 50 for definitions of System Sales, SRS Growth, Adjusted Net Earnings, Operating EBITDA, Operating EBITDA Margin on System Sales, and Adjusted EPS. See "Reconciliation of Net Earnings to EBITDA" and "Reconciliation of Net Earnings to Adjusted Net Earnings" for a reconciliation of Operating EBITDA and Adjusted Net Earnings.

[2] Effective December 31, 2018, the Company implemented IFRS 16, Leases. Comparative Operating EBITDA figures provided for each quarter have been restated to reflect the adoption of this accounting standard. See "IFRS 16 – New Lease Standard" on pages 4, 9, and 50 for a reconciliation of the changes to Operating EBITDA, and Note 3 "Changes in accounting policies" in the Financial Statements of the Company for further details.

Restaurant Portfolio Restructuring

Management has completed a thorough strategic planning process which included a complete review of all 1,373 corporate, franchised and joint venture locations. Management is taking decisive action to ensure the long-term health and success of the company and to address legacy issues. 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 will take 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.

Management estimates that the restructuring of these restaurants will have a positive impact on future Operating EBITDA. On a pro forma basis, 2019 Operating EBITDA would increase by $8.7 million as compared to reported 2019 Operating EBITDA. In aggregate, these restaurants represented $40.7 million of 2019 System Sales.

After conducting the review on all locations, the following actions and impacts have been identified:

- 29 corporate and franchise restaurants that should be restructured and closed and the associated cost to exit or sublease the same locations;
- Franchise restaurants where lease costs exceed target levels and the expected amount of rent assistance the Company may provide to the end of the lease term to these franchisees;
- Additional impairment provisions against Property Plant & Equipment and Long-Term Receivables balances that correspond to the identified restaurants to be restructured and franchise rent assistance cost estimates; and
- Joint Venture investment or loan receivable impairments where the corresponding restaurant profitability is insufficient to support the carrying value of the particular Joint Venture investment.

It is expected that the planned closure or sublet of the 29 restructured restaurants will primarily occur over the next 12 to 18 months dependent on landlord negotiations and subject to individual franchisee situations.

The Company has recorded impairment provisions to reflect the expected impact of the restructuring and franchise lease assistance estimates. For the 13 and 52 weeks ended December 29, 2019, Recipe recorded $47.6 and $57.2 million of impairment of assets and $3.6 and $6.6 million of restructuring expenses.

Subsequent Events

On March 5, 2020 the Company's Board of Directors declared a dividend of $0.1177 per Subordinate Voting Share and Multiple Voting Share compared to $0.1121 in 2019, an increase of $0.0056 or 5.0% over the 2019 quarterly dividend rate. Payment of the dividend is expected to be made on April 15, 2020 to shareholders of record at the close of business on March 31, 2020.

On January 1, 2020, an estimated $19.1 million in annual net sales were added to the KRIF Royalty Pool and the total number of restaurants in the KRIF Royalty Pool increased to 106. As a result of the contribution of the additional net sales to the KRIF Royalty Pool, KRL will receive 443,015 additional Exchangeable Keg Partnership Units, being 2.73% of the KRIF units on a fully diluted basis. On January 1, 2020, KRL received 80% of this entitlement, representing the equivalent of 354,412 KRIF units, being 2.20% of the KRIF units on a fully diluted basis. KRL will also receive a proportionate increase in monthly distributions from the Keg Partnership. Including the initial 354,412 portion of the KRIF Fund units described above, KRL will have the right to exchange its units in the capital of the Partnership for 4,762,336 KRIF units, representing 29.55% of the KRIF units on a fully diluted basis. The balance of the additional entitlement will be adjusted on December 25, 2020, to be effective January 1, 2021, once the actual sales performance of the new restaurants has been confirmed. If the Company were to receive 100% of the estimated Additional Entitlement for 2020, it would have the right to exchange its Partnership units for 4,850,939 Fund units, representing 29.94% of the KRIF units on a fully diluted basis.

(1)Royalty Pool - Annually, on January 1st, the Royalty Pool is adjusted to include the gross sales from new Keg restaurants that have opened on or before October 2nd of the prior year, less gross sales from any Keg restaurants that have permanently closed during the preceding calendar year. In return for adding these net sales to the Royalty Pool, KRL receives the right to indirectly acquire additional Fund units (the "Additional Entitlement"). The Additional Entitlement is determined based on 92.5% of the estimated net royalty revenue added to the Royalty Pool, divided by the yield of the Fund units, divided by the weighted average unit price of the Fund units. KRL receives 80% of the estimated Additional Entitlement initially, with the balance received on December 25th of each year when the actual full-year performance of the new restaurants is known with certainty.

IFRS 16 – New Lease Standard

Effective December 31, 2018, the Company implemented IFRS 16, Leases. Comparative figures provided for each quarter have been restated to reflect the adoption of this accounting standard. Please refer to pages 9 and 50 for a reconciliation of the changes to Operating EBITDA. Further details on the accounting change are included in Note 3 "Changes in accounting policies" in the Financial Statements of the Company.

Below is a summary of the impact resulting from the implementation of IFRS 16 on the Company's financial statements:

	As at December 30, 2018	IFRS 16 Net Impact	As at December 31, 2018
Assets			
Accounts receivable	$ 103,514	$ 76,652	$ 180,166
Long-term receivables	34,969	427,789	462,758
Property, plant and equipment	399,990	256,250	656,240
Impact to Total Assets		$ 760,691	
Liabilities			
Provisions	$ 9,679	$ (5,765)	$ 3,914
Current portion of lease liability	—	120,510	120,510
Long-term debt	258,390	(26,016)	232,374
Lease liability	—	688,363	688,363
Provisions	13,796	(9,577)	4,219
Other long-term liabilities	87,667	(3,853)	83,814
Deferred tax liability	92,831	(864)	91,967
Impact to Total Liabilities		**$ 762,798**	
Impact to Total Shareholders' Equity	**$ 485,812**	**$ (2,107)**	**$ 483,705**
Impact to Total Liabilities and Equity		**$ 760,691**	

The impact to net earnings for the 13 and 52 weeks ended December 29, 2019 compared to 2018 was a net reduction to earnings before change in fair value and income taxes of $1.1 million for the quarter and $2.5 million for the year. Operating income increased $1.4 million for the quarter and increased $8.8 million for the year compared to 2018 resulting from a decrease in rent expense offset by an increase in depreciation expense related to the right-of-use assets. The increase in Operating income is then reduced by an increase in net interest expense of $2.5 million for the quarter and $11.2 million for the year related to the new lease standard.

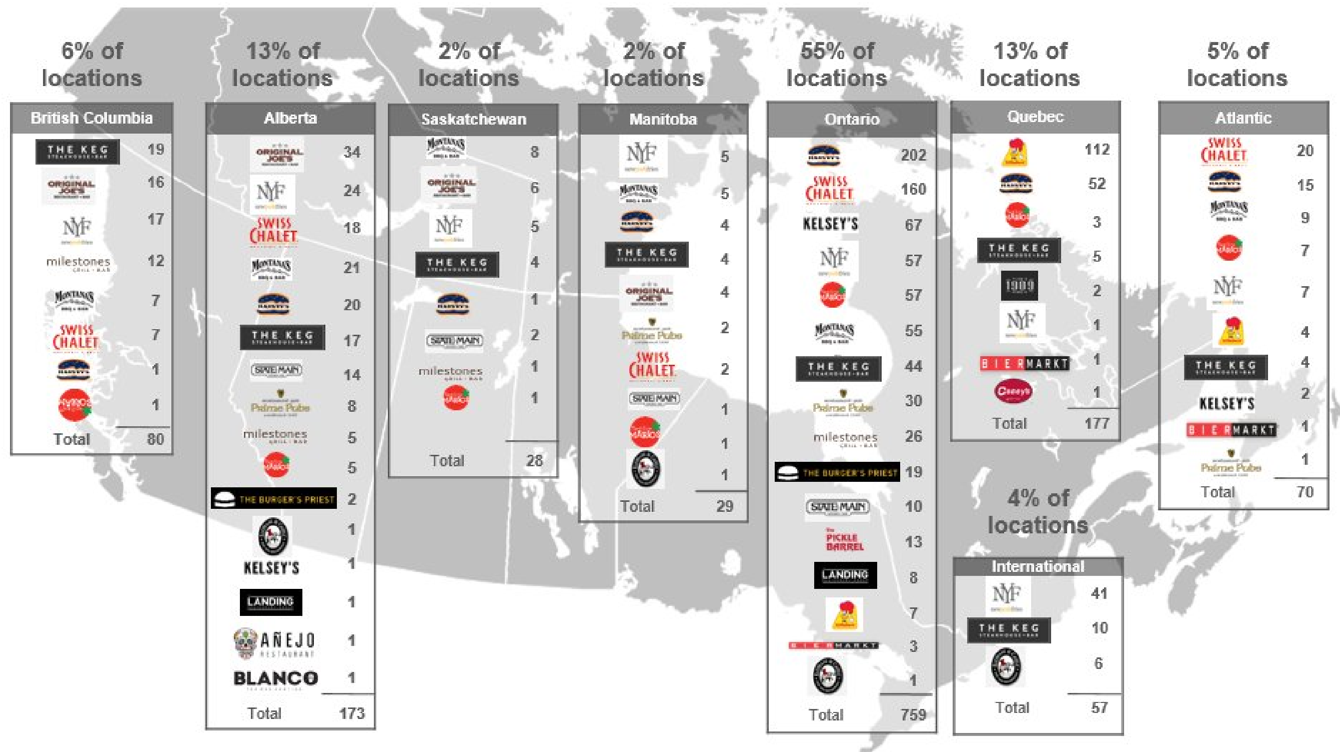
The impact on the net earnings for the 13 and 52 weeks ended December 29, 2019 compared to the 13 and 52 weeks ended December 30, 2018 are presented below:

	For the 13 weeks December 29, 2019			For the 13 weeks December 30, 2018			
	Earnings before IFRS 16 impact	IFRS 16 adoption impact	Consolidated	Earnings before IAS 17 and IFRIC 4 impact	Finance lease impact of IAS 17 and IFRIC 4	Consolidated	Change resulting from IFRS 16
Total gross revenue	$ 326,988	—	$ 326,988	$ 328,213	—	$ 328,213	$ —
Cost of inventories sold	(120,459)	—	(120,459)	(117,713)	—	(117,713)	—
Selling, general and administrative	(162,109)	—	(162,109)	(169,397)	—	(169,397)	—
Operating lease costs	—	14,143	14,143	—	1,237	1,237	12,906
Depreciation expense	—	(11,889)	(11,889)	—	(430)	(430)	(11,459)
Impairment of assets, net of reversals	(47,587)	—	(47,587)	(6,840)	—	(6,840)	—
Restructuring and other	(3,574)	—	(3,574)	(8,919)	—	(8,919)	—
Operating income (loss)	**$ (6,741)**	**$ 2,254**	**$ (4,487)**	**$ 25,344**	**$ 807**	**$ 26,151**	**$ 1,447**
Finance costs							
Net interest expense and other financing	(3,391)	(2,993)	(6,384)	(2,305)	(487)	(2,792)	(2,506)
Share of loss from investment in joint ventures	(224)	—	(224)	(104)	—	(104)	—
Earnings (loss) before change in fair value and income taxes	**$ (10,356)**	**$ (739)**	**$ (11,095)**	**$ 22,935**	**$ 320**	**$ 23,255**	**$ (1,059)**

	For the 52 weeks December 29, 2019			For the 52 weeks December 30, 2018			
	Earnings before IFRS 16 impact	IFRS 16 adoption impact	Consolidated	Earnings before IAS 17 and IFRIC 4 impact	Finance lease impact of IAS 17 and IFRIC 4	Consolidated	Change resulting from IFRS 16
Total gross revenue	$1,252,451	—	$ 1,252,451	$1,191,932	—	$ 1,191,932	$ —
							—
Cost of inventories sold	(452,222)	—	(452,222)	(419,671)	—	(419,671)	—
Selling, general and administrative	(667,815)	—	(667,815)	(627,117)	—	(627,117)	—
Operating lease costs	—	57,155	57,155	—	4,876	4,876	52,279
Depreciation expense	—	(46,211)	(46,211)	—	(2,697)	(2,697)	(43,514)
Impairment of assets, net of reversals	(57,243)	—	(57,243)	(8,107)	—	(8,107)	—
Restructuring and other	(6,644)		(6,644)	(12,280)		(12,280)	—
Operating income	**$ 68,527**	**$ 10,944**	**$ 79,471**	**$ 124,757**	**$ 2,179**	**$ 126,936**	**$ 8,765**
Finance costs							
Net interest expense and other financing charges	(10,101)	(13,140)	(23,241)	(10,008)	(1,906)	(11,914)	(11,234)
Share of loss from investment in joint ventures	(1,442)	—	(1,442)	(586)	—	(586)	—
Earnings before change in fair value and income taxes	**$ 56,984**	**(2,196)**	**$ 54,788**	**$ 114,163**	**273**	**$ 114,436**	**$ (2,469)**

Overview

Recipe is a full service restaurant company that franchises and operates iconic restaurant brands. As at December 29, 2019, Recipe had 24 brands and 1,373 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).



	As at December 29, 2019				As at December 30, 2018			
Unit count (unaudited)	Corporate	Franchise	Joint Venture	Total	Corporate	Franchise	Joint Venture	Total
Swiss Chalet	14	193	—	207	15	197	—	212
Harvey's	8	287	—	295	10	282	—	292
Montana's	5	100	—	105	8	99	—	107
Kelsey's	5	65	—	70	4	64	—	68
East Side Mario's [1]	3	72	—	75	2	74	—	76
Prime Pubs	3	38	—	41	4	40	—	44
Bier Markt	5	—	—	5	7	—	—	7
Milestones	26	16	2	44	22	22	2	46
Landing	9	—	—	9	9	—	—	9
New York Fries	17	140	—	157	16	143	—	159
St-Hubert	11	112	—	123	12	111	—	123
Original Joe's	17	29	14	60	19	27	18	64
State & Main	7	13	7	27	8	11	7	26
Elephant & Castle	8	1	—	9	10	1	—	11
Burger's Priest	—	—	21	21	—	—	17	17
1909 Taverne Moderne	—	—	2	2	—	—	2	2
Pickle Barrel	13	—	—	13	13	—	—	13
The Keg	49	58	—	107	49	56	—	105
Anejo	1	—	—	1	—	—	—	—
Blanco Cantina	1	—	—	1	—	—	—	—
Fresh	—	—	—	—	—	—	—	—
Casey's	—	1	—	1	—	1	—	1
Total restaurants	202	1,125	46	1,373	208	1,128	46	1,382
	15%	82%	3%	100%	15%	83%	3%	100%

[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, SRS Growth, number of restaurants, Selling, general and administrative expenses, Operating EBITDA, Operating EBITDA Margin, Operating EBITDA on System Sales, and Free Cash Flow.

	13 weeks ended		52 weeks ended		53 weeks ended
(C$ millions unless otherwise stated)	**Dec 29, 2019** (unaudited)	**Dec 30, 2018** (unaudited)	**Dec 29, 2019**	**Dec 30, 2018**	**Dec 31, 2017**
System Sales [1][3]	**$ 895.8**	**$ 905.4**	**$ 3,486.9**	**$ 3,415.3**	**$ 2,779.5**
System Sales Growth [1][3]	(1.1)%	16.8 %	2.1 %	22.9%	36.1%
SRS Growth [2][3]	(2.6)%	(0.2)%	(2.3)%	1.3%	0.7%
Number of corporate restaurants	202	208	202	208	169
Number of joint venture restaurants	46	46	46	46	54
Number of franchised restaurants	1,125	1,128	1,125	1,128	1,049
Total number of restaurants (at period end)	**1,373**	**1,382**	**1,373**	**1,382**	**1,272**
Total gross revenue	$ 327.0	$ 328.2	$ 1,252.5	$ 1,191.9	$ 832.7
Operating EBITDA [3][4]	**$ 60.5**	**$ 63.3**	**$ 216.0**	**$ 214.7**	**$ 186.6**
Operating EBITDA Margin [3]	18.5 %	19.3 %	17.2 %	18.0%	22.4%
Operating EBITDA Margin on System Sales [3]	6.8 %	7.0 %	6.2 %	6.3%	6.9%
Net Keg royalty expense	$ (3.5)	$ (3.8)	$ (14.2)	$ (12.3)	$ —
Operating EBITDA[3], excluding The Keg royalty	**$ 64.0**	**$ 67.1**	**$ 230.3**	**$ 227.0**	**$ 186.6**
Operating EBITDA Margin[3] excluding The Keg royalty	19.6 %	20.4 %	18.4 %	19.0%	22.9%
Operating EBITDA Margin on System Sales[3] excluding The Keg royalty	7.1 %	7.4 %	6.6 %	6.6%	6.9%
Free cash flow[3], before growth capex, dividends and NCIB	**$ 44.3**	**$ 47.3**	**$ 155.9**	**$ 158.7**	**$ 138.4**
Free cash flow[3] per share - Basic (in dollars)	$ 0.79	$ 0.77	$ 2.60	$ 2.57	$ 2.32
Free cash flow[3] per share - Diluted (in dollars)	$ 0.76	$ 0.74	$ 2.52	$ 2.49	$ 2.23
Free cash flow[3], after growth capex, dividends and NCIB	$ 29.4	$ 26.5	$ 65.0	$ 109.5	$ 52.2
Free cash flow[3] per share - Basic (in dollars)	$ 0.52	$ 0.43	$ 1.08	$ 1.77	$ 0.88
Free cash flow[3] per share - Diluted (in dollars)	$ 0.51	$ 0.41	$ 1.05	$ 1.72	$ 0.84
Net earnings (loss)	**$ (1.9)**	**$ 9.0**	**$ 43.9**	**$ 73.8**	**$ 109.8**
Basic EPS (in dollars)	$ (0.03)	$ 0.15	$ 0.74	$ 1.20	$ 1.84
Diluted EPS (in dollars)	$ (0.03)	$ 0.14	$ 0.72	$ 1.16	$ 1.77
Adjusted Net Earnings[3]	**$ 44.8**	**$ 34.0**	**$ 105.7**	**$ 104.2**	**$ 117.1**
Adjusted Basic EPS[3] (in dollars)	$ 0.79	$ 0.55	$ 1.76	$ 1.69	$ 1.96
Adjusted Diluted EPS[3] (in dollars)	$ 0.77	$ 0.53	$ 1.71	$ 1.63	$ 1.88

(1) Results from East Side Mario restaurants in the United States are excluded in the System Sales totals and number of restaurants. See "Non-IFRS Measures" on page 50 for definition of System Sales.
(2) Results from New York Fries located outside of Canada, East Side Mario restaurants in the United States, Casey's restaurants are excluded from SRS Growth. See "Non-IFRS Measures" on page 50 for definition of SRS Growth.
(3) See "Non-IFRS Measures" on page 50 for definitions of System Sales, System Sales Growth, SRS Growth, Operating EBITDA, Operating EBITDA Margin, and Operating EBITDA on System Sales.
(4) Effective December 31, 2018, the Company implemented IFRS 16, Leases. Comparative Operating EBITDA figures provided for each quarter have been restated to reflect the adoption of this accounting standard. See "IFRS 16 – New Lease Standard" on pages 4, 9, and 50 for a reconciliation of the changes to Operating EBITDA, and Note 3 "Changes in accounting policies" in the Financial Statements of the Company for further details.

The following table summarizes results of Recipe's operations for the 13 weeks and 52 weeks ended December 29, 2019, and December 30, 2018:

	13 weeks ended		52 weeks ended	
(C$ millions unless otherwise stated)	**December 29, 2019** (unaudited)	**December 30, 2018** (unaudited)	**December 29, 2019**	**December 30, 2018**
System Sales [2][4]	**$ 895.8**	**$ 905.4**	**$ 3,486.9**	**$ 3,415.3**
Sales	$ 279.2	$ 280.1	$ 1,065.9	$ 1,006.7
Franchise revenues [3]	47.8	48.1	186.5	185.3
Total gross revenue [1]	**$ 327.0**	**$ 328.2**	**$ 1,252.5**	**$ 1,191.9**
Cost of inventories sold	(120.5)	(117.7)	(452.2)	(419.7)
Selling, general and administrative expenses [3]				
Corporate restaurant expenses	(111.5)	(114.1)	(447.4)	(422.4)
Advertising fund transfers	(17.1)	(17.1)	(64.3)	(63.3)
The Keg royalty expense	(6.3)	(6.5)	(25.4)	(21.3)
Franchise assistance and bad debt	(1.0)	(1.8)	(3.8)	(8.2)
Depreciation & amortization	(28.9)	(15.8)	(112.5)	(56.4)
Net gain on disposal of property, plant and equipment and other assets	1.3	1.2	0.4	3.5
Gain on settlement of lease liabilities	1.4	—	1.4	—
Losses on early buyout/cancellation of equipment rental contracts	(1.5)	(0.4)	(3.2)	(1.3)
Other	3.8	(14.0)	(2.0)	(55.5)
Selling, general and administrative expenses [1][3]	(159.9)	(168.6)	(656.9)	(624.9)
Impairment of assets, net of reversals	(47.6)	(6.8)	(57.2)	(8.1)
Restructuring and other	(3.6)	(8.9)	(6.6)	(12.3)
Operating income (loss) [1]	**$ (4.5)**	**$ 26.2**	**$ 79.5**	**$ 126.9**
Net interest expense and other financing charges	(6.4)	(2.8)	(23.2)	(11.9)
Share of loss from investment in joint ventures	(0.2)	(0.1)	(1.4)	(0.6)
Earnings (loss) before change in fair value and income taxes [1]	**$ (11.1)**	**$ 23.3**	**$ 54.8**	**$ 114.4**
Change in fair value of non-controlling interest liability	0.3	(1.5)	0.3	(3.5)
Change in fair value of contingent liability	10.0	—	10.0	—
Change in fair value of exchangeable Partnership units	(5.1)	(6.4)	(4.3)	(6.4)
Earnings (loss) before income taxes [1]	**$ (6.0)**	**$ 15.4**	**$ 60.8**	**$ 104.6**
Income taxes - current	(6.0)	(5.8)	(24.8)	(14.4)
Income taxes - deferred	10.0	(0.6)	8.0	(16.4)
Net earnings (loss) [1]	**$ (1.9)**	**$ 9.0**	**$ 43.9**	**$ 73.8**
Adjusted Net Earnings [2]	**$ 44.8**	**$ 34.0**	**$ 105.7**	**$ 104.2**
Earnings per share attributable to common shareholders				
Basic EPS	$ (0.03)	$ 0.15	$ 0.74	$ 1.20
Diluted EPS	$ (0.03)	$ 0.14	$ 0.72	$ 1.16
Adjusted Basic EPS [2]	$ 0.79	$ 0.55	$ 1.76	$ 1.69
Adjusted Diluted EPS [2]	$ 0.77	$ 0.53	$ 1.71	$ 1.63

[1] Figures may not total due to rounding.

[2] See "Non-IFRS Measures" on page 50 for definitions of System Sales, Adjusted Net Earnings, Adjusted Basic EPS and Adjusted Diluted EPS. See page 9 for a reconciliation of Net Earnings to Adjusted Net Earnings.

[3] Effective December 31, 2018, the Company implemented IFRS 16, Leases. Comparative Operating EBITDA figures provided for each quarter have been restated to reflect the adoption of this accounting standard. See "IFRS 16 – New Lease Standard" on pages 4, 9, and 50 for a reconciliation of the changes to Operating EBITDA, and Note 3 "Changes in accounting policies" in the Financial Statements of the Company for further details.

[4]Results from East Side Mario restaurants in the United States are excluded from System Sales totals. See “Non-IFRS Measures” on page 50 for definition of System Sales.

(C$ millions unless otherwise stated)	13 weeks ended		52 weeks ended	
	December 29, 2019	December 30, 2018	December 29, 2019	December 30, 2018
	(unaudited)	(unaudited)		
Reconciliation of Net Earnings to Adjusted Net Earnings				
Net earnings (loss)	$ (1.9)	$ 9.0	$ 43.9	$ 73.8
Transaction costs	1.8	1.7	2.3	2.8
Impairment charges	47.6	6.8	57.2	8.1
Restructuring and other	3.6	8.9	6.6	12.3
Change in fair value non-controlling interest liability and contingent liability	(10.3)	1.5	(10.3)	3.5
Change in fair value of exchangeable partnership units	5.1	6.4	4.3	6.4
Amortization of unearned conversion fees income	—	0.5	0.1	(0.4)
Losses on early buyout/cancellation of equipment rental contracts	1.5	0.4	3.2	1.3
Net gain on disposal of property, plant and equipment and other assets	(1.3)	(1.2)	(0.4)	(3.5)
Gain on settlement of lease liabilities	(1.4)	—	(1.4)	—
Adjusted Net Earnings [1][2]	**$ 44.8**	**$ 34.0**	**$ 105.7**	**$ 104.2**
Reconciliation of Net Earnings to EBITDA [2]				
Net earnings (loss)	$ (1.9)	$ 9.0	$ 43.9	$ 73.8
Net interest expense and other financing charges	6.4	2.8	23.2	11.9
Income taxes	(4.1)	6.4	16.9	30.8
Depreciation and amortization	29.5	15.8	114.7	56.4
EBITDA [2]	**$ 29.9**	**$ 34.0**	**$ 198.7**	**$ 172.9**
Reconciliation of EBITDA [2] to Operating EBITDA [2]:				
Transaction costs	1.8	1.7	2.3	2.8
Impairment charges	47.6	6.8	57.2	8.1
Restructuring and other	3.6	8.9	6.6	12.3
Change in fair value non-controlling interest liability and contingent liability	(10.3)	1.5	(10.3)	3.5
Change in fair value of exchangeable partnership units	5.1	6.4	4.3	6.4
Income on Partnership and Fund units	2.8	2.7	11.1	9.0
Amortization of unearned conversion fees income	—	0.5	0.1	(0.4)
Losses on early buyout/cancellation of equipment rental contracts	1.5	0.4	3.2	1.3
Net gain on disposal of property, plant and equipment and other assets	(1.3)	(1.2)	(0.4)	(3.5)
Gain on settlement of lease liabilities	(1.4)	—	(1.4)	—
Stock based compensation	(5.4)	2.1	(0.3)	5.9
Proportionate share of joint venture results	0.8	0.7	2.0	1.3
Rent impact from IFRS 16 Leases	(14.1)	(1.2)	(57.2)	(4.9)
Operating EBITDA [1][2][3]	**$ 60.5**	**$ 63.3**	**$ 216.0**	**$ 214.7**

[1]Figures may not total due to rounding.
[2]See “Non-IFRS Measures” on page 50 for definitions of Adjusted Net Earnings, EBITDA and Operating EBITDA.
[3]Effective December 31, 2018, the Company implemented IFRS 16, Leases. Comparative Operating EBITDA figures provided for each quarter have been restated to reflect the adoption of this accounting standard. See “IFRS 16 – New Lease Standard” on pages 4, 9, and 50 for a reconciliation of the changes to Operating EBITDA, and Note 3 “Changes in accounting policies” in the Financial Statements of the Company for further details.

(C$ millions unless otherwise stated)	13 weeks ended December 29, 2019 (unaudited)	13 weeks ended December 30, 2018 (unaudited)	52 weeks ended December 29, 2019	52 weeks ended December 30, 2018
Operating EBITDA [(1)(2)(3)]	**$ 60.5**	**$ 63.3**	**$ 216.0**	**$ 214.7**
Reconciliation of Operating EBITDA [(2)] to Free Cash Flow[(2)]:				
Maintenance capex	(5.0)	(9.0)	(19.4)	(25.3)
Interest on long-term debt	(5.5)	(4.3)	(17.8)	(16.3)
Interest expense on note payable to The Keg Royalties Income Fund	(1.1)	(1.0)	(4.3)	(3.6)
Cash taxes	(4.6)	(1.7)	(18.6)	(10.7)
Free Cash Flow[(2)] before Growth capex, dividends and NCIB[(1)]	**$ 44.3**	**$ 47.3**	**$ 155.9**	**$ 158.7**
Growth capex	(8.9)	(4.3)	(29.6)	(17.1)
Proceeds on sale of assets	0.2	4.5	0.9	10.6
Dividends	(6.3)	(6.6)	(26.9)	(26.6)
NCIB	—	(14.5)	(35.2)	(16.2)
Free Cash Flow[(2)] after Growth capex, dividends and NCIB[(1)]	**$ 29.4**	**$ 26.5**	**$ 65.0**	**$ 109.5**

(1)Figures may not total due to rounding.
(2)See “Non-IFRS Measures” on page 50 for definitions of Adjusted Net Earnings, EBITDA and Operating EBITDA.
(3)Effective December 31, 2018, the Company implemented IFRS 16, Leases. Comparative Operating EBITDA figures provided for each quarter have been restated to reflect the adoption of this accounting standard. See “IFRS 16 – New Lease Standard” on pages 4, 9, and 50 for a reconciliation of the changes to Operating EBITDA, and Note 3 “Changes in accounting policies” in the Financial Statements of the Company for further details.

Factors Affecting Our Results of Operations

SRS Growth

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 and the same period in the previous year. SRS Growth helps explain what portion of sales growth can be attributed to growth in established locations separate from the portion that can be attributed to the opening of net new restaurants. Recipe calculates SRS Growth as the percentage increase or decrease in sales of restaurants open for at least 24 complete months. Recipe’s SRS Growth results exclude Casey’s restaurants as the Company is in the process of winding down its operations; and sales from international operations from 41 New York Fries and 3 East Side Mario’s.

SRS Growth is primarily driven by changes in the number of guest transactions and changes in average transaction dollar size. Recipe’s SRS Growth results are principally impacted by both its operations and marketing efforts. Recipe’s SRS Growth results are also impacted by external factors, particularly macro-economic developments that affect discretionary consumer spending regionally and across Canada.

Atypical weather conditions over a prolonged period of time can adversely affect Recipe’s business. In particular, during the winter months, unusually heavy snowfalls, ice storms, or other extreme weather conditions can impede guest visits to restaurants and, in turn, can negatively impact sales and profitability.

Management will continually assess each brand to ensure that it maintains a strong consumer proposition, an engaged franchisee and associate network and a culture that reflects their business goals to achieve leadership in the Restaurant business by putting people at the center of everything they do.

To continually ensure a strong consumer proposition, management will focus on 4 fundamental pillars for the Guest Experience; Quality of Food, Quality of Service, Value for the Experience and Ambiance. This will continue to include the use of technology to improve both the timeliness and transparency of data but also the integration of that data to enable management to be more effective and efficient in delivering a great guest experience. Further focus on developing effective training programs for both leadership, franchisees and front line associates will also be enhanced as a critical component to having a successful formula to build SRS by increasing guest transactions.

SRS[1] was a decrease of 2.6% for the quarter and a decrease of 2.3% for the full year compared to the same 13 and 52 weeks in 2018. Recipe and the full service restaurant industry, as a whole, faced headwinds in 2019 that continued into Q4 due to caution in consumer spending and more restaurant seats in the market. Early progress on our 4 pillar operating model continues to yield higher guest satisfaction metrics, which management believes to be a key indicator for long term guest loyalty and revisit intent. While we are pleased with our progress on our 4 pillar operating model, we believe we have more upside potential by continuing to create more compelling and relevant consumer propositions for both dine-in and off-premise channels.

Management continues to focus on both short-term and long-term strategies to improve SRS through restaurant renovations, greater emphasis on menu innovation, enhanced guest experiences, expanded off-premise sales through new and improved e-commerce applications, operational excellence initiatives including using technology to improve the timeliness and transparency of data, and brand specific digital-social media marketing that reaches local consumers with relevant offerings tailored to them.

See "Non-IFRS Measures" on page 50 for a description of how Recipe calculates SRS growth. SRS Growth for individual brands may be higher or lower than SRS Growth for all restaurants combined, and in some cases, SRS Growth, for individual brands, may be negative.

Competition

The Canadian Restaurant Industry has been and continues to be intensely competitive and it continues to evolve. While guests' expectations have increased over the years, many of the factors that impact their decisions remain the same: quality of food, service, value (including convenience) and ambiance. Recipe competes with a range of competitors including large national and regional restaurant chains and local independent restaurant operators. While independent operators continue to have a significant share in the restaurant industry, Recipe's management believes that its scale will continue (especially in today's macro environment) to offer significant competitive advantages compared to their independent counterparts. These advantages include lower food costs through greater purchasing power, strategic partnerships such as with Google, Scene, CAA, UberEats, Skip the Dishes and Door Dash, stronger selection of sites and a long history and expertise in real estate negotiations, and an advanced information technology department and corresponding investment in restaurant systems and data tools to enhance guest experience.

Restaurant Portfolio Management and Continuous Network Improvement

Management has recently completed a thorough strategic planning process which included a complete review of all 1,373 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 (see "Restaurant Portfolio Restructuring"). For corporate restaurant locations that no longer fit the long-term strategic plan of the Company, Management will take 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.

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 13 and 52 weeks ended December 29, 2019, the Company completed 25 and 109 renovations, respectively. The 109 renovations completed was a record year for Recipe and a significant indicator in franchisees' belief in the operating model.

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 52 weeks ended December 29, 2019, the Company contributed $1.6 million towards these renovation incentive programs which supported the completion of 46 restaurant renovations.

Recipe's restaurant network consists of company-owned corporate locations and franchised locations. As at the end of December 29, 2019, there were 1,373 restaurants. The following table presents the changes in Recipe's restaurant unit count:

	For the 52 weeks ended December 29, 2019							
	December 29, 2019				December 30, 2018			
Unit count (unaudited)	**Corporate**	**Franchised**	**Joint Venture**	**Total**	**Corporate**	**Franchised**	**Joint Venture**	**Total**
Beginning of year [1]	208	1,128	46	**1,382**	169	1,049	54	**1,272**
Acquisitions [2]	2	—	—	**2**	49	57	—	**106**
New openings	5	39	4	**48**	4	54	3	**61**
Closures	(23)	(33)	(3)	**(59)**	(17)	(38)	(1)	**(56)**
Casey's closures	—	—	—	—	—	(1)	—	**(1)**
Corporate buybacks[3]	13	(13)	—	—	15	(15)	—	—
Restaurants re-franchised[4]	(3)	4	(1)	—	(12)	22	(10)	—
End of period	202	1,125	46	**1,373**	208	1,128	46	**1,382**

(1) Unit count excludes East Side Mario's restaurants located in the United States.
(2) The Keg was acquired on February 22, 2018.
(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.

During the 52 weeks ended December 29, 2019, excluding the acquisitions, the Company opened 48 new restaurant locations and closed 59 locations. Included in the closures were under-performing locations where the closure will benefit the overall system performance and the Company's profitability going forward. Management has also identified an additional 29 non-strategic or under-performing restaurants that should be restructured and closed (see "Restaurant Portfolio Restructuring"). The planned closure or sublet of these properties is expected to occur over the next 12 to 18 months. Management will continue to review its portfolio of restaurants and will opportunistically close under-performing or non-strategic locations that will benefit the Company long-term.

Financial results

System Sales

System Sales for the 13 and 52 weeks ended December 29, 2019 were \$895.8 million and \$3,486.9 million compared to \$905.4 million and \$3,415.3 million in 2018, representing a decrease of \$9.6 million or 1.1% for the quarter and an increase of \$71.6 million or 2.1% for the year. The decrease in System Sales in the quarter is related to the SRS decline of 2.6%, temporary restaurant closures related to renovations resulting in lost System Sales of \$1.7 million during the quarter, offset by growth in the retail and catering segment. The increase in System Sales for the year is primarily related to the addition of The Keg in February 2018 and growth in the retail and catering segment from the Swiss Chalet branded products sold at grocery, the addition of Montana's ribs sold at grocery during the fourth quarter, increases in frozen pot pie sales from the addition of the new pie production line, and the addition of Marigolds and Onions in December 2018, partially offset by temporary restaurant closures related to renovations resulting in lost System Sales of \$9.2 million during the year.

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 \$327.0 million and \$1,252.5 million for the 13 and 52 weeks ended December 29, 2019 compared to \$328.2 million and \$1,191.9 million in 2018, representing a decrease of \$1.2 million or 0.4% for the quarter and an increase of \$60.6 million or 5.1% for the year. The increase in the gross revenues for the year was primarily related to the addition of The Keg in February 2018 and increases in retail and catering sales, partially offset by SRS decreases.

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.

In 2018 and prior years, SG&A included rent expense related to head office and corporate locations, and net rent expense related to franchise sublease locations. As a result of the adoption of IFRS 16 – New Lease Standard, SG&A no longer includes net rent and lease costs but includes increased depreciation due to right of use assets related to head office and corporately owned restaurant locations.

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.

	13 weeks ended		**52 weeks ended**	
(C$ thousands unless otherwise stated)	**December 29, 2019**	**December 30, 2018**	**December 29, 2019**	**December 30, 2018**
	(unaudited)	(unaudited)		
Corporate restaurant expenses	$ 111.5	$ 114.1	$ 447.4	$ 422.4
Advertising fund transfers	17.1	17.1	64.3	63.3
Franchise assistance and bad debt	1.0	1.8	3.8	8.2
The Keg royalty expense	6.3	6.5	25.4	21.3
Depreciation and amortization[2]	28.9	15.8	112.5	56.4
Net gain on disposal of property, plant and equipment and other assets	(1.3)	(1.2)	(0.4)	(3.5)
Gain on settlement of lease liabilities	(1.4)	—	(1.4)	—
Losses on early buyout/cancellation of equipment rental contracts	1.5	0.4	3.2	1.3
Other[3]	(3.8)	14.0	2.0	55.5
Total selling, general and administrative expenses [1]	**$ 159.9**	**$ 168.6**	**$ 656.9**	**$ 624.9**
[2] Depreciation related to right-of-use asset	(11.9)	(0.4)	(46.2)	(2.7)
[3] Rent impact related to new lease standard	14.1	1.2	57.2	4.9
SG&A before the impact from the new lease standard	**$ 162.1**	**$ 169.4**	**$ 667.9**	**$ 627.1**

[1] Figures may not total due to rounding.
[2] Included in depreciation and amortization are $11.9 million and $46.2 million for the 13 and 52 weeks ended December 29, 2019 related to depreciation of Right-of-use assets as a result of the new lease standard IFRS 16, "IFRS 16 – New Lease Standard" compared to $0.4 million and $2.7 million in 2018.
[3] Change in other expenses includes the impact from rent expense of $14.1 million and $57.2 million for the 13 and 52 weeks ended December 29, 2019 related to the new lease standard IFRS 16, see "IFRS 16 – New Lease Standard" compared to $1.2 million and $4.9 million in 2018.

SG&A expenses for the and 13 and 52 weeks ended December 29, 2019 was $159.9 million and $656.9 million compared to $168.6 million and $624.9 million in 2018, representing a decrease of $8.7 million or 5.2% for the quarter and an increase of $32.0 million or 5.1% for the year.

SG&A before the impact from the new lease standard was $162.1 million compared to $169.4 million for the same quarter in 2018, a decrease of $7.3 million or 4.3%. The decrease in the quarter is largely related a decrease in corporate restaurant expenses of $2.6 million, a decrease of $0.8 million in franchise assistance and bad debt expenses, decrease in stock-based compensation expense of $7.5 million, partially offset by an increase in depreciation and amortization expense related to an increase in restaurant assets of $1.7 million, and $1.0 million increase in non-cash losses on disposal of assets and early buyout of equipment rental contracts.

For the 52 weeks ended December 29, 2019, SG&A expenses excluding the impact from the new lease standard was $667.9 million compared to $627.1 million in 2018, an increase of $40.8 million or 6.5%. The increase is primarily from the full year impact of The Keg, an increase in corporate restaurant expenses of $24.9 million, full year impact of The Keg royalty expense of $4.1 million increase compared to 2018, $13.1 million higher depreciation and amortization expense (before IFRS Lease Standard[2] changes), $5.1 million increase in non-cash losses on disposal of assets and early buyout of equipment rental contracts, partially offset by a decrease in franchise assistance and bad debt of $4.4 million, and a reduction in stock-based compensation expense of $6.2 million.

Impairment of assets

The Company recorded an impairment of assets of $47.6 million and $57.2 million for the 13 and 52 weeks ended December 29, 2019, compared to $6.8 million and $8.1 million in 2018, representing an increase of $40.8 million and an increase of $49.1 million, respectively. The increases are primarily related to the planned restructuring of non-strategic and under-performing restaurants and providing for anticipated rent support for franchisees (see “Restaurant Portfolio Restructuring”).

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 new lease standard.

	13 weeks ended		52 weeks ended	
(C$ thousands unless otherwise stated)	**December 29, 2019**	**December 30, 2018**	**December 29, 2019**	**December 30, 2018**
	(unaudited)	(unaudited)		
Interest expense on long-term debt	$ 5.5	$ 4.3	$ 17.8	$ 16.3
Interest expense on note payable to The Keg Royalties Income Fund	1.1	1.0	4.3	3.6
Financing costs	0.2	0.1	0.9	0.7
Interest expense - other	0.2	0.3	0.3	0.5
Interest income on Partnership units and KRIF units	(2.8)	(2.7)	(11.1)	(9.0)
Interest income	(0.7)	(0.7)	(2.0)	(2.1)
Net interest before the impact from the new lease standard	**$ 3.5**	**$ 2.3**	**$ 10.2**	**$ 10.0**
Interest on lease obligations	7.8	0.5	32.2	1.9
Interest income on lease receivable	(4.8)	—	(19.1)	—
Total net interest expense and other financing charges[1]	**$ 6.4**	**$ 2.8**	**$ 23.2**	**$ 11.9**
Total debt (excluding financing costs)	**$ 479.3**	**$ 391.0**	**$ 479.3**	**$ 391.0**

[1] Figures may not total due to rounding.

Excluding the net interest related to the new lease standard, net interest expense and other financing charges were $3.5 million compared to $2.3 million in 2018 for the 13 weeks ended December 29, 2019, an increase of $1.2 million. Net interest expense and other financing charges for the 52 weeks ended December 29, 2019 were $10.2 million compared to $10.0 million in 2018, an increase of $0.2 million. The increases are related to a full year of The Keg interest on long-term debt, increases in the fourth quarter in debt related to the SIB, offset by a full year of interest income from The Keg Partnership units.

Income taxes

The Company recorded a current income tax expense of $6.0 million and $24.8 million for the 13 and 52 weeks ended December 29, 2019, compared to $5.8 million and $14.4 million in 2018, representing an increase of $0.2 million and an increase of $10.4 million, respectively. The increase in current income tax expense is primarily related to the Company now being fully taxable as prior year losses have been utilized for tax purposes and the increase was offset by reduced deferred tax expense.

The Company recorded a net deferred income tax recovery of $10.0 million and expense of $8.0 million for the 13 and 52 weeks ended December 29, 2019, compared to an expense of $0.6 million and $16.4 million in 2018, representing a decrease in deferred income tax expense of $10.6 million for the 13 weeks ended December 29, 2019 and a reduction of $24.4 million for the 52 weeks ended December 29, 2019. The deferred income tax expense reduction is primarily related to deferred tax on impairment of asset charges and the 2018 utilization of prior years' loss carry forward balances and the reversal of the related deferred tax asset in 2018.

Net earnings

Net earnings (loss) were $(1.9) million and $43.9 million for the 13 and 52 weeks ended December 29, 2019 compared to $9.0 million and $73.8 million in 2018, representing a decrease of $10.9 million for the quarter and a decrease of $29.9 million for the year.

The net $10.9 million decrease in the quarter was primarily driven by $7.5 million decrease in stock based compensation expense, $1.4 million gain on settlement of lease liabilities, $5.3 million decrease in restructuring expenses, $13.1 million decrease in non-cash fair value expense adjustments, $10.4 million decrease in income tax expense, partially offset by the $2.8 million decrease in Operating EBITDA, $40.8 million increase in non-cash impairment of assets, $1.7 million increase in depreciation related to an increase in restaurant assets compared to 2019, a net $1.1 million higher expense impact related to the new IFRS Lease Standard[2] (see IFRS 16 – New Lease Standard), $1.2 million increase in interest on long-term debt, and $1.0 million increase in non-cash losses on disposal of assets and early buyout of equipment rental contracts.

The net $29.9 million decrease for the year was primarily driven by the $1.3 million increase in Operating EBITDA, $6.2 million decrease in stock based compensation expense, $1.4 million gain on settlement of lease liabilities, $5.7 million decrease in restructuring expenses, $15.9 million decrease in non-cash fair value expense adjustments, $14.0 million decrease in income tax expense, offset by $49.1 million increase in non-cash impairment of assets, $13.1 million increase in depreciation related to an increase in restaurant assets compared to 2019, $1.5 million increase in interest on long-term debt, a net $2.5 million higher expense related to the new IFRS Lease Standard[2] (see IFRS 16 – New Lease Standard), and $5.1 million increase in non-cash losses on disposal of assets and early buyout of equipment rental contracts.

Free Cash Flow

	13 weeks ended		52 weeks ended	
(C$ millions unless otherwise stated)	**December 29, 2019**	**December 30, 2018**	**December 29, 2019**	**December 30, 2018**
Free cash flow [1][2], before growth capex, dividends and NCIB	**$ 44.3**	**$ 47.3**	**$ 155.9**	**$ 158.7**
Free cash flow per share - Basic (in dollars)	$ 0.79	$ 0.77	$ 2.60	$ 2.57
Free cash flow per share - Diluted (in dollars)	$ 0.76	$ 0.74	$ 2.52	$ 2.49
Dividends	**$ 6.3**	**$ 6.6**	**$ 26.9**	**$ 26.6**
Dividends per share - Basic (in dollars)	$ 0.11	$ 0.11	$ 0.45	$ 0.43
Dividends per share - Diluted (in dollars)	$ 0.11	$ 0.10	$ 0.44	$ 0.42
EPS (in dollars)				
Basic earnings per share	$ (0.03)	$ 0.15	$ 0.74	$ 1.20
Diluted earnings per share	$ (0.03)	$ 0.14	$ 0.72	$ 1.16
Adjusted basic earnings per share	$ 0.79	$ 0.55	$ 1.76	$ 1.69
Adjusted diluted earnings per share	$ 0.77	$ 0.53	$ 1.71	$ 1.63

[1] See "Non-IFRS Measures" on page 50 for definitions of Operating EBITDA and Free Cash Flow. See page 9 for a reconciliation of Net Earnings to Operating EBITDA and to Free Cash Flow.

[2] Effective December 31, 2018, the Company implemented IFRS 16, Leases. Comparative Operating EBITDA figures provided for each quarter have been restated to reflect the adoption of this accounting standard. See "IFRS 16 – New Lease Standard" on pages 4, 9, and 50 for a reconciliation of the changes to Operating EBITDA, and Note 3 "Changes in accounting policies" in the Interim Financial Statements of the Company for further details.

The Company generates significant Free Cash Flow[1] which provides the Company the ability to fund growth and enhance shareholder returns. Free Cash Flow before growth capex, dividends, and share repurchases under the Company's NCIB and SIB for the 13 weeks ended December 29, 2019 was $44.3 million compared to $47.3 million for the 13 weeks ended December 30, 2018. Free Cash Flow before growth capex, dividends, and share repurchases for the year was $155.9 million compared to $158.7 million in 2018.

In 2019 and in future reporting periods, Free Cash Flow will be reduced by income taxes that the Company will be paying now that prior years' tax loss carry forward balances have been utilized. 2019 cash income tax benefited from a low installment base from 2018 and 2020 cash income tax will be higher than normal because of 2019 end of year tax payments plus normal installments.

Free Cash Flow before growth capex, dividends, and NCIB per share on a diluted basis was $0.76 for the 13 weeks ended December 29, 2019 compared to $0.74 for the 13 weeks ended December 30, 2018. Free Cash Flow before growth capex, dividends, and NCIB per share for the year on a diluted basis was $2.52 compared to $2.49 in 2018.

During the 13 weeks ended December 29, 2019, the Company paid dividends of $6.3 million or $0.11 dividends per share compared to $6.6 million or $0.11 dividends per share in 2018. In 2019, the Company declared dividends of $26.9 million or $0.45 dividends per share, and repurchased 1,322,871 shares at $35.2 million under the NCIB, compared to $26.6 million or $0.43 dividends per share, and repurchases under the NCIB of 634,850 shares costing $16.2 million in 2018.

During the 52 weeks ended December 29, 2019, the Company repurchased and canceled 5,952,500 subordinate voting shares for $160.7 million under the Company's NCIB and a substantial issuer bid ("SIB") that was completed on September 25, 2019. As at December 29, 2019, the Company had 56,378,425 shares outstanding compared to 61,755,594, as at December 30, 2018, a decrease of 5,377,169 shares or 8.7% that will increase Free Cash Flow and Earnings per share on a go forward basis by approximately 6%-7%, or $0.05 Free Cash Flow per share and $0.02 EPS.

The Company's strong Free Cash Flow will enable the Company to fund growth and continue to pursue strategic opportunities to further enhance shareholder value, including acquisitions, share repurchases and dividend increases.

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. For comparative purposes, the Company has retroactively restated the allocation of overhead expenses related to the retail and catering and central segments to more accurately reflect actual overhead costs incurred in this segment.

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.

For purposes of measuring Segment Performance, the Company will report Segment Operating EBITDA contribution and related components following pre-IFRS 16 accounting policies similar to 2018 and prior reporting periods. For comparative purposes, the Company has retroactively restated Operating EBITDA to exclude the corresponding rent impact (see pages 9 and 50 for a reconciliation of Operating EBITDA).

Operating EBITDA

Operating EBITDA[1][2] before The Keg royalty expense was $64.0 million, representing 7.1% contribution as a percentage of Total System Sales for the 13 weeks ended December 29, 2019 compared to $67.1 million representing 7.4% in 2018. Operating EBITDA[1][2] before The Keg royalty expense for the year was $230.3 million, representing 6.6% contribution as a percentage of Total System Sales for the 52 weeks ended December 29, 2019 compared to $227.0 million representing 6.6% in 2018.

Operating EBITDA[1][2] after The Keg royalty expense was $60.5 million for the 13 weeks ended December 29, 2019 compared to $63.3 million in 2018, representing a decrease of $2.8 million or 4.4% for the quarter. Operating EBITDA[1][2] after The Keg royalty expense for the year was $216.0 million for the 52 weeks ended December 29, 2019 compared to $214.7 million in 2018, representing an increase of $1.3 million or 0.6%. The full year increase was driven by higher contribution in the franchise segment, the addition The Keg in February 2018, as well as improvement to the quality of sales due to the ongoing practice of opening new franchise restaurants at the standard royalty rate while closing or taking back under-performing previously subsidized locations, and from higher central segment contribution that mostly offset a decrease in the corporate segment driven by taking back under-performing restaurants from franchisees and from renovation incentives paid to franchisees to assist with major renovations in certain brands.

(unaudited)

(C$ thousands unless otherwise stated)	13 weeks ended December 29, 2019				
	Corporate	**Franchised**	**Retail & Catering**	**Central**	**Total**
System Sales	**$ 197,374**	**$ 606,137**	**$ 92,295**	**$ —**	**$ 895,806**
Corporate Results					
Sales	$ 192,586	$ —	$ —	$ 2,986	$ 195,572
Cost of inventories sold and cost of labour	(122,293)	—	—	—	(122,293)
Restaurant contribution before other costs	70,293	—	—	2,986	73,279
Restaurant contribution before other costs %	36.5%				
Other operating costs	(50,988)	—	—	—	(50,988)
Total Contribution	**$ 19,305**	**—**	**—**	**$ 2,986**	**$ 22,291**
Franchise Results					
Franchise royalty income	—	$ 27,615	—	—	27,615
Franchise royalty income as a % of franchise sales	—	4.6%	—	—	—
New franchise fees, property and equipment rent	—	—	—	3,172	3,172
Franchise rent assistance and bad debt	—	(1,048)	—	—	(1,048)
Contribution from franchise restaurants	**—**	**$ 26,567**	**—**	**$ 3,172**	**$ 29,739**
Contribution from Retail and Catering[3]	**—**	**—**	**$ 13,119**	**—**	**13,119**
Net Central contribution[3]	**—**	**—**	**—**	**$ (1,138)**	**(1,138)**
Operating EBITDA[1] before royalty expense	**$ 19,305**	**$ 26,567**	**$ 13,119**	**$ 5,020**	**$ 64,011**
Net royalty expense				$ (3,516)	$ (3,516)
Operating EBITDA[1]	**$ 19,305**	**$ 26,567**	**$ 13,119**	**$ 1,504**	**$ 60,495**
Contribution as a % of corporate sales	10.0%	—	—	—	—
Contribution as a % of franchise sales	—	4.4%	—	—	—
Contribution as a % of total System Sales	—	—	14.2%	0.2%	6.8%
Contribution (excluding net royalty expense) as a % of total System Sales	9.8%	4.4%	14.2%	0.6%	7.1%

(unaudited)

(C$ thousands unless otherwise stated)	13 weeks ended December 30, 2018				
	Corporate	**Franchised**	**Retail & Catering**	**Central**	**Total**
System Sales	**$ 205,008**	**$ 615,327**	**$ 85,033**	$ —	**$ 905,368**
Corporate Results					
Sales	$ 200,497	$ —	$ —	$ 3,330	$ 203,827
Cost of inventories sold and cost of labour	(127,269)	—	—	—	(127,269)
Restaurant contribution before other costs	73,228	—	—	3,330	76,558
Restaurant contribution before other costs %	36.5%				
Other operating costs.	(51,718)	—	—	—	(51,718)
Total Contribution	**$ 21,510**	**—**	**—**	**$ 3,330**	**$ 24,840**
Franchise Results					
Franchise royalty income	—	$ 28,421	—	—	28,421
Franchise royalty income as a % of franchise sales	—	4.6%	—	—	—
New franchise fees, property and equipment rent	—	—	—	3,511	3,511
Franchise rent assistance and bad debt	—	(1,835)	—	—	(1,835)
Contribution from franchise restaurants	**—**	**$ 26,586**	**—**	**$ 3,511**	**$ 30,097**
Contribution from Retail and Catering[3]	**—**	**—**	**$ 12,467**	**—**	**12,467**
Net Central contribution[3]	**—**	**—**	**—**	**$ (347)**	**(347)**
Operating EBITDA[1][2] before royalty expense	**$ 21,510**	**$ 26,586**	**$ 12,467**	**$ 6,494**	**$ 67,057**
Net royalty expense				$ (3,768)	$ (3,768)
Operating EBITDA[1][2]	**$ 21,510**	**$ 26,586**	**$ 12,467**	**$ 2,726**	**$ 63,289**
Contribution as a % of corporate sales	10.7%	—	—	—	—
Contribution as a % of franchise sales	—	4.3%	—	—	—
Contribution as a % of total System Sales	—	—	14.7%	0.3%	7.0%
Contribution (excluding net royalty expense) as a % of total System Sales	10.5%	4.3%	14.7%	0.7%	7.4%

[1] See “Non-IFRS Measures” on page 50 for definitions of Operating EBITDA and page 9 for a reconciliation of Net Earnings to Operating EBITDA.

[2] Effective December 31, 2018, the Company implemented IFRS 16, Leases. Comparative Operating EBITDA figures provided for each quarter have been restated to reflect the adoption of this accounting standard. See “IFRS 16 – New Lease Standard” on pages 4, 9, and 50 for a reconciliation of the changes to Operating EBITDA, and Note 3 “Changes in accounting policies” in the Financial Statements of the Company for further details.

(3) 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)	52 weeks ended December 29, 2019				
(C$ thousands unless otherwise stated)	**Corporate**	**Franchised**	**Retail & Catering**	**Central**	**Total**
System Sales	**$ 790,053**	**$ 2,380,462**	**$ 316,379**	**$ —**	**$ 3,486,894**
Corporate Results					
Sales	$ 772,675	$ —	$ —	$ 10,974	$ 783,649
Cost of inventories sold and cost of labour	(494,838)	—	—	—	(494,838)
Restaurant contribution before other costs	277,837	—	—	10,974	288,811
Restaurant contribution before other costs %	35.2%				
Other operating costs.	(202,879)	—	—	—	(202,879)
Total Contribution	**$ 74,958**	**—**	**—**	**$ 10,974**	**$ 85,932**
Franchise Results					
Franchise royalty income	—	108,890	—	—	108,890
Franchise royalty income as a % of franchise sales	—	4.6%	—	—	—
New franchise fees, property and equipment rent	—	—	—	12,913	12,913
Franchise rent assistance and bad debt	—	(3,824)	—	—	(3,824)
Contribution from franchise restaurants	**—**	**$ 105,066**	**—**	**$ 12,913**	**$ 117,979**
Contribution from Retail and Catering[3]	**—**	**—**	**$ 36,489**	**—**	**36,489**
Net Central contribution[3]	**—**	**—**	**—**	**$ (10,145)**	**(10,145)**
Operating EBITDA[1][2] before royalty expense	**$ 74,958**	**$ 105,066**	**$ 36,489**	**$ 13,742**	**$ 230,255**
Net royalty expense				$ (14,242)	$ (14,242)
Operating EBITDA[1][2]	**$ 74,958**	**$ 105,066**	**$ 36,489**	**$ (500)**	**$ 216,013**
Contribution as a % of corporate sales	9.7%	—	—	—	—
Contribution as a % of franchise sales	—	4.4%	—	—	—
Contribution as a % of total System Sales	—	—	11.5%	0.0 %	6.2%
Contribution (excluding net royalty expense) as a % of total System Sales	9.5%	4.4%	11.5%	0.4 %	6.6%

(unaudited)	52 weeks ended December 30, 2018				
(C$ thousands unless otherwise stated)	**Corporate**	**Franchised**	**Retail & Catering**	**Central**	**Total**
System Sales	**$ 765,142**	**$ 2,362,404**	**$ 287,795**	**$ —**	**$ 3,415,341**
Corporate Results					
Sales	$ 749,247	$ —	$ —	$ 11,761	$ 761,008
Cost of inventories sold and cost of labour	(476,612)	—	—	—	(476,612)
Restaurant contribution before other costs	272,635	—	—	11,761	284,396
Restaurant contribution before other costs %	35.6%				
Other operating costs.	(192,131)	—	—	—	(192,131)
Total Contribution	**$ 80,504**	**—**	**—**	**$ 11,761**	**$ 92,265**
Franchise Results					
Franchise royalty income	—	$ 107,569	—	—	107,569
Franchise royalty income as a % of franchise sales	—	4.5%	—	—	—
New franchise fees, property and equipment rent	—	—	—	13,559	13,559
Franchise rent assistance and bad debt	—	(8,233)	—	—	(8,233)
Contribution from franchise restaurants	**—**	**$ 99,336**	**—**	**$ 13,559**	**$ 112,895**
Contribution from Retail and Catering[3]	**—**	**—**	**$ 34,163**	**—**	**34,163**
Net Central contribution[3]	**—**	**—**	**—**	**$ (12,339)**	**(12,339)**
Operating EBITDA[1][2] before royalty expense	**$ 80,504**	**$ 99,336**	**$ 34,163**	**$ 12,981**	**$ 226,984**
Net royalty expense				$ (12,296)	$ (12,296)
Operating EBITDA[1][2]	**$ 80,504**	**$ 99,336**	**$ 34,163**	**$ 685**	**$ 214,688**
Contribution as a % of corporate sales	10.7%	—	—	—	—
Contribution as a % of franchise sales	—	4.2%	—	—	—
Contribution as a % of total System Sales	—	—	11.9%	0.0%	6.3%
Contribution (excluding net royalty expense) as a % of total System Sales	10.5%	4.2%	11.9%	0.4%	6.6%

[1] See "Non-IFRS Measures" on page 50 for definitions of Operating EBITDA and page 9 for a reconciliation of Net Earnings to Operating EBITDA.
[2] Effective December 31, 2018, the Company implemented IFRS 16, Leases. Comparative Operating EBITDA figures provided for each quarter have been restated to reflect the adoption of this accounting standard. See "IFRS 16 – New Lease Standard" on pages 4, 9, and 50 for a reconciliation of the changes to Operating EBITDA, and Note 3 "Changes in accounting policies" in the Financial Statements of the Company for further details.
[3] 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 December 29, 2019, the corporate segment restaurant count consisted of 202 restaurants compared to 208 at December 30, 2018. During the 52 weeks ended December 29, 2019, the Company acquired 2 locations in the Anejo and Blanco purchase, opened 5 new restaurants, completed 13 corporate buybacks, closed 23 under-performing restaurants and re-franchised 3 restaurants. The corporate restaurant segment includes the proportionate results from the Company's 46 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 $192.6 million and $772.7 million for the 13 and 52 weeks ended December 29, 2019 compared to $200.5 million and $749.2 million in 2018, a decrease of $7.9 million or 3.9% for the quarter and an increase of $23.5 million or 3.1% for the year. The decrease in the quarter is primarily related to SRS decreases, restaurant closures and restaurants re-franchised, offset by restaurant take backs from franchisees. The increase for the 52 weeks ended December 29, 2019 was primarily related to the full year impact from the addition of The Keg in February 2018 partially offset by closures and restaurants re-franchised.

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 $122.3 million and $494.8 million for the 13 and 52 weeks ended December 29, 2019 compared to $127.3 million and $476.6 million in 2018, a decrease of $5.0 million or 3.9% for the quarter and an increase of $18.2 million or 3.8% for the year. The decrease in the quarter directly related to the decrease in sales. The increase for the year was primarily due to the full year impact from the addition of The Keg in February 2018 partially offset by closures and restaurants re-franchised. Cost of inventories sold and cost of labour as a percentage of sales was 63.5% and 63.5% for the 13 weeks ended December 29, 2019. Cost of inventories sold and cost of labour as a percentage of sales increased from 63.6% to 64.0% for the 52 weeks ended December 29, 2019, an increase of 0.4 percentage points.

Contribution from Corporate segment

Total contribution from corporate restaurants was $19.3 million and $75.0 million for the 13 and 52 weeks ended December 29, 2019 compared to $21.5 million and $80.5 million in 2018, a decrease of $2.2 million or 10.2% for the quarter and a decrease of $5.5 million or 6.8% for the year. The decrease is related to the sales decrease and contribution rate decrease mostly from taking back under-performing franchise restaurants that operate below our 10% to 15% target contribution level.

For the 13 weeks ended December 29, 2019, total contribution from corporate restaurants as a percentage of corporate sales was 10.0% compared to 10.7% in 2018. For the 52 weeks ended December 29, 2019, total contribution from corporate restaurants as a percentage of corporate sales was 9.7% compared to 10.7% for the 52 weeks in 2018. The decreases were primarily related to the sales decreases and from taking back under-performing franchise restaurants that operate below our 10% to 15% target contribution level, partially offset by the addition of The Keg which operates corporate restaurants within our 10% to 15% target range.

Franchise

As at December 29, 2019, the franchise restaurant segment consisted of 1,125 restaurants compared to 1,128 at December 30, 2018. For the 52 weeks ended December 29, 2019, the Company completed 39 new restaurant openings, 3 corporate and 1 joint venture restaurants were re-franchised, partially offset by 33 closures, and 13 corporate take backs. 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 $606.1 million and $2,380.5 million during the 13 and 52 weeks ended December 29, 2019 compared to $615.3 million and $2,362.4 million in 2018, a decrease of $9.2 million or 1.5% for the quarter and an increase of $18.1 million or 0.8% for the year. The decrease in the quarter was primarily related to the SRS decrease. The increase for the year was primarily attributed to the new restaurant openings and conversions of corporate and joint venture restaurants to franchise in 2018 and 2019, the addition of The Keg in February 2018, partially offset by the SRS decrease, restaurant closures, and corporate buybacks.

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. With the majority of contractual subsidies scheduled to end at prescribed dates and the reduction in the number of restaurants requiring temporary assistance, management believes the effective royalty recovery rate will gradually increase over time closer to 5% (excluding St-Hubert at 4%). 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.

Franchise revenues were $27.6 million and $108.9 million for the 13 and 52 weeks ended December 29, 2019 compared to $28.4 million and $107.6 million in 2018, a decrease of $0.8 million or 2.8% for the quarter and an increase of $1.3 million or 1.2% for the year. The decrease in the quarter is related to SRS decreases. The increase for the year was primarily attributed to the addition of The Keg, new restaurants opened in 2018 and 2019, partially offset by the SRS decrease.

Contribution from franchise segment

Total contribution from franchise restaurants was $26.6 million for the 13 weeks ended December 29, 2019 compared to $26.6 million in 2018, a decrease of $0.0 million or 0.0% for the quarter. Total contribution from franchise restaurants was $105.1 million for the 52 weeks ended December 29, 2019 compared to $99.3 million in 2018, an increase of $5.8 million or 5.8%. The effective net royalty rate for the 13 and 52 weeks ended December 29, 2019 was 4.4% and 4.4% compared to 4.3% and 4.2% in 2018. The increase was related to improvement to the quality of sales due to the ongoing practice of opening new franchise restaurants at the standard royalty rate while closing or taking back under-performing previously subsidized locations and from the addition of The Keg offset by the renovation incentive paid to Swiss Chalet and Harvey's franchisees to support major renovations. There are brands acquired since 2014 which charge different standard royalty rates, in particular St-Hubert which charges 4% as its standard royalty and The Keg which charges over 5% when considering its total franchise portfolio.

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 weeks ended December 29, 2019 was $13.1 million compared to $12.5 million in 2018, an increase of $0.6 million or 4.8% for the quarter. Contribution from retail and catering for the 52 weeks ended December 29, 2019 was $36.5 million compared to $34.2 million in 2018, an increase of $2.3 million or 6.7%.

For the 13 weeks ended December 29, 2019, total contribution from the retail and catering segment as a percentage of sales was 14.2% compared to 14.7% in 2018. For the 52 weeks ended December 29, 2019, total contribution from the retail and catering segment as a percentage of sales was 11.5% compared to 11.9% for the 52 weeks in 2018.

The contribution dollar increases are primarily driven by sales increases from the Swiss Chalet branded products at grocery, the launch of Montana's ribs into grocery in the fourth quarter, increases in frozen pot pie sales from the addition of the new pie production line, and the additions of The Keg retail business in February 2018, and the Marigolds and Onions catering business in December 2018.

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 $3.0 million and $11.0 million for the 13 and 52 weeks ended December 29, 2019 compared to $3.3 million $11.8 million in 2018, representing a decrease for the quarter of $0.3 million or 9.1% and a decrease of $0.8 million or 6.8% for the year. The decrease is related to the Company reducing the rate charged on mobile and web order fees charged to its franchisees, and a shift from phone ordering to web and mobile-based meal orders at lower rates.

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 $3.2 million and $12.9 million for the 13 and 52 weeks ended December 29, 2019 compared to $3.5 million and $13.6 million in 2018. The decreases are primarily related to less property rent 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 weeks ended December 29, 2019 was $5.0 million compared to $6.5 million in 2018, representing a decrease of $1.5 million or 23.1% for the quarter. Central segment contribution before the net royalty expense for the 52 weeks ended December 29, 2019 was $13.7 million compared to $13.0 million in 2018, representing an increase of $0.7 million or 5.4%. The $0.7 million central segment contribution increase is primarily the result of effective cost controls and synergies from consolidating certain shared services with acquired brands.

Total central segment contribution, before the net royalty expense, as a percentage of total System Sales for the 13 weeks ended December 29, 2019 was 0.6% compared to 0.7% in 2018, a decrease of 0.1 percentage points for the quarter. Total central segment contribution, before the net royalty expense, as a percentage of total System Sales for the 52 weeks ended December 29, 2019 was 0.4% compared to 0.4% in 2018.

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.

(C$ millions unless otherwise stated) [1]	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	Q1 – 2018 Apr 1, 2018	Q4 – 2017 Dec 31, 2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
System Sales [1]	**$ 895.8**	**$ 869.1**	**$ 871.3**	**$ 850.7**	**$ 905.4**	**$ 879.8**	**$ 874.2**	**$ 755.9**	**$ 774.9**
Total System Sales Growth [1]	(1.1)%	(1.2)%	(0.3)%	12.5 %	16.8 %	28.5%	32.3%	14.7%	20.9%
SRS Growth [1]	(2.6)%	(3.1)%	(1.7)%	(1.6)%	(0.2)%	1.8%	1.9%	2.1%	2.5%
Number of restaurants (at period end)	1,373	1,375	1,384	1,382	1,382	1,370	1,379	1,382	1,272
Operating EBITDA before The Keg royalty[1][2]	**$ 64.0**	**$ 52.9**	**$ 59.4**	**$ 53.9**	**$ 67.1**	**$ 54.9**	**$ 57.5**	**$ 47.6**	**$ 57.4**
Operating EBITDA Margin on System Sales before The Keg royalty[1]	**7.1 %**	**6.1 %**	**6.8 %**	**6.3 %**	**7.4 %**	**6.2%**	**6.6%**	**6.3%**	**7.4%**
Operating EBITDA [1][2]	**$ 60.5**	**$ 49.5**	**$ 56.0**	**$ 50.1**	**$ 63.3**	**$ 51.2**	**$ 54.0**	**$ 46.2**	**$ 57.4**
Operating EBITDA Margin on System Sales [1][2]	**6.8 %**	**5.7 %**	**6.4 %**	**5.9 %**	**7.0 %**	**5.8%**	**6.2%**	**6.1%**	**7.4%**
Corporate restaurant sales	$ 192.6	$ 191.3	$ 196.2	$ 192.6	$ 205.0	$ 199.0	$ 203.6	$ 146.1	$ 125.8
Number of corporate restaurants	202	208	209	211	208	207	212	213	169
Contribution from Corporate segment	$ 19.3	$ 16.8	$ 20.5	$ 18.5	$ 21.5	$ 21.6	$ 24.3	$ 13.1	$ 12.3
Contribution as a % of corporate sales	10.0 %	8.8 %	10.5 %	9.6 %	10.7 %	10.8%	12.0%	9%	9.8%
Number of joint venture restaurants	46	44	46	47	46	46	54	55	54
Franchise restaurant sales	$ 606.1	$ 597.1	$ 595.9	$ 581.3	$ 615.3	$ 607.2	$ 596.8	$ 543.1	$ 571.0
Number of franchised restaurants	1,125	1,123	1,129	1,124	1,128	1,117	1,113	1,114	1,049
Contribution from Franchise segment	$ 26.6	$ 26.1	$ 26.9	$ 25.5	$ 26.6	$ 25.7	$ 24.7	$ 22.4	$ 24.1
Contribution as a % of Franchise sales	4.4 %	4.4 %	4.5 %	4.4 %	4.3 %	4.2%	4.1%	4.1%	4.2%
Retail and Catering sales									
Contribution from Retail and Catering	$ 13.1	$ 8.0	$ 7.2	$ 8.2	$ 12.5	$ 8	$ 6.8	$ 7	$ 11.3
Contribution as a % of Retail & Catering sales	14.2 %	10.4 %	9.6 %	11.3 %	14.7 %	11.4%	9.7%	11.1%	14.5%
Contribution from Central segment before The Keg royalty	$ 5.0	$ 1.9	$ 4.8	$ 1.7	$ 6.5	$ (0.4)	$ 1.7	$ 5.2	$ 9.7
Contribution as a % of total System Sales	0.6 %	0.6 %	1.0 %	0.6 %	1.1 %	0.3%	0.6%	1.2%	1.9%
Total gross revenue	$ 327.0	$ 309.0	$ 311.9	$ 304.6	$ 328.2	$ 312.4	$ 309.5	$ 246.5	$ 240.0
Operating EBITDA Margin [1][2]	18.5 %	16.0 %	18.0 %	16.4 %	19.3 %	16.4%	17.3%	18.7%	23.9%
Earnings (loss) before income taxes	**$ (6.0)**	**$ 11.9**	**$ 23.8**	**$ 31.3**	**$ 15.4**	**$ 31.4**	**$ 28.5**	**$ 29.3**	**$ 37.0**
Net earnings (loss)	$ (1.9)	$ 6.7	$ 16.6	$ 22.7	$ 9.0	$ 23.8	$ 19.5	$ 21.5	$ 27.3
Adjusted Net Earnings [1]	**$ 44.8**	**$ 19.5**	**$ 23.4**	**$ 18.3**	**$ 35.0**	**$ 25.3**	**$ 24.5**	**$ 20.2**	**$ 30.2**
Net earnings operations attributable to common shareholders of the Company	$ (1.6)	$ 6.8	$ 16.6	$ 22.5	$ 9.0	$ 23.6	$ 19.5	$ 21.7	$ 27.4
EPS attributable to common shareholders of the Company (in dollars)									
Basic EPS	$ (0.03)	$ 0.11	$ 0.27	$ 0.36	$ 0.15	$ 0.38	$ 0.31	$ 0.36	$ 0.47
Diluted EPS	$ (0.03)	$ 0.11	$ 0.26	$ 0.35	$ 0.14	$ 0.37	$ 0.30	$ 0.35	$ 0.45
Adjusted Basic EPS [1]	**$ 0.79**	**$ 0.32**	**$ 0.39**	**$ 0.30**	**$ 0.57**	**$ 0.41**	**$ 0.39**	**$ 0.32**	**$ 0.50**
Adjusted Diluted EPS [1]	**$ 0.77**	**$ 0.31**	**$ 0.37**	**$ 0.29**	**$ 0.55**	**$ 0.39**	**$ 0.38**	**$ 0.31**	**$ 0.48**
Free Cash Flow before growth capex, dividends, and NCIB [1]	**$ 44.3**	**$ 36.1**	**$ 40.0**	**$ 35.1**	**$ 47.2**	**$ 37.3**	**$ 41.0**	**$ 33.2**	**$ 37.0**
Free Cash Flow per share - basic (in dollars)	$ 0.79	$ 0.59	$ 0.65	$ 0.57	$ 0.76	$ 0.60	$ 0.66	$ 0.55	$ 0.63
Free Cash Flow per share - diluted (in dollars)	$ 0.76	$ 0.58	$ 0.63	$ 0.55	$ 0.74	$ 0.58	$ 0.63	$ 0.53	$ 0.60

[1] See “Non-IFRS Measures” on page 50 for definitions of System Sales, System Sales Growth, SRS Growth, Operating EBITDA, Operating EBITDA Margin, Operating EBITDA Margin on System Sales, Adjusted Net Earnings, Adjusted Basic EPS, Adjusted Diluted EPS and Free Cash Flow.

[2] Effective December 31, 2018, the Company implemented IFRS 16, Leases. Comparative Operating EBITDA figures provided for each quarter have been restated to reflect the adoption of this accounting standard. See “IFRS 16 – New Lease Standard” on pages 4, 9, and 50 for a reconciliation of the changes to Operating EBITDA, and Note 3 “Changes in accounting policies” in the Financial Statements of the Company for further details.

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

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 SRS 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; and
- fluctuations in commodity prices.

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 first 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 grew from $774.9 million in Q4 2017 to $905.4 million in Q4 2018 but declined slightly in Q4 2019 to $895.8 million. System Sales increases in 2017 and 2018 were driven by SRS increases, the addition of new restaurants, the acquisitions of St-Hubert in September 2016, Original Joe's in December 2016, Burger's Priest in June 2017, Pickle Barrel in December 2017, The Keg in February 2018, and Marigolds and Onions in December 2018, and increases in retail and catering sales. The decrease in Q4 2019 was primarily driven by the SRS decline in the quarter.

Operating EBITDA improved significantly from $57.4 million in Q4 2017 to $63.3 million in Q4 of 2018 but declined slightly in Q4 2019 to $60.5 million. Excluding The Keg royalty, Operating EBITDA in Q4 2018 was $67.1 million and $64.0 million in Q4 2019. The Operating EBITDA increases in 2017 and 2018 were primarily a result of growth in the corporate, franchise, retail and catering segments, the addition of new restaurants, and from the acquisitions of St-Hubert, Original Joe's, Burger's Priest, Pickle Barrel, The Keg, and Marigolds and Onions. The decrease in Q4 2019 was primarily related to lower SRS in the quarter.

Operating EBITDA Margin on System Sales before The Keg royalty was 7.4% in Q4 2017, 7.4% in Q4 2018 and 7.1% in Q4 2019. Operating EBITDA has been impacted with the acquisition of brands that operate at lower profit margins. Management's focus will continue to be on improving the earnings efficiency of our assets and our increased sales base to grow Operating EBITDA as a percentage of System Sales.

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 increased from $12.3 million in Q4 2017 to $21.5 million in Q4 2018 and decreased

to $19.3 million in Q4 2019. Contribution in Q4 2019 decreased primarily as a result of the decline in sales and lower contribution rate driven by taking back under-performing franchise locations.

The franchise restaurant segment contribution as a percentage of System Sales was 4.4% in Q4 2019 compared to 4.3% in 2018 and 4.2% in 2017. Quarterly contribution from the franchise segment has improved each quarter (year over year) from $24.1 million in Q4 2017 to $26.6 million in Q4 2018 and to $26.6 million in Q4 2019. The improvements in Q4 2019 are primarily related to increases in the net franchise royalty recovery rate. The franchise contribution dollar increases are the result of increased sales from the addition of new restaurants, the take back and closure of under-performing franchised restaurants, and the additions of St-Hubert in September 2016, Original Joe's in December 2016, and The Keg in February 2018.

Contribution from retail and catering has grown from $11.3 million in Q4 2017 to $12.5 million in Q4 2018 and to $13.1 million in Q4 2019. The increases are related to increased sales from the addition of Swiss Chalet branded products, the addition of Montana's ribs in Q4 2019, and from the additions of catering sales from the acquisitions of Pickle Barrel and Marigolds and Onions.

Contribution from the central segment before The Keg royalty expense has changed from $9.7 million Q4 2017 to $6.5 million in Q4 2018, and to $5.0 million in Q4 2019. The decreases from 2017 are primarily related to increased overhead costs related to the addition of The Keg in February 2018 and lowering the rates charged on off-premise call centre fees to its franchisees, and a shift from phone ordering to web and mobile-based meal orders at lower fees.

Total gross revenue has increased significantly each quarter (year over year) from $240.0 million in Q4 2017 to $328.2 million in Q4 2018 and decreased slightly in Q4 2019 to $327.0 million. The increases are a result of the increase in the number corporate restaurants, the addition of corporate restaurants from the St-Hubert, Original Joe's, Pickle Barrel, and The Keg transactions; increases in the retail and catering segment at St-Hubert and from the addition of Pickle Barrel catering, Rose Reisman, and Marigolds and Onions. The decrease in Q4 2019 was primarily related to the decrease in SRS.

Quarterly earnings (loss) before income taxes has changed from $37.0 million in Q4 2017 to $15.4 million in Q4 2018 and to $(6.0) million in Q4 2019. The net decrease in the quarter compared to 2018 was primarily driven by $7.5 million decrease in stock based compensation expense, $1.4 million gain on settlement of lease liabilities, $5.3 million decrease in restructuring expenses, $13.1 million decrease in non-cash fair value expense adjustments, partially offset by the $2.8 million decrease in Operating EBITDA, $40.8 million increase in non-cash impairment in assets, $1.7 million increase in depreciation related to an increase in restaurant assets compared to 2019, a net $1.1 million higher expense impact related to the new IFRS Lease Standard[(2)] (see IFRS 16 – New Lease Standard), $1.2 million increase in interest on long-term debt, and $1.0 million increase in non-cash losses on disposal of assets and early buyout of equipment rental contracts.

Free Cash Flow before growth capex, dividends, and NCIB has increased from $37.0 million in Q4 2017 to $47.2 million in Q4 2018 and $44.3 million in Q4 2019. On a diluted per share basis, Free Cash Flow before growth capex, dividends, and NCIB has increased from $0.60 in Q4 2017 to $0.74 in Q4 2018 and to $0.76 in Q4 2019. 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 29), 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 42). 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.

Below is summary of the Company's credit availability, liquidity, net debt to Operating EBITDA positions, and Free Cash Flow.

(C$ millions unless otherwise stated)	December 29, 2019	December 30, 2018	December 31, 2017
Revolving credit facility	$ 550.0	$ 400.0	$ 400.0
Add: Accordion feature	250.0	50.0	50.0
Add: Private notes	250.0	—	—
Add: Term credit facility	—	150.0	150.0
Add: The Keg credit facilities	47.0	47.0	—
Subtotal - credit availability	**$ 1,097.0**	**$ 647.0**	**$ 600.0**
Less: Draw on revolving credit facility	(250.0)	—	(229.0)
Less: Draw on private notes	(210.3)	(220.0)	—
Less: Draw on term credit facility	—	(150.0)	(150.0)
Less: Draw on The Keg credit facilities	(19.0)	(21.0)	—
Subtotal - total debt	**$ (479.3)**	**$ (391.0)**	**$ (379.0)**
Liquidity	**$ 617.7**	**$ 256.0**	**$ 221.0**

	52 weeks ended December 29, 2019	52 weeks ended December 30, 2018	53 weeks ended December 31, 2017
Operating EBITDA[(1)(2)]	$ 216.0	$ 214.7	$ 186.6
Net debt to Operating EBITDA[(1)(2)]	2.2x	1.7x	2.2x
Free cash flow[(1)(2)], before growth capex, dividends and NCIB	$ 155.9	$ 158.7	$ 138.4
Free cash flow[(1)(2)], after growth capex, dividends and NCIB	$ 65.0	$ 109.5	$ 52.4

[(1)] See "Non-IFRS Measures" on page 50 for definitions of Operating EBITDA and Free Cash Flow. See page 9 for a reconciliation of Net Earnings to Operating EBITDA and to Free Cash Flow.
[(2)]Effective December 31, 2018, the Company implemented IFRS 16, Leases. Comparative Operating EBITDA figures provided for each quarter have been restated to reflect the adoption of this accounting standard. See "IFRS 16 – New Lease Standard" on pages 4, 9, and 50 for a reconciliation of the changes to Operating EBITDA, and Note 3 "Changes in accounting policies" in the Financial Statements of the Company for further details.

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 addition of 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 December 29, 2019 was $167.6 million compared to $153.8 million at December 30, 2018, an increase of $13.8 million due to higher gift card sales during the holiday season in Q4 compared to 2018.

The following table presents Recipe's working capital as at December 29, 2019 compared to December 30, 2018:

(C$ millions unless otherwise stated)	December 29, 2019	December 30, 2018	change in working capital
Cash	$ 40.4	$ 49.3	$ 8.9
Accounts receivable	117.3	103.5	(13.8)
Inventories	39.8	36.6	(3.2)
Prepaid expenses and other assets	6.5	9.4	2.9
Current portion of lease receivables	77.3	—	(77.3)
Current portion of long-term receivables	3.0	4.9	1.9
Total Current Assets [1]	**$ 284.3**	**$ 203.7**	**$ (80.6)**
Accounts payable and accrued liabilities	$ 124.6	$ 134.9	$ (10.3)
Provisions	4.7	9.7	(5.0)
Gift card liability	167.6	153.8	13.8
Income taxes payable	12.0	5.7	6.3
Current portion of long-term debt	—	154.0	(154.0)
Current portion of lease liability	121.8	3.2	118.6
Total Current Liabilities	**$ 430.8**	**$ 461.3**	**$ (30.6)**
Working capital deficit	**$ (146.5)**	**$ (257.6)**	**$ (111.2)**

[1] Figures may not total due to rounding.

At December 29, 2019, Recipe had a working capital deficit of $146.5 million compared to $257.6 million at December 30, 2018. The change in working capital deficit of $111.2 million was primarily related to the $154.0 million decrease in current portion of long-term debt, a result of the refinancing in May 2019, an increase in gift card liability of $13.8 million related to higher gift card sales holiday period compared to 2018, an increase in current portion of lease receivables of $77.3 million related to the adoption of IFRS 16 new lease standard, an increase in accounts receivable of $13.8 million and an increase in current portion of the lease liability of $118.6 million related to the adoption of IFRS 16 new lease standard.

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, 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 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 52 weeks ended December 29, 2019 compared to the 13 and 52 weeks ended December 30, 2018:

	13 weeks ended		52 weeks ended	
(C$ millions unless otherwise stated)	December 29, 2019	December 30, 2018	December 29, 2019	December 30, 2018
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash flows from (used in) operating activities	$ 89.3	$ 109.6	$ 227.0	$ 200.4
Cash flows from (used in) investing activities	$ 12.5	$ (17.5)	$ 32.8	$ (109.5)
Cash flows (used in) from financing activities	$ (95.5)	$ (77.9)	$ (269.1)	$ (82.9)
Change in cash during the period [1]	$ 6.4	$ 14.2	$ (9.2)	$ 8.1

[1] Figures may not total due to rounding.

Cash flows from operating activities of continuing operations

Cash flows from operating activities were $89.3 million and $227.0 million for the 13 weeks and 52 weeks ended December 29, 2019 compared to $109.6 million and $200.4 million in 2018, a decrease of $20.3 million for the quarter and an increase of $26.6 million for the year. The decrease was primarily related to increases in accounts receivable, the addition in current portion of long-term receivables related to the new lease standard, partially offset by an increase in gift card liability due to higher gift card sales during the holiday period.

Cash flows used in investing activities of continuing operations

The following table presents Recipe's capital expenditures for the 13 and 52 weeks ended December 29, 2019 compared to the 13 and 52 weeks ended December 30, 2018:

(C$ millions unless otherwise stated)	13 weeks ended		52 weeks ended	
	December 29, 2019	December 30, 2018	December 29, 2019	December 30, 2018
	(unaudited)	(unaudited)		
Purchase of property, plant and equipment:				
Maintenance:				
Corporate restaurants	1.3	3.1	6.3	9.5
Central / IT expenditures / Other	3.7	5.9	13.2	15.8
Total maintenance	$ 5.0	$ 9.0	$ 19.4	$ 25.3
Growth initiatives:				
Major renovations	5.2	1.5	11.4	7.8
New builds	3.7	2.7	18.2	9.2
Total growth	$ 8.9	$ 4.3	$ 29.6	$ 17.1
Total purchase of property, plant and equipment [2]	**$ 13.9**	**$ 13.2**	**$ 49.0**	**$ 42.4**
Total purchase of property, plant and equipment	(13.9)	(13.2)	(49.0)	(42.4)
Acquisitions	—	(3.9)	(5.0)	(80.6)
Buy backs [1]	—	—	(3.4)	—
Proceeds on disposal of property, plant and equipment	0.2	4.5	0.9	10.6
Proceeds on early buyout of equipment and rental contracts	—	—	0.2	0.5
Proceeds on sale of other assets	—	0.8	—	2.2
Investment in joint ventures	(1.8)	—	(1.8)	—
Investment in Keg Royalties Income Fund units	(4.0)	—	(4.0)	—
Additions to other assets	—	0.3	(0.1)	(0.1)
Share of loss from investment in associates in joint ventures	1.3	0.1	1.4	0.6
Lease payments received	27.6	—	98.8	—
Change in long term receivables	3.1	(6.2)	(5.0)	(0.3)
Total cash flows from (used in) investing activities [2]	**$ 12.5**	**$ (17.5)**	**$ 32.8**	**$ (109.5)**

[1] There was 2 buy back in the quarter and 13 buy backs for the year (2018 – 2 buy backs in the quarter and 15 buy backs for the year).
[2] Figures may not total due to rounding.

Cash flows from investing activities were $12.5 million and $32.8 million for the 13 and 52 weeks ended December 29, 2019 compared to cash used in investing activities of $17.5 million and $109.5 million in 2018, a change of $30.0 million for the quarter and $142.3 million for the year. The change is primarily related to The Keg merger offset by lease payments received resulting from the adoption of the new lease standard.

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 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 52 weeks ended December 29, 2019 compared to the 13 and 52 weeks ended December 30, 2018:

	13 weeks ended		52 weeks ended	
(C$ millions unless otherwise stated)	**December 29, 2019**	**December 30, 2018**	**December 29, 2019**	**December 30, 2018**
	(unaudited)	(unaudited)		
Increases in debt	$ 21.0	$ —	$ 411.0	$ 104.0
Debt repayments	(63.0)	(51.0)	(322.7)	(116.0)
Deferred financing fees	(0.1)	—	(3.1)	—
Issuance of subordinated voting common shares	0.7	—	5.5	(4.2)
Share repurchase	0.1	(14.5)	(160.7)	(16.2)
Payment of lease liability	(38.4)	—	(152.6)	(4.9)
Interest paid net of interest income received	(9.4)	(5.7)	(19.6)	(19.0)
Dividends paid on subordinate and multiple voting shares	(6.3)	(6.6)	(26.9)	(26.6)
Cash flows (used in) from financing activities [(1)]	**$ (95.5)**	**$ (77.9)**	**$ (269.1)**	**$ (82.9)**

[(1)] Figures may not total due to rounding.

Cash flows used in financing activities were $95.5 million and $269.1 million for the 13 and 52 weeks ended December 29, 2019. Cash used in financing activities primarily consist of $160.7 million for the shares repurchased under the Company's NCIB and SIB during the 52 weeks ended December 29, 2019; and payment of lease liability of $38.4 million and $152.6 million for the 13 and 52 weeks ended December 29, 2019; dividends of $6.3 million and $26.9 million; net interest paid of $9.4 million and $19.6 million for the 13 and 52 weeks ended December 29, 2019; offset by a net decrease in debt of $42.0 million for the quarter and a net increase of $88.3 million for the year.

Cash flows used in financing activities were $77.9 million and $82.9 million for the 13 and 52 weeks ended December 30, 2018. Cash used in financing activities primarily consist of a net increase in the Company's credit facility related to The Keg merger, less interest paid in the amount of $5.7 million and $19.0 million for the 13 and 52 weeks ended December 30, 2018; and dividends of $6.6 million and $26.6 million, respectively.

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"), is secured on a first lien basis on the assets that secure the Company's New Credit Facility, and is 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. As at December 29, 2019, $250.0 million (December 30, 2018 - $nil) was drawn under the Notes.

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 (5 years) and a $150.0 million tranche that matures on May 1, 2022 (3 years). 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.

As at December 29, 2019, $210.3 million (December 30, 2018 - $370.0 million) was drawn under the amended and extended credit facilities. The effective interest rate for the 52 weeks ended December 29, 2019 was 4.10% representing bankers acceptance rate of 1.97% plus 1.45% borrowing spread, standby fees and the amortization of deferred financing fees of 0.68%.

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 December 29, 2019, the standby fee rate was 0.29%.

As at December 29, 2019, the Company was in compliance with all covenants and has not exceeded any covenant levels requiring early repayments.

At the end of December 29, 2019, the Company had a Net Debt to EBITDA ratio of 2.2x, positioning the Company for more growth and enhanced shareholder returns.

The Keg Facility

On September 28, 2013, 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 now 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 July 2, 2020 to July 4, 2022.

As at December 29, 2019, $19.0 million of this facility has been drawn (December 30, 2018 - $21.0 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 December 29, 2019, KRL was in compliance with all bank covenants associated with these facilities.

Pension deficit

The Company supports a number of pension plans, including a registered funded defined benefit pension plan, a multi-employer pension plan, a defined contribution plan and other supplemental unfunded unsecured arrangements providing pension benefits in excess of statutory limits. The defined benefit plans are non-contributory and these benefits are, in general, based on career average earnings subject to limits.

Defined benefit plan assets are held in trust and at December 29, 2019, were invested 100% in a balanced fund. The accrued benefit plan obligations are determined using actuarial valuations calculated by the Company's actuary. The Company's pension funding policy is to contribute amounts sufficient, at a minimum, to meet local statutory funding requirements as recommended by the Company's actuary plus make annual required repayments of participant benefits for the Supplementary Retirement Plans. During 2020, the Company expects to contribute approximately $0.6 million (2019 - $0.6 million) to its registered funded defined benefit plan, defined contributions plans and multi-employer plans.

A summary of the $21.6 million deficit in the plans is summarized below. Recipe meets its pension obligations by settling its obligations as they come due with cash-on-hand. As required by actuarial funding valuations Recipe paid $2.3 million and $2.3 million in 2019 and 2018 respectively.

(C$ millions unless otherwise stated)	Defined Benefit Pension Plans	Supplementary Retirement Plans (unfunded)	Total
Fair value of plan assets	$ 32,899	$ —	$ 32,899
Present value of obligations	(37,405)	(17,134)	(54,539)
Total	**$ (4,506)**	**$ (17,134)**	**$ (21,640)**

Off Balance Sheet Arrangements

Letters of credit

Recipe has outstanding letters of credit amounting to $0.6 million as at December 29, 2019, 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.

Contractual Obligations

Recipe's significant contractual obligations and commitments as of December 29, 2019 (except as noted below), are shown in the following table:

(C$ millions unless otherwise stated)[1]	2020	2021	2022	2023	2024	Thereafter
Leases liabilities	$ 149.3	$ 140.2	$ 124.8	$ 104.3	$ 87.0	$ 285.2
Revolving term credit facility	—	—	85.3	—	125.0	—
Private debt	—	—	—	—	—	250.0
The Keg credit facilities	—	—	19.0	—	—	—
Other obligations[2]	132.3	10.5	3.5	24.6	2.2	29.6
Total contractual obligations	**$ 281.6**	**$ 150.7**	**$ 232.6**	**$ 128.9**	**$ 214.2**	**$ 564.8**

[1]All figures include obligations that are in the normal course of business and pension fund obligations. Recipe does not have any purchase obligations or other obligations as of December 29, 2019.
[2]Other obligations represent total accounts payable & accrued liabilities, provisions and other long term liabilities.

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 March 5, 2020, there were 56,378,425 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 March 5, 2020 is 6,493,332.

Related Parties

Shareholders

As at December 29, 2019, 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. During the 52 weeks ended December 29, 2019, Fairfax sold 1,411,335 Subordinate Voting Shares under the SIB in order to purchase an equal number of Multiple Voting Shares from Cara Holdings. Fairfax's voting interest and equity ownership increased as a result of this exchange in combination with less voting shares outstanding overall after the SIB. Under the SIB, Cara Holdings participated and tendered 341,460 Multiple Voting Shares. These Multiple Voting Shares were converted into Subordinate Voting Shares on a one-for one basis immediately prior to the completion of the SIB.

During the 13 and 52 weeks ended December 29, 2019, the Company paid a dividend of $0.1121 and $0.4484 per share (13 and 52 weeks ended December 30, 2018 - $0.1068 and $0.4272 per share) on the Subordinate and Multiple Voting Shares of which Fairfax received $3.0 million and $12.2 million (13 and 52 weeks ended December 30, 2018 - $2.9 million and $11.6 million) and Cara Holdings received $1.4 million and $6.3 million (13 and 52 weeks ended December 30, 2018 - $1.5 million and $6.2 million), respectively.

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 52 weeks ended December 29, 2019 and December 30, 2018.

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 December 29, 2019, no payments were outstanding.

The Keg

On February 22, 2018 (the "Keg Acquisition Date"), the Company completed the merger with the Keg Restaurants Limited (the "The Keg") for approximately $200.0 million comprised of $105.0 million in cash and 3,801,284 Recipe subordinate voting shares at the exchange amount. The cash portion of the purchase price was settled by drawing on its existing credit facility. In addition, Recipe may be required to pay up to an additional $30.0 million of cash consideration upon the achievement of certain financial milestones. On the Keg Acquisition Date, a contingent liability of $17.0 million related to this additional consideration and merger reserve equal to total consideration of $216.7 million were recorded on the balance sheet. During the year ended December 29, 2019, the contingent liability was reduced by $10.0 million and was recorded as a change in fair value of contingent liability on the profit and loss statement. The results from The Keg are included in the statement of earnings from The Keg acquisition date.

During the year ended December 30, 2018, 3,400,000 subordinate voting shares were issued at the exchange amount to Fairfax as part of the merger with The Keg on February 22, 2018.

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 52 weeks ended December 29, 2019, the Company purchased 250,000 KRIF units for $4.0 million (52 weeks ended December 30, 2018 - 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 December 29, 2019 was $15.37. Distributions on KRIF units are recorded as interest income on Partnership and Fund units in the consolidated statement of earnings.

(in thousands of Canadian dollars)	December 29, 2019		December 30, 2018	
	# of units	Fair Value	# of units	Fair Value
Class A Partnership units	905,944	$ 13,924	905,944	$ 14,640
Class B Partnership units	176,700	2,716	176,700	2,855
Class D Partnership units	3,325,280	51,110	2,947,424	47,630
Exchangeable unit investment in the Partnership	4,407,924	$ 67,750	4,030,068	$ 65,125
Class C unit investment in the Partnership	5,700,000	57,000	5,700,000	57,000
Investment in the Partnership	**10,107,924**	**$ 124,750**	**9,730,068**	**$ 122,125**
Investment in KRIF units	250,000	3,843	—	—
Distributions earned on KRIF units	—	47	—	—
	10,357,924	**$ 128,640**	**9,730,068**	**$ 122,125**

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 December 29, 2019 was $15.37 (December 30, 2018 - $16.16).

The Class A Partnership units represent The Keg's initial 10% effective ownership of The Keg Royalties Income Fund ("the Fund") at the date of The Keg Initial Public Offering ("The Keg IPO"). The Class B and Class D Partnership units were received by The Keg subsequent to The Keg IPO date in return for adding net sales to the Royalty Pool on an annual basis. The royalty payments from KRL to the Partnership is four percent of system sales for such period reported by The Keg restaurants that are in the Partnership.

Pursuant to the declaration of trust, the holder (other than the Fund or its subsidiaries) of the Exchangeable Partnership units is entitled to vote in all votes of Fund unitholders as if they were holders of the number of Fund units they would receive if the Exchangeable Partnership units were exchanged into Fund units as of the record date of such votes, and will be treated in all respects as a Fund unitholder for the purpose of any such votes.

(a) The Class A units are entitled to a preferential proportionate distribution equal to the distribution on the Class C units, multiplied by the number of Class A units divided by the number of LP Partnership units ("LP units") issued and outstanding. The Keg Holdings Trust ("KHT") holds all of the 8,153,500 LP units issued and outstanding at December 30, 2018. In addition, the Class A units receive a residual distribution proportionately with the Class B units, Class D units, LP units and GP units relative to the aggregate number of each class issued and outstanding (or in the case of the Class B units and Class D units, the number issued and outstanding multiplied by the Class B and Class D current distribution entitlement, respectively). Class A units are exchangeable for Fund units on the basis of one Class A unit for one Fund unit and represent The Keg's initial 10% effective ownership of the Fund prior to the entitlement of Class B and Class D units.

(b) The Class B units were issued to The Keg in return for adding net sales from new Keg restaurants to the Royalty Pool and are entitled to a preferential proportionate distribution and a residual distribution based on the incremental royalty paid to the Partnership. The distribution entitlements of the Class B units were adjusted annually on January 1 until the January 1, 2008 roll-in when the Class B Termination Date was reached and the last of the Class B units became entitled. Class B units held by the Company are exchangeable for Fund units on the basis of one Class B unit for one Fund unit. Class B units held by the Company receive a distribution entitlement.

(c) The Class D units were issued to the Company in return for adding net sales from new Keg restaurants to the Royalty Pool on an annual basis and are entitled to a preferential proportionate distribution and a residual distribution based on the incremental royalty paid to the Partnership. The distribution entitlements of the Class D units are adjusted annually on January 1. Class D units held by the Company are exchangeable for Fund units on the basis of one Class D unit for one Fund unit and the same distribution entitlement as the Class B units. Class D units are issued subsequent to the Class B Termination Date and are identical to Class B units except that the Trustees of KHT can require the Company to surrender any or all of the issued Class D units for a price that is equal to the one originally used in the formula to calculate the number of units issued.

Distributions on Exchangeable Partnership units are recorded as interest income on Partnership and Fund units in the consolidated statement of earnings.

Class C Unit Investment in the Partnership

The Class C unit investment in the Partnership is comprised of 5,700,000 Class C Partnership units held by the Company. The Class C Partnership units were issued to The Keg as one of a series of transactions that occurred in conjunction with The Keg IPO of the Fund on May 31, 2002.

The Company has the option at any time to transfer its 5,700,000 Class C Partnership units to KHT, a subsidiary of Fund, in consideration for the assumption by KHT of an amount of the note payable equal to $10.00 for each Class C unit transferred. If the Company transferred all 5,700,000 Class C Partnership units, the entire $57.0 million note payable to the Fund would be extinguished. The Class C units are entitled to preferential monthly distributions equal to $0.0625 per Class C unit issued and outstanding and these distributions are recorded as interest income on Partnership and Fund units in the consolidated statement of earnings.

The Royalty Pool

On January 1, 2019, an estimated $12.6 million in annual net sales were added to the KRIF Royalty Pool and the total number of restaurants in the Royalty Pool increased to 105. On January 1, 2019, KRL received 80% of this entitlement, representing the equivalent of 235,793 KRIF units, being 1.50% of the KRIF units on a fully diluted basis. KRL also received a proportionate increase in monthly distributions from the Keg Partnership. Including the initial 235,793 portion of the KRIF Fund units described above, KRL had the right to exchange its units in the capital of the Partnership for 4,318,858 KRIF units, representing 27.56% of the KRIF units on a fully diluted basis. On December 25, 2019, but effective January 1, 2020, KRL received the remaining balance of the 2019 Additional Entitlement. The actual sales generated by the new restaurants added to the Royalty Pool on January 1, 2019, were confirmed to be $17.3 million, approximately $1.3 million or 8.1% more than the amount originally estimated. This resulted in KRL receiving an Additional Entitlement equivalent to 89,066 KRIF units, and KRL having the right to exchange its Partnership units for 4,407,924 Fund units, representing 27.97% of the KRIF units on a fully diluted basis.

Deferred Gain on Sale of The Keg Rights

The deferred gain on sale of The Keg Rights relates to the sale by The Keg of its trademarks and other related intellectual property (collectively, the “Keg Rights”) to the Partnership in connection with The Keg IPO. The deferred gain is adjusted to reflect changes in KRL’s ownership interest in the Keg Rights resulting from the entitlement of Exchangeable Partnership units received as consideration for the addition of net new sales to the Royalty Pool on an annual basis.

Annually, on January 1st, the Royalty Pool is adjusted to include the gross sales from new Keg restaurants that have opened on or before October 2nd of the prior year, less gross sales from any Keg restaurants that have permanently closed during the preceding calendar year. In return for adding these net sales to the Royalty Pool, KRL receives the right to indirectly acquire additional Fund units (the “Additional Entitlement”). The Additional Entitlement is determined based on 92.5% of the net royalty revenue added to the Royalty Pool, divided by the yield of the Fund units, divided by the weighted average unit price of the Fund units. KRL receives 80% of the estimated Additional Entitlement initially, with the balance received on December 25th of each year when the actual full year performance of the new restaurants is known with certainty.

The gain on the sale of The Keg Rights is deferred and amortized on a straight-line basis over the 99-year term of the Licence and Royalty Agreement ending on May 30, 2101.

Other

As at December 29, 2019, long-term receivables include a non-interest bearing employee demand note in the amount $0.8 million (December 30, 2018 - $0.8 million).

As at December 29, 2019, the Company has a $2.9 million royalty fee payable, including GST, to the Fund (December 30, 2018 - $3.0 million) and a $0.3 million interest payable amount due to the Fund on the Keg Loan (December 30, 2018 - $0.4 million) included in accounts payable and accrued liabilities.

As at December 29, 2019, the Company has $1.2 million in distributions receivable from the Partnership (December 30, 2018 - $1.2 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 the 13 and 52 weeks ended December 29, 2019, KRL earned $0.1 million and $0.3 million for these services, respectively (13 and 52 weeks ended December 30, 2018 – $0.2 million and $0.4 million), which has been recognized by the Company as other income, net of the costs to provide these services.

The Company incurs royalty expense with respect to the licence 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 $6.3 million and $25.4 million, respectively, for the 13 and 52 weeks ended December 29, 2019 (13 and 52 weeks ended December 30, 2018 – $6.5 million and $21.3 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 the 13 and 52 weeks ended December 29, 2019, the Company recorded investment income of $2.8 million and $11.1 million, respectively, related to these units (13 and 52 weeks ended December 30, 2018 – $2.7 million and $9.0 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 December 29, 2019 there was a due from related party balance of $13.0 million (December 30, 2018 - $9.9 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 30, 2018 - $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 13 and 52 weeks ended December 29, 2019, the Company charged interest in the amount of $0.1 million and $0.3 million, respectively (13 and 52 weeks ended December 30, 2018 - $0.5 million and $1.0 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 December 29, 2019 the accounts receivable balance included $0.1 million (December 30, 2018 - $0.3 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 13 and 52 weeks ended December 29, 2019, a decrease of $0.1 million and an increase of $0.1 million, respectively (13 and 52 weeks ended December 30, 2018 - $0.1 million and $0.6 million 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. There was no change to the investment for the 13 and 52 weeks ended December 29, 2019 and an increase of $0.2 million and less than $0.1 million, respectively (13 and 52 weeks ended December 30, 2018 - $0.1 million and $0.3 million increase). 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 December 29, 2019, the Company has invested $4.7 million, recorded in long-term receivables (December 30, 2018 - $4.5 million). The loan receivable is unsecured, non-interest bearing and does not have defined repayment terms. As at December 29, 2019, an allowance of $4.7 million 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 52 weeks ended December 29, 2019, a decrease of $0.3 million and $1.5 million, respectively, to the long term receivable balance (13 and 52 weeks ended December 30, 2018 - $0.3 million and $1.5 million decrease) was recorded in relation to the Company's proportionate share of losses for the period and included in share of loss 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 has a 50% ownership interest in Rose Reisman Catering. The investment is considered a joint venture arrangement as both parties have joint control and all relevant activities require the unanimous consent from both parties. As at December 29, 2019, the Company has invested $1.1 million, (December 30, 2018 - $1.3 million). 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 52 weeks ended December 29, 2019, the Company recorded an increase of less than $0.1 million and $0.2 million decrease, respectively, to the investment balance (13 and 52 weeks ended December 30, 2018 - less than $0.1 million decrease and less than $0.1 million increase) 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.

Subsequent to December 29, 2019, on January 31, 2020, the Company purchased the remaining 50% interest in Rose Reisman Catering for an immaterial amount.

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

Transactions with key management personnel

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the Company and/or its subsidiary, directly or indirectly, including any external director of the Company and/or its subsidiary. Key management personnel may also participate in the Company's stock-based compensation plans and the Company's defined contribution savings plan.

Remuneration of key management personnel of the Company is comprised of the following expenses:

(in thousands of Canadian dollars)	52 weeks ended December 29, 2019	52 weeks ended December 30, 2018
Short-term employee benefits	$ 4,426	$ 5,432
Long-term incentive plans	899	2,871
Termination benefits	600	164
Total compensation	**$ 5,925**	**$ 8,467**

There were no additional related party transactions between the Company and its key management personnel, or their related parties, including other entities over which they have control.

Post-employment benefit plans

The Company supports a number of defined benefit plans and a defined contribution plan as described in note 20 of the Company's financial statements. In 2019, the Company's contributions to these plans were $2.2 million (December 30, 2018 - $2.3 million). Contributions made by the Company to its post-employment benefit plans are disclosed in note 20 of the Company's financial statements. The Company does not receive any reimbursement of expenses incurred by the Company to provide services to these plans.

Significant subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements. Intercompany balances and transactions are eliminated in preparing the consolidated financial statements.

Outlook

Management provides the following comments regarding its strategies and initiatives:

- *Free Cash Flow* — The Company generates significant Operating EBITDA and Free Cash Flow[1] which provides the Company with stable and recurring earnings to fund growth and to enhance shareholder returns. Free Cash Flow before growth capex, dividends, and share repurchases under the Company's NCIB for the 52 weeks ended December 29, 2019 was $155.9 million and Free Cash Flow per share before growth capex, dividends, and NCIB on a diluted basis was $2.52 for the 52 weeks ended December 29, 2019 compared to $2.49 in 2018.

  As at December 29, 2019, the Company had 56,378,425 shares outstanding compared to 61,755,594, as at December 30, 2018, a decrease of 5,377,169 shares, or 8.7% that will increase Free Cash Flow and Earnings per share on a go forward basis.

  At December 29, 2019, the Company's Debt to EBITDA ratio was 2.2x. The Company's strong balance sheet and strong Free Cash Flow will enable the Company to continue to strategically invest in its business despite challenging market conditions. Management will continue to:

  - invest in corporate restaurant renovations;
  - support franchisees including restaurant renovation incentive programs;
  - invest in initiatives to support our 4-pillar operations plan including training and technology applications;
  - invest in our new Project 2030 initiative, an ambitious program that seeks to transform aspects of our restaurant operations, so that we profitably meet the needs of both the consumer of today and the consumer of tomorrow;
  - make extra contributions to franchisee marketing funds where appropriate;
  - continue to evaluate alternatives for capital deployment including growth investments in delivery, and strategic acquisitions; and
  - enhance shareholder returns through dividends and share buybacks including purchases of KRIF units.

- *Total Operating* EBITDA — Before the impact from the net royalty to KRIF, Total Operating EBITDA margin was 7.1% for the quarter compared to 7.4% in 2018. The combined contributions from Corporate, Franchise, Retail and Catering, and Central segments resulted in Total Operating EBITDA margin of 6.8% for the quarter compared to 7.0% in 2018. Management's focus will continue to be on improving the earnings efficiency of our assets and our increased sales base to grow Operating EBITDA as a percentage of System Sales. We expect Operating EBITDA to improve from restructuring and closing non-strategic and under-performing restaurants and from the impairments taken in 2019 (see "Restaurant Portfolio Restructuring").

- *Corporate restaurant profitability* — Corporate restaurant profitability for the 13 weeks ended December 29, 2019 was 10.0% compared to 10.7% in the fourth quarter of 2018. The decline in the quarter was mostly from taking back under-performing franchise restaurants. Management believes that corporate restaurant profitability will improve as the 4-pillar strategy focus on Food, Service, Ambiance, and Value for the Experience progresses and we execute the planned restructuring and closure of non-strategic and under-performing restaurants (see "Restaurant Portfolio Restructuring").

- *Franchise segment* —Franchise contribution as a percentage of franchise sales has improved to 4.4% in the quarter compared to 4.3% in 2018. The increase is primarily related to improvement to quality of sales due to the ongoing practice to open new franchise restaurants at the standard royalty rate while closing or taking back under-performing previously subsidized locations. Management believes the effective royalty recovery rate will gradually increase over time closer to 5% as the Company adds new franchisees, renews existing locations at the standard royalty rate, and exits under-performing locations (see "Restaurant Portfolio Restructuring").

- *Retail and catering* — Contribution from the retail and catering segment were $13.1 million or 14.2% as a percentage of sales in the quarter compared to $12.5 million or 14.7% in 2018. A new pie production line was added in the third quarter 2018 which has increased production capacity and enabled the Company to meet the increased demand for its St-Hubert and Swiss Chalet frozen pie products with less reliance on higher cost third party producers. A new rib line was added in the fourth quarter of 2019 to increase its rib production capacity to meet demand as well as support the launch of Montana's ribs in grocery. Since the acquisition of St-Hubert in 2016, the Company has successfully launched a number of products, including Swiss Chalet ribs and pot pies, and Montana's ribs across the country in grocery chains. Management continues to pursue the launch of several more Recipe branded retail products to expand its retail presence in national grocery chains.

- *Growth, acquisitions and share buy-backs* —The Company currently has a net debt to EBITDA ratio of approximately 2.2x compared to 1.7x at the end of Q4 2018. At this debt level, and with strong and stable recurring cash flows from operations, the Company has the ability to consider more growth opportunities, including acquisitions, while continuing to reduce its debt, and by opportunistically repurchasing its subordinate voting shares for cancellation under the NCIB and purchase of KRIF units. During the 52 weeks ended December 29, 2019, the Company purchased and cancelled 5,952,500 Subordinate Voting Shares for $160.7 million under the Company's NCIB and SIB programs and purchased 250,000 units in KRIF. In addition, the Company's new financing structure positions Recipe for strategic and opportunistic growth at long-term favourable borrowing rates and credit terms.

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.

Disclosure Controls and Procedures

Disclosure controls and procedures should be designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company's management, including its certifying officers, namely the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), as appropriate to allow timely decisions regarding required disclosure.

As of December 29, 2019, an evaluation of the design of the Company's disclosure controls and procedures, as defined under National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings, was carried out under the supervision of the CEO and CFO and with the participation of the Company's management. Based on that evaluation, there were no material changes in controls during the year and the CEO and CFO concluded that as of December 29, 2019, the Company's disclosure controls were appropriately designed and procedures were effective.

Internal Controls Over Financial Reporting

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. Management is responsible for establishing adequate internal control over financial reporting for the Company.

An evaluation of the effectiveness of the design and operation of the Company's internal control over financial reporting was conducted as of December 29, 2019. Based on the evaluation, the CEO and the CFO concluded that the internal control over financial reporting, as defined by National Instrument 52-109, was appropriately designed and was operating effectively. The evaluations were conducted in accordance with the framework and criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), a recognized control model, and the requirements of National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings.

Critical Accounting Judgments and Estimates

The preparation of the consolidated financial statements requires management to make various judgements, estimates and assumptions in applying the Company's accounting policies that affect the reported amounts and disclosures made in the consolidated financial statements and accompanying notes.

Estimates and assumptions are used mainly in determining the measurement of balances recognized or disclosed in the consolidated financial statements and are based on a set of underlying data that may include management's historical experience, knowledge of current events and conditions and other factors that are believed to be reasonable under the circumstances. Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The following are the accounting policies that are subject to judgements and estimates.

Business combinations

Accounting for business combinations requires judgments and estimates to be made in order to determine the fair values of the consideration transferred, assets acquired and the liabilities assumed. The Company uses all available information, including external valuations and appraisals where appropriate, to determine these fair values. Changes in estimates of fair value due to additional information related to facts and circumstances that existed at the acquisition date would impact the amount of goodwill

recognized. If necessary, the Company has up to one year from the acquisition date to finalize the determinations of fair value for business combinations.

Accounting for joint ventures and associates

Joint ventures represent separately incorporated entities for which joint control exists. This requires judgement to determine if in fact joint control exists in each circumstance. Entities are considered to be under joint control when the Company has the ability to exercise significant influence but not control. Management has assessed the nature of its joint venture agreements with the respective other joint venture parties and using judgement determined where joint control does in fact exist. While the Company will also have a franchise agreement with certain joint venture restaurants, the rights included in these franchise agreements are considered to be protective in nature and, therefore, do not allow for any additional substantive control over the other party.

Accounts receivable, long-term franchise receivables and amounts due from related party joint ventures

In accordance with IFRS 9, Management applies the 'expected credit loss' ("ECL") model to assess for impairment on its accounts receivables, long-term franchise receivables and amounts due from related party joint ventures at each at each balance sheet date. The ECL models require assumptions and estimations on changes in credit risks, forecasts of future economic conditions and historical information to ascertain the credit risk of the financial asset.

Depreciation and amortization

The Company's property and equipment and definite life intangible assets are depreciated and amortized on a straight-line basis. Management uses judgment in determining the estimated useful lives of the assets and residual values. Changes to these estimates may affect the carrying value of these assets, net earnings, and comprehensive income in future periods.

Valuation of investments

For equity investments in other companies where the underlying investment shares are not traded publicly, in order to determine the value of the commons shares, estimates are required to determine the fair value of the underlying investment shares. Accordingly, those amounts are subject to measurement uncertainty and judgement.

Impairment of non-financial assets

Management is required to use judgement in determining the grouping of assets to identify their cash generating units ("CGUs") for the purposes of testing fixed assets for impairment. Judgement is further required to determine appropriate groupings of CGUs, for the level at which goodwill and intangible assets are tested for impairment. In addition, judgement is used to determine whether a triggering event has occurred requiring an impairment test to be completed for fixed assets and definite life intangible assets.

In determining the recoverable amount of a CGU, various estimates are employed. The Company determines the recoverable amount of fixed assets as the higher of fair value less costs to sell or its value in use. The Company determines fair value less costs to sell using estimates such as projected future sales, earnings, capital investments and discount rates for trademarks, and determines the recoverable amount of goodwill based on value in use. Projected future sales and earnings are consistent with strategic plans provided to the Company's Board. Discount rates are based on an estimate of the Company's weighted average cost of capital taking into account external industry information reflecting the risk associated with the specific cash flows.

Impairment of financial assets

The Company applies the expected credit loss ("ECL") model to assess for impairment on its long-term receivables at each balance sheet date. The ECL is calculated as a product of the probability of default ("PD") incorporating loss given default and exposure at default. PD estimates represent a point in time PD, updated quarterly based on the Company's historical experience, current conditions, relevant forward-looking expectations over the expected life of the exposure to determine the PD curve. Forward-looking expectations include relevant macroeconomic variables. Expected life is the maximum contractual period the Bank is exposed to credit risk. The ECL is measured over the period the Company is exposed to credit risk.

Definition of default

The Company considers a financial asset to be in default when a lease receivable is no longer collectible.

Incorporation of forward-looking information

The Company incorporates forward-looking information into its measurement of ECL. Based on statistical results, business experience and interpretability of the model behaviour in relation to the inputs, the Company uses Canada's GDP as the forward-looking macro-economic factor. The Company formulates a "base case" view of the future direction of Canada's GDP as well as a representative range of other possible forecast scenarios. This process involves developing two additional economic scenarios and considers the relative probabilities of each outcome. The Company uses the consensus GDP rate forecasts published by the major Canadian Chartered Banks and the International Monetary Fund.

The base case represents a most-likely outcome and is aligned with the consensus GDP rate forecasts and information. The other scenarios represent optimistic and pessimistic outcomes

Leases

In classifying a lease as either financial or operating, management has to make certain assumptions in estimating the present value of future lease payments and the estimated useful lives of the related assets. These assumptions include the allocation of value between land and building, and discount rates.

In determining the carrying amount of the right-of-use asset or lease receivable and corresponding lease liabilities, assumptions include the non-cancellable term of the lease plus periods covered by an option to renew the leases and incremental borrowing rate. Renewal options are only included in the lease term if management is reasonably certain to renew. Management considers factors such as investments in major leaseholds, store performance and available renewal options. The Company is also required to estimate the incremental borrowing rate specific to each portfolio of leased assets with similar characteristics if the interest rate in the lease is not readily determined. Management determines the incremental borrowing rate using the Government of Canada bond yield with an adjustment that reflects the Company's credit rating, security adjustment plus a risk premium over leases with similar terms.

Income and other taxes

The calculation of current and deferred income taxes requires management to make certain judgements regarding the tax rules in jurisdictions where the Company performs activities. Application of judgements is required regarding classification of transactions and in assessing probable outcomes of claimed deductions including expectations of future operating results, the timing and reversal of temporary differences, the likelihood of utilizing deferred tax assets and possible audits of income tax and other tax filings by the tax authorities.

Employee future benefits

Accounting for the costs of defined benefit pension plans is based on using a number of assumptions including estimates of rates of compensation increase, retirement ages of plan members and mortality assumptions. The discount rate used to value the accrued pension benefit obligation is based on high quality corporate bonds in the same currency in which the benefits are expected to be paid and with terms to maturities that on average match the terms of the defined benefit obligations. Other key assumptions for pension obligations are based on actuarial determined data and current market conditions.

Gift cards

Management is required to make certain assumptions on the likelihood of gift card redemptions based on historical redemption patterns. The impact of these assumptions results in the reduction to the costs of administering and fulfilling the liability associated with the gift card program when it can be determined that the likelihood of the gift card being redeemed, or a portion thereof, is remote based on several facts including historical redemption patterns and any changes to the gift card program.

Provisions

Management reviews provisions at each balance sheet date utilizing judgements to determine the probability that an outflow of economic benefit will result from the legal or constructive obligation and an estimate of the associated obligation. Due to the judgemental nature of these items, future settlements may differ from amounts recognized.

Stock-based compensation

The accounting for equity-settled stock-based compensation requires management to make an estimate of the fair value of the stock options when granted based on the enterprise value and share price of the Company at the time of the grant as well as estimates around volatility, risk free interest rates and forfeitures of vested and unvested options.

Risks and Uncertainties

Restaurant Industry

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 financial condition and results of operations of the Company.

Competition with Other Franchisors

The Company competes with other companies, including other well-capitalized franchisors with extensive financial, technological, marketing and personnel resources and high brand name recognition and awareness. There can be no assurance that the Company will be able to respond to various competitive factors affecting the franchise operations of the Company.

Quality Control and Health Concerns

The Company's business can be materially and adversely affected by publicity resulting from illness, injury, cleanliness, poor food quality or safety or any other health concerns or operating issues relating to a single restaurant or a limited number of restaurants. Such publicity or concerns could reduce guest traffic at one or more restaurants, reducing gross revenues of the restaurant. The Company has a number of procedures in place for managing food safety and quality. Nevertheless, the risk of

food borne illness or contamination cannot be completely eliminated. The risk of illnesses associated with our food might also increase in connection with the expansion of our catering business following the acquisitions of The Pickle Barrel and M&O. Any outbreak of such illness or contamination at a restaurant or within the food service industry more generally (even if it does not affect any of the restaurants in the Recipe network), or the perception of such an outbreak, could have a material adverse effect on the financial condition and results of operations of the Company.

Security Breaches of Confidential Guest Information

The Company's business requires the collection, transmission and retention of large volumes of guest and employee data, including credit and debit card numbers and other personally identifiable information, in various information technology systems that the Company maintains and in those maintained by third parties with whom the Company contracts to provide services. The integrity and protection of that guest and employee data is critical to the Company. Further, the Company's guests and employees have a high expectation that the Company and its service providers will adequately protect their personal information.

The information, security and privacy requirements imposed by governmental regulation are increasingly demanding. The Company's systems may not be able to satisfy these changing requirements and guest and employee expectations, or may require significant additional investments or time in order to do so. Efforts to hack or breach security measures, failures of systems or software to operate as designed or intended, viruses, operator error or inadvertent releases of data all threaten the Company and its service provider's information systems and records. A breach in the security of the Company's information technology systems or those of the Company's service providers could lead to an interruption in the operation of its systems, resulting in operational inefficiencies or a loss of revenues or profits. Additionally, a significant theft, loss or misappropriation of, or access to, guests' or other proprietary data or other breach of the Company's information technology systems could result in fines, legal claims or proceedings, including regulatory investigations and actions, or liability for failure to comply with privacy and information security laws, which could disrupt the Company's operations, damage its reputation and expose it to claims from guests and employees, any of which could have a material adverse effect on the Company's financial condition and results of operations.

Public Safety Issues

Adverse conditions, such as the threat of terrorist attacks, acts of war, pandemics or other outbreaks or perceived outbreaks of disease (including coronavirus, avian flu, H1N1, SARS or mad cow disease), may have a negative impact on the restaurant industry and the economy in general. These incidents can adversely affect restaurant traffic, discretionary consumer spending and consumer confidence, which may result in decreased patronage in the Company's restaurants or force the Company to reduce or cap prices. The occurrence, re-occurrence, continuation or escalation of such local, regional, national or international events or circumstances could reduce revenue for the Company which could have an adverse effect on its financial condition and results of operations.

Damage to the Company's Reputation

There has been a marked increase in the use of social media platforms and similar channels, including weblogs (blogs), social media websites and other forms of Internet-based communications that provide individuals with access to a broad audience of consumers and other interested persons. The availability and impact of information on social media platforms is virtually immediate and many social media platforms publish user-generated content without filters or independent verification as to the accuracy of the content posted. The opportunity for dissemination of information, including inaccurate information, is seemingly limitless and readily available. Information concerning the Company or one or more of its brands may be posted on such platforms at any time. Information posted may be adverse to the Company's interests or may be inaccurate, each of which may harm the Company's performance, prospects or business. The harm may be immediate without affording the Company an opportunity for redress or correction.

Ultimately, the risks associated with any such negative publicity or incorrect information cannot be completely eliminated or mitigated and may materially harm the Company's reputation, business, financial condition and results of operations.

Availability and Quality of Raw Materials; Reliance on Suppliers

Sales by Recipe's restaurants and food distribution business are dependent upon the availability and quality of the raw materials, food, services and products used in the products sold by such restaurants and food distribution business. The availability and price of these commodities are subject to fluctuation and may be affected by a variety of factors affecting the supply and demand of the raw materials used in these products.

Unfavourable trends or developments, including among others, fluctuations in the price of raw materials, a significant reduction in the availability or quality of raw materials purchased by restaurants and food distribution business, the unavailability of certain products, transportation disruptions, strikes, lock-outs, labour unrest and financial difficulties affecting the Company's suppliers, may cause a significant reduction in the availability or quality of products or services purchased by restaurants and food distribution business in Recipe's network. There is no assurance that the Company will be able to find alternate suppliers, which could have a material adverse impact and/or other adverse effects on the Company and restaurants in its network.

Growth of the Company; Franchisees

The growth of the Company is dependent upon the ability of the Company to (i) maintain and grow the current system of franchised and corporate-owned restaurants, (ii) execute its current strategy for growth, (iii) locate new retail sites in prime locations and (iv) obtain qualified operators to become franchisees. The Company faces competition for retail locations and franchisees from its competitors and from franchisors of other businesses. The Company's inability to successfully obtain qualified franchisees could adversely affect its business development. The opening and success of franchised restaurants is dependent upon a number of factors, including availability of suitable sites, operating costs, negotiations of acceptable lease or purchase terms for new locations, permitting and government regulatory compliance and the ability to meet construction schedules. Prospective franchisees may not have all the business abilities or access to financial resources necessary to open a franchise or to successfully develop or operate a Company restaurant in a manner consistent with the Company's standards.

The Company provides training and support to franchisees, but the quality of franchised operations may be diminished by any number of factors beyond the Company's control. Consequently, franchisees may not successfully operate outlets in a manner consistent with the Company's standards and requirements, or may not hire and train qualified managers and other restaurant personnel. If they do not, the image and reputation of the Company may suffer, and sales of restaurants in Recipe's network could decline. There can be no assurance that the Company will be able to effectively manage its expanding operations.

Franchise Fees and Other Revenue

The Company's financial performance is dependent, in part, on its franchisees' ability to generate revenue and to pay franchise fees, royalties and other amounts to the Company. Failure to achieve adequate levels of collection from franchisees could have a material effect on the revenue and cash flow of the Company.

Under various provincial franchise statutes, a franchisee may rescind a franchise agreement for late or lack of proper provision of a disclosure document (as defined under the applicable statute) within certain prescribed time periods. Rescission claims by such franchisees could have a material adverse effect on the revenue of the Company.

Franchisee Relations

The Company's success is dependent on its relationship with its franchisees. There can be no assurances that the Company will be able to maintain positive relationships with all of its franchisees. In addition, in certain jurisdictions in which the Company has restaurants, franchisees are permitted to establish associations among themselves. There can be no assurances that franchisees have not or will not in the future organize an association in order to act together to lobby the Company. Adverse publicity resulting from such activities may affect the sales of the restaurants, regardless of whether such publicity is accurate. In addition, any challenges in the relationships with franchisees may have an adverse impact on the performance of affected restaurants and the ability of the Company to undertake new initiatives, and could result in the diversion of management resources and increased administrative costs.

For certain franchisees, the Company acts as the "head lessee" under the lease for the restaurant. A default by the franchisee under the lease could result in increased costs and could have a negative impact on the Company's business and results of operations. The Company from time to time is also subject to litigation claims from franchisees. See "Legal Proceedings and Regulatory Actions".

Revenue Reporting Risks

Certain franchisees report sales to the Company on an ongoing basis via the Company's central POS system. There can be no assurance, however, that sales reported by franchisees are accurate and in accordance with the terms of the franchise agreements, which could have a negative impact on revenues and cash flows.

Opening New Restaurants

The consumer target area of the Company's restaurants varies by location, depending on a number of factors, including population density, other local retail and business attractions, area demographics and geography. As a result, the opening of a new restaurant in or near markets in which the Company already has restaurants could adversely impact sales at the Company's existing restaurants. Existing restaurants could also make it more difficult to build the Company's consumer base for a new restaurant in the same market. The opening and success of a new restaurant will also be dependent on a number of factors, including availability of suitable sites, negotiation of acceptable lease or purchase terms for new locations, permitting and government regulatory compliance and the ability to meet construction schedules.

The Company may not be able to support sustained new restaurant growth or open all of its planned new restaurants, and the new restaurants that the Company does open may not be profitable or as profitable as its existing restaurants. New restaurants typically experience an adjustment period before sales levels and operating margins normalize, and even sales at successful newly-opened restaurants generally do not make a significant contribution to profitability in their initial months of operation. The opening of new restaurants can also have an adverse effect on sales levels at existing restaurants.

Potential Inability to Consummate Acquisitions

The Company does not currently have any agreement or commitment to acquire any businesses. However, Recipe continues to seek opportunities to acquire or invest in restaurant businesses, such as its investments in The Keg and Fresh, that could expand, complement or otherwise relate to its current or future restaurant operations. Recipe may also consider, from time to time, opportunities to engage in business collaborations with third parties to address particular purchasing requirements, such as the Shared Services Agreement. The pursuit of these activities may divert the attention of management and cause the Company to incur various expenses in identifying, investigating and pursuing suitable acquisitions or business arrangements, whether or not they are consummated. The Company may also be precluded from pursuing such transactions as a result of financial or other covenants in agreements to which it is a party. The Shared Services Agreement, in particular, includes provisions that would restrict the Company from engaging in negotiations with respect to a potential investment in certain Canadian foodservice companies if Fairfax is already engaged in negotiations with respect to that opportunity. In these circumstances, the interests of Fairfax (and of other restaurant operators in which it may hold an investment, such as The Keg), may conflict with the Company's interests.

Integration of Acquisitions and Brand Expansion

The consummation of an acquisition, investment or other business collaboration may create risks such as: (i) the need to integrate and manage the businesses, brands and/or products acquired with the Company's business, brands and products; (ii) additional demands on the Company's resources, systems, procedures and controls, (iii) disruption of the Company's ongoing business, (iv) adverse effects on the Company's existing business relationships; and (v) potential loss of key employees. While each of the Company's brands and restaurants are subject to the risks and uncertainties described herein, there is an enhanced level of risk and uncertainty related to the operation and expansion of the Company's smaller, newer brands, such as The Landing Group and any future-acquired brands. These brands and business ventures may have not yet proven their long-term viability or growth potential and will continue to be subject to the risks that accompany any new restaurant brand or new business initiative.

Moreover, an acquisition, investment or other business collaboration could involve: (i) substantial investment of funds or financings by issuance of debt or equity securities; (ii) substantial investment with respect to technology transfers and operational integration; and (iii) the acquisition or disposition of product lines or businesses. Also, such activities could result in one-time charges and expenses and have the potential to either dilute the interests of existing shareholders or result in the issuance of, or assumption of, debt. Such acquisitions, investments or other business collaborations may involve significant commitments of the Company's financial and other resources. Any such activity may not be successful in generating revenue, income or other returns to the Company. Additionally, if the Company is unable to access capital markets on acceptable terms or at all, the Company may not be able to consummate acquisitions, or may have to do so on the basis of a less than optimal capital structure. The Company's inability to (i) take advantage of growth opportunities for its business or its products, or (ii) address risks associated with acquisitions or investments in businesses, may negatively affect its operating results. Finally, any impairment of goodwill or other intangible assets acquired in an acquisition or in an investment, or charges to earnings associated with any acquisition or investment activity, may materially reduce Recipe's earnings which, in turn, may have a material adverse effect on the price of the Subordinate Voting Shares. If the Company does complete such transactions, it cannot be sure that it will ultimately strengthen its competitive position or that it will not be viewed negatively by customers, security analysts or investors.

Retail Licensing Opportunities

Recipe sells a number of branded and private label products through grocery stores and other retail outlets. There can be no assurance that Recipe will be successful in identifying or in capitalizing on opportunities to expand sales of its manufactured retail products or to introduce additional branded or private label products in the manner and on the timelines anticipated by management or at all.

Fully-Integrated Supply Chain

Through the acquisition of St-Hubert, Recipe operates a fully-integrated food manufacturing and distribution business, in which it manufactures warehouses and distributes certain food and restaurant supplies to its franchise and corporate restaurants. There are certain risks associated with this vertical integration, including (i) delays and/or difficulties associated with, or liabilities arising from, owning a manufacturing, warehouse and distribution business; (ii) maintenance, operations and/or management of the manufacturing facilities, equipment, employees and inventories; (iii) limitations on the flexibility of controlling capital expenditures and overhead; (iv) the need for skills and techniques that are outside Recipe's traditional core expertise; (v) increased transportation, shipping, food and other supply costs; (vi) inclement weather or extreme weather events; (vii) shortages or interruptions in the availability or supply of perishable food products and/or their ingredients; (viii) variations in the quality of food and beverage products and/or their ingredients; and (ix) political, physical, environmental, labor, or technological disruptions in our manufacturing facilities or equipment.

If Recipe does not adequately address the challenges related to these vertically integrated operations or the overall level of utilization or production decreases for any reason, Recipe's results of operations and financial condition may be adversely impacted. Moreover, shortages or interruptions in the availability and delivery of food, beverages and other suppliers to Recipe's restaurants may increase costs or reduce revenues.

Seasonality and Weather

The restaurant industry is affected by weather and seasonal conditions. Adverse or unusual weather patterns may negatively affect operations of businesses in the restaurant industry. Favourable weather tends to increase guest traffic at the Company's restaurants, particularly in summer seasons at restaurants with patios or outdoor seating. Additionally, certain holidays and observances also affect guest dining patterns, both favourably or unfavourably.

Dependence on frequent deliveries of fresh produce and groceries subjects businesses in the restaurant industry to the risk that shortages or interruptions in supply caused by adverse weather conditions could adversely affect the availability, quality and cost of ingredients. Severe cold weather increases consumption of electricity and may cause an increase in oil and natural gas prices, which may result in markedly higher utility prices for the Company's restaurants. Severe hot weather leads to higher air conditioning costs. Any one of these consequences of adverse or unusual weather conditions, as well as water or electricity supply disruptions, may adversely affect the operations of the Company's restaurants by increasing operating costs and/or reducing revenue.

Regulations Governing Alcoholic Beverages

A portion of the Company's revenue is attributable to the sale of alcoholic beverages and the ability to serve such beverages is an important factor in attracting customers. Alcoholic beverage control regulations require each restaurant to apply to provincial and/or municipal authorities for a licence or permit to sell alcoholic beverages on the premises and, in certain locations, to provide service for extended hours and on Sundays. Typically, licences must be renewed annually and may be revoked or suspended for cause at any time. Alcoholic beverage control regulations relate to numerous aspects of daily operations of restaurants including minimum age of patrons and employees, hours of operation, advertising, wholesale purchasing, inventory control and handling and storage and dispensing of alcoholic beverages.

The failure of the Company or a restaurant to retain a licence to serve liquor could adversely affect the restaurant's operations and reduce the Company's revenue. Changes to laws regulating alcoholic beverages may also adversely affect operations of restaurants and reduce the Company's revenue by increasing costs, reducing the potential customer base or reducing the hours of operations of such restaurants.

The Company or a restaurant may be subject in certain provinces to "dram-shop" statutes, which generally provide a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages

to the intoxicated person. The Company carries liquor liability coverage as part of its existing comprehensive general liability insurance.

Product Safety and Public Health

Sale of the Company's products may expose it to risks associated with product safety and defects and product handling in relation to the manufacturing, packaging and labeling, storage, distribution, and display of products. The Company cannot assure that active management of these risks, including maintaining strict and rigorous controls and processes in its manufacturing facilities, storage, refrigeration and distribution systems, will eliminate all the risks related to food and product safety. The Company could be adversely affected in the event of a significant outbreak of food-borne illness or food safety issues including food tampering or contamination. In addition, failure to trace or locate any contaminated or defective products could affect the Company's ability to be effective in a recall situation. The Company is also subject to risk associated with errors made through medication dispensing or errors related to patient services or consultation. The occurrence of such events or incidents, as well as the failure to maintain the cleanliness and health standards at store level, could result in harm to customers, negative publicity or could adversely affect the Company's brands, reputation, operations or financial performance and could lead to unforeseen liabilities from legal claims or otherwise.

Regulatory Compliance

The Company is subject to a wide variety of laws, regulations and orders across all countries in which it does business, including those laws involving product liability, labour and employment, anti-trust and competition, food safety, intellectual property, privacy, environmental and other matters. The Company is subject to taxation by various taxation authorities in Canada and the United States. Changes to any of the laws, rules, regulations or policies applicable to the Company's business, including tax laws, and laws affecting the production, processing, preparation, distribution, packaging and labelling of food, beverages and general merchandise products, could adversely affect the operations or financial condition or performance of the Company.

Failure by the Company to comply with applicable laws, regulations and orders could subject the Company to civil or regulatory actions, investigations or proceedings, including fines, assessments, injunctions, recalls or seizures, which in turn could adversely affect reputation, operations or financial condition or performance of the Company. In the course of complying with changes to laws, the Company could incur significant costs. Changing laws or interpretations of such laws or enhanced enforcement of existing laws could restrict the Company's operations or profitability and thereby threaten the Company's competitive position and ability to efficiently conduct business.

The Company is subject to tax audits from various tax authorities on an ongoing basis. As a result, from time to time, tax authorities may disagree with the positions and conclusions taken by the Company in its tax filings or legislation could be amended or interpretations of current legislation could change, any of which events could lead to reassessments. These reassessments could result in a material adverse effect on the Company's reputation, operations or financial condition or performance.

Laws Concerning Employees

The operations of restaurants are subject to minimum wage laws governing such matters as working conditions, overtime and tip credits. Significant numbers of restaurants' food service and preparation personnel are paid at rates related to the minimum wage and, accordingly, further increases in the minimum wage could increase the restaurants' labour costs. The franchisees may also hire foreign workers through the Canadian federal government's Temporary Foreign Worker Program, and accordingly, changes to this program could increase labour costs.

Dependence on Key Personnel

The success of the Company depends upon the personal efforts of senior management, including their ability to retain and attract appropriate franchisee candidates. The loss of the services of such key personnel could have a material effect on the operations of the Company. In addition, the Company's continued growth depends on its ability to attract and retain skilled management and employees and the ability of its key personnel to manage the Company's growth. Certain key personnel are not bound by non-competition covenants. If such personnel depart the Company and subsequently compete with the Company or determine to devote significantly more time to other business interests, such activities could have a material adverse effect on the Company's results of operations.

Attracting and Retaining Quality Employees

The Company and its franchisees' business is dependent upon attracting and retaining a large number of quality employees who reflect the Company's various brand images and culture. Many of these employees are in entry level or part-time positions with historically high rates of turnover. The inability of the Company and its franchisees to hire, train and retain employees may adversely affect the operations of the Company's restaurants and could have a material adverse effect on the Company's revenue.

Unionization Activities May Disrupt Company Operations

Although only the employees at approximately 85 franchised restaurants, 5 corporate restaurants, 2 manufacturing plants, in Boisbriand and Blainville, Québec, and 2 distribution centers, in Anjou and Boisbriand, Québec are currently covered under collective bargaining agreements, the Company's employees may elect to be represented by labour unions in the future. If a significant number of the Company's employees were to become unionized and collective bargaining agreement terms were significantly different from the Company's current compensation arrangements, it could adversely affect the Company's business, financial condition or results of operations. In addition, a labour dispute involving some or all of the Company's employees or the employees of franchisees may harm Recipe's reputation, disrupt its operations and reduce its revenues, and resolution of disputes may increase its costs. Further, if the Company enters into a new market with unionized construction companies, or the construction companies in the Company's current markets become unionized, construction and build out costs for new Company restaurants in such markets could materially increase.

Reliance on Information Technology

The Company relies heavily on information systems, including point-of-sale processing in its restaurants, for management of its supply chain, accounting, payment of obligations, collection of cash, credit and debit card transactions, upkeep of Recipe's in-house call center and other processes and procedures. The Company's ability to efficiently and effectively manage its business depends significantly on the reliability and capacity of these systems. The Company's operations depend upon its ability to protect its computer equipment and systems against damage from physical theft, fire, power loss, telecommunications failure or other catastrophic events, as well as from internal and external security breaches, viruses and other disruptive problems. The failure of these systems to operate effectively, maintenance problems, upgrading or transitioning to new platforms, expanding the Company's systems as it grows or a breach in security of these systems could result in interruptions to or delays in the Company's business and guest service and reduce efficiency in its operations. If the Company's information technology systems fail and its redundant systems or disaster recovery plans are not adequate to address such failures, or if the Company's business interruption insurance does not sufficiently compensate the Company for any losses that it may incur, the Company's revenues and profits could be reduced and the reputation of its brands and its business could be materially adversely affected. In addition, remediation of such problems could result in significant, unplanned capital investments.

Intellectual Property

The ability of the Company to maintain or increase its revenue will depend on its ability to maintain "brand equity", including through the use of the Company's trade-marks and the trade-marks and other intellectual property rights licensed from third parties. If the Company fails to enforce or maintain any of its intellectual property rights, the Company may be unable to capitalize on its efforts to establish brand equity. All registered trade-marks in Canada can be challenged pursuant to provisions of the *Trade-marks Act* (Canada) and comparable legislation in the United States, and if any Company trade-marks or trade-marks or other intellectual property rights licensed from third parties are ever successfully challenged, this may have a material adverse impact on the Company.

The Company owns the Company's trade-marks in Canada, and owns trade-marks used in New York Fries', State & Main and Elephant & Castle international operations. In the case of The Keg, the trade-marks, trade names and other intellectual property rights ("**The Keg Rights**") used in connection with the business of The Keg are owned by the Partnership, an indirect subsidiary of The Keg Royalties Income Fund, an unincorporated open-ended limited purpose trust. The Keg Rights are licensed to The Keg pursuant to the terms of a license and royalty agreement between the Partnership and The Keg, and in exchange for the use of The Keg Rights, The Keg pays the Partnership a royalty. However, it may not own identical and similar trade-marks in other jurisdictions and will not own identical or similar trade-marks related to The Keg owned by parties not related to the Partnership in other jurisdictions. Third parties may use such trade-marks in jurisdictions other than Canada and the United States in a manner that diminishes the value of such trade-marks. If this occurs, the value of the Company's trade-marks and The Keg Rights may suffer and the results of operations of the Company could be impacted. Similarly, negative publicity or events associated with

the Company in jurisdictions outside of Canada and the United States may negatively affect the image and reputation of the Company in Canada and the United States, resulting in a material adverse effect on the Company.

Lawsuits

The Company and the franchisees may, from time to time, become party to a variety of legal claims and regulatory proceedings in Canada or elsewhere in the ordinary course of its business, including, but not limited to, complaints or litigation from guests alleging food-related illness, injuries suffered on the premises or other food quality, health or operational concerns. The Company is also subject to a variety of other claims arising in the ordinary course of its business, including personal injury claims, contract claims, class action claims, claims from franchisees (which tend to increase when franchisees experience declining sales and profitability) and claims alleging violations regarding workplace and employment matters, discrimination and similar matters. The existence of such claims against the Company or its affiliates, directors or officers could have various adverse effects, including the incurrence of significant legal expenses defending such claims, even those claims without merit. The Company may also be named in lawsuits primarily directed at a franchisee. Adverse publicity resulting from such allegations may materially affect the sales or results of operations of restaurants, regardless of whether such allegations are true or whether the Company or a franchisee is ultimately held liable. See "Legal Proceedings and Regulatory Actions".

Regulation

The Company and each restaurant is subject to various licensing, laws and regulations governing its business, employment standards, taxes and other matters, including but not limited to, laws and regulations relating to alcoholic beverage control, smoking laws, accessibility and regulations of health and safety and fire agencies. It is possible that future changes in applicable federal, provincial or common laws or regulations or changes in their enforcement or regulatory interpretation could result in changes in the legal requirements affecting the Company (including with retroactive effect). Any changes in the laws to which the Company is subject, including but not limited to, changes to the minimum wage, the Canadian federal government's Temporary Foreign Worker Program and informed dining regulations could materially adversely affect the Company's overall business. In addition, difficulties in obtaining or failures to obtain the required licences or approvals could delay or prevent the development of a new restaurant in a particular area. It is impossible to predict whether there will be any future changes in the regulatory regimes to which the Company will be subject or the effect of any such change.

As the owner or operator of real property, the Company and its franchisees are subject to federal, provincial and local governmental regulations relating to the use, storage, discharge, emission and disposal of waste and hazardous materials. Failure to comply with environmental laws could result in the imposition of severe penalties or restrictions on operations by governmental agencies or courts of law which could adversely affect the Company's operations.

The Company's Insurance May Not Provide Adequate Levels of Coverage

The Company believes that it maintains insurance customary for businesses of its size and type. However, there are types of losses that the Company may incur that cannot be insured against or that the Company believes are not economically reasonable to insure. Such losses could have a material adverse effect on the Company's business and results of operations.

Foreign Currency Exchange Rates

The Company is exposed to foreign exchange risk. A depreciating Canadian dollar relative to the U.S. dollar will have an adverse impact on the cost of produce, information technology equipment and services, and other goods imported from the U.S., while an appreciating Canadian dollar relative to the U.S. dollar will have the opposite impact. Foreign exchange rate fluctuations may materially affect the Company's results of operations in future periods.

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 41 New York Fries and 3 East Side Mario's.

"**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.

"**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; (vi) 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:

(C$ millions unless otherwise stated)	Q4 – 2019 December 29, 2019	Q3 – 2019 Sept 29, 2019	Q2 – 2019 June 30, 2019	Q1 – 2019 March 31, 2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reconciliation of net earnings to Adjusted Net Earnings				
Net earnings (loss)	$ (1.9)	$ 6.7	$ 16.6	$ 22.7
Transaction costs	1.8	0.1	0.3	0.1
Write off of deferring financing fees	—	(1.0)	1.0	—
Impairment charges	47.6	5.7	4.0	—
Restructuring and other	3.6	2.6	0.7	(0.2)
Change in fair value of non-controlling interest liability	(10.3)	—	—	—
Change in fair value of exchangeable Partnership units	5.1	3.1	0.9	(4.8)
Amortization of unearned conversion fees income	—	0.3	(0.1)	(0.1)
Losses on early buyout/cancellation of equipment rental contracts	1.5	1.6	0.1	—
Gain on settlement of lease liabilities	1.4	—	—	—
Net (gain) loss on disposal of property, plant and equipment and other assets	(1.3)	0.5	(0.1)	0.6
Adjusted Net Earnings [(1)]	**$ 44.8**	**$ 19.5**	**$ 23.4**	**$ 18.3**

(C$ millions unless otherwise stated)	Q4 – 2018 Dec 30, 2018	Q3 – 2018 Sept 30, 2018	Q2 – 2018 July 1, 2018	Q1 - 2018 April 1, 2018
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reconciliation of net earnings to Adjusted Net Earnings				
Net earnings	$ 9.0	$ 23.8	$ 19.5	$ 21.5
Transaction costs	1.7	$ 0.5	0.1	0.5
Impairment charges	6.8	$ —	0.7	0.6
Restructuring and other	8.9	$ 2.6	0.5	0.2
Change in fair value of non-controlling interest liability	1.5	$ 1.0	1.0	—
Change in fair value of exchangeable Partnership units	6.4	$ (0.4)	2.6	(2.3)
Amortization of unearned conversion fees income	0.5	(0.7)	0.1	(0.3)
Losses on early buyout/cancellation of equipment rental contracts	0.4	0.3	0.3	0.2
Net gain on disposal of property, plant and equipment and other assets	(1.2)	(1.8)	(0.3)	(0.2)
Adjusted Net Earnings [(1)]	**$ 34.0**	**$ 25.3**	**$ 24.5**	**$ 20.2**

[(1)] Figures may not total due to rounding.

The following table provides reconciliations of EBITDA and Operating EBITDA:

(C$ millions unless otherwise stated)	Q4 - 2019 Dec 29, 2019	Q3 - 2019 Sept 29, 2019	Q2 - 2019 June 30, 2019	Q1 - 2019 March 31, 2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reconciliation of net earnings from continuing operations to EBITDA:				
Net earnings (loss)	$ (1.9)	6.7	16.6	$ 22.7
Net interest expense and other financing charges.	6.4	4.9	7.5	4.5
Income taxes	(4.1)	5.2	7.2	8.6
Depreciation and amortization	29.5	28.4	28.9	27.9
EBITDA[(1)]	**29.9**	**45.2**	**60.2**	**63.7**
Reconciliation of EBITDA to Operating EBITDA:				
Transaction costs	1.8	0.1	0.3	0.1
Impairment charges	47.6	5.7	4.0	—
Restructuring and other	3.6	2.6	0.7	(0.2)
Change in fair value non-controlling interest liability	(10.3)	—	—	—
Change in fair value of exchangeable partnership units	5.1	3.1	0.9	(4.8)
Income on Partnership units	2.8	2.8	2.7	2.8
Amortization of unearned conversion fees income	—	0.3	(0.1)	(0.1)
Losses on early buyout/cancellation of equipment rental contracts	1.5	1.6	0.1	—
Gain on settlement of lease liability	(1.4)			
Net gain on disposal of property, plant and equipment and other assets	(1.3)	0.5	(0.1)	0.6
Stock based compensation.	(5.4)	2.1	1.8	1.9
Change in onerous contract provision		(0.6)	0.4	(0.2)
Proportionate share of equity accounted joint venture	0.8	0.3	0.1	0.2
Rent impact from adoption of IFRS 16 "Leases" [(2)]	(14.1)	(14.1)	(15.0)	(13.9)
Operating EBITDA [(1)]	**$ 60.5**	**$ 49.5**	**$ 56.0**	**$ 50.1**

(C$ millions unless otherwise stated)	Q4 - 2018 Dec 30, 2018	Q3 - 2018 Sept 30, 2018	Q2 - 2018 July 1, 2018	Q1 – 2018 Apr 1, 2018
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reconciliation of net earnings from continuing operations to EBITDA:				
Net earnings	$ 9.0	$ 23.8	$ 19.5	$ 21.5
Net interest expense and other financing charges	2.8	2.8	3.0	3.3
Income taxes	6.4	7.6	9.0	7.8
Depreciation and amortization	16.2	12.6	15.3	14.6
EBITDA[1]	**$ 34.4**	**$ 46.8**	**$ 46.8**	**$ 47.2**
Reconciliation of EBITDA to Operating EBITDA:				
Transaction costs	1.7	0.4	0.1	0.5
Impairment charges	6.8	—	0.7	0.6
Restructuring and other	8.9	2.6	0.5	0.2
Fair value adjustments	7.9	0.6	3.6	(2.3)
Income on Partnership units	2.7	2.7	2.6	1.0
Amortization of unearned conversion fees income	0.5	(0.7)	0.1	(0.3)
Losses on early buyout/cancellation of equipment rental contracts	0.5	0.3	0.3	0.2
Net (gain) on disposal of property, plant and equipment	(0.3)	(1.8)	(0.3)	(0.2)
Stock based compensation	2.1	2.2	1.0	0.5
Change in onerous contract provision	0.9	(1.4)	(1.0)	(0.3)
Proportionate share of equity accounted joint venture	(1.4)	0.6	0.8	0.4
Rent impact from adoption of IFRS 16 "Leases" [2]	(1.2)	(1.2)	(1.2)	(1.2)
Operating EBITDA [1]	**$ 63.5**	**$ 51.2**	**$ 54.0**	**$ 46.2**

[1] Figures may not total due to rounding.
[2] Note that effective December 31,2018, the Company implemented IFRS16,Leases. Comparative Operating EBITDA figures provided for each quarter have been restated to reflect the adoption of this accounting standard. Please refer to "IFRS 16 New Lease Standard" for further details.
(3) The allocation of overhead costs related to retail and catering have been restated to more accurately reflect actual overhead costs incurred in this segment.

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

(C$ millions unless otherwise stated)	Q4 - 2019 December 29, 2019	Q3 - 2019 Sept 30, 2019	Q2 - 2019 June 30, 2019	Q1 - 2019 March 31, 2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Operating EBITDA	$ 60.5	$ 49.5	$ 56.0	$ 50.1
Maintenance capex	(5.0)	(3.8)	(5.6)	(5.5)
Interest on long-term debt	(5.5)	(4.5)	(4.1)	(3.6)
Interest expense on note payable to The Keg Royalties Income Fund	(1.1)	(1.1)	(1.1)	(1.1)
Cash taxes	(4.6)	(4.0)	(5.2)	(4.8)
Free Cash Flow before growth capex, dividends, NCIB[1]	**$ 44.3**	**$ 36.1**	**$ 40.0**	**$ 35.1**
Growth capex	(8.9)	(8.2)	(7.9)	(4.5)
Proceeds on sale of assets	0.2	(0.3)	0.9	—
Dividends	(6.3)	(6.8)	(6.9)	(6.9)
NCIB	—	(16.5)	(11.7)	(7.1)
Free Cash Flow after growth capex, dividends, NCIB[1]	**$ 29.4**	**$ 4.2**	**$ 14.4**	**$ 16.6**

(C$ millions unless otherwise stated)	Q4 - 2018 December 30, 2018	Q3 - 2018 Sept 30, 2018	Q2 - 2018 July 1, 2018	Q1 – 2018 April 1, 2018
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Operating EBITDA	$ 63.3	$ 51.2	$ 54.0	$ 46.2
Maintenance capex	(9.1)	(7.0)	(4.8)	(4.4)
Cash taxes	(1.7)	(1.7)	(2.9)	(4.5)
Interest on long-term debt	(4.2)	(4.1)	(4.9)	(4.1)
Interest expense on note payable to The Keg Royalties Income Fund	(1.1)	(1.1)	(0.4)	—
Free Cash Flow before growth capex, dividends, NCIB[(1)]	**$ 47.2**	**$ 37.3**	**$ 41.0**	**$ 33.2**
Growth capex	(4.2)	(3.9)	(6.7)	(2.3)
Proceeds on sale of assets	5.3	5.9	0.4	0.1
Dividends declared	(6.7)	(6.7)	(6.7)	(6.7)
Share repurchased	(14.5)	(0.7)	(0.3)	(0.7)
Free Cash Flow after growth capex, dividends, NCIB[(1)]	**$ 27.2**	**$ 31.9**	**$ 27.8**	**$ 23.6**

[(1)] 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 SRS Growth, 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 29, 2019. 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 for a more comprehensive list.