

Recipe Unlimited Corporation

Condensed Consolidated Interim Financial Statements (unaudited)

For the 13 and 39 weeks ended September 30, 2018 and September 24, 2017

Recipe Unlimited Corporation

Condensed Consolidated Interim Statements of Earnings and Comprehensive Income

For the 13 and 39 weeks ended September 30, 2018 and September 24, 2017

(in thousands of Canadian dollars, except where otherwise indicated)	For the 13 weeks ended		For the 39 weeks ended	
	September 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
Sales (note 6)	\$ 260,933	\$ 162,174	\$ 726,603	\$ 471,175
Franchise revenues (note 7)	51,475	43,744	144,655	127,663
Total gross revenue	\$ 312,408	\$ 205,918	\$ 871,258	\$ 598,838
Cost of inventories sold	(117,695)	(72,728)	(301,958)	(210,970)
Selling, general and administrative expenses (note 8)	(156,308)	(98,050)	(463,887)	(291,801)
Impairment of assets (notes 14 and 15)	-	(715)	(1,267)	(4,337)
Restructuring and other (note 9)	(2,616)	(685)	(3,361)	(3,356)
Operating income	\$ 35,789	\$ 33,740	\$ 100,785	\$ 88,374
Net interest expense and other financing charges (note 10)	(2,819)	(3,216)	(9,122)	(8,986)
Share of gain from investment in joint ventures	(921)	(128)	(482)	143
Earnings before change in fair value and income taxes	\$ 32,049	\$ 30,396	\$ 91,181	\$ 79,531
Change in fair value of non-controlling interest liability	(1,000)	-	(2,000)	-
Change in fair value of Exchangable Keg Partnership units	363	-	-	-
Earnings before income taxes	\$ 31,412	\$ 30,396	\$ 89,181	\$ 79,531
Income taxes (note 11)				
Current	(3,069)	(3,136)	(8,617)	(6,684)
Deferred recovery (expense)	(4,535)	(6,030)	(15,753)	9,642
Net earnings	\$ 23,808	\$ 21,230	\$ 64,811	\$ 82,489
Net earnings attributable to				
Shareholders of the Company	\$ 23,617	\$ 20,974	\$ 64,766	\$ 82,349
Non-controlling interest	191	256	45	140
	\$ 23,808	\$ 21,230	\$ 64,811	\$ 82,489
Statement of comprehensive income				
Net earnings	\$ 23,808	\$ 21,230	\$ 64,811	\$ 82,489
Other comprehensive income	(272)	-	339	-
Total comprehensive income	\$ 23,536	\$ 21,230	\$ 65,150	\$ 82,489
Net earnings per share attributable to the Common				
Shareholders of the Company (note 22) (in dollars)				
Basic earnings per share	\$ 0.38	\$ 0.35	\$ 1.05	\$ 1.38
Diluted earnings per share	\$ 0.37	\$ 0.34	\$ 1.01	\$ 1.33

See accompanying notes to the unaudited condensed consolidated interim financial statements.

Recipe Unlimited Corporation

Condensed Consolidated Interim Statements of Total Equity

For the 39 weeks ended September 30, 2018 and September 24, 2017

(in thousands of Canadian dollars, except where otherwise indicated)

	Attributable to the Common Shareholders of the Company						
	Number of shares (in thousands)	Share capital (note 21)	Merger reserve	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity
Balance at December 31, 2017	58,572	\$ 690,968	\$ -	11,957	(5,326)	\$ (90,179)	\$ 607,420
Net earnings	-	-	-	-	-	64,766	64,766
Other comprehensive income	-	-	-	-	339	-	339
The Keg merger (note 26)	-	-	(216,728)	-	1,793	(35,117)	(250,052)
Dividends	-	-	-	-	-	(19,978)	(19,978)
Share re-purchase (note 21)	(66)	(1,700)	-	-	-	-	(1,700)
Issuance of common stock (note 21)	3,801	94,728	-	-	-	-	94,728
Stock options exercised (note 21)	17	173	-	(4,341)	-	-	(4,168)
Stock-based compensation (note 20)	-	-	-	3,837	-	-	3,837
	3,752	93,201	(216,728)	(504)	2,132	9,671	(112,228)
Balance at September 30, 2018	62,324	\$ 784,169	\$ (216,728)	11,453	(3,194)	\$ (80,508)	\$ 495,192

	Attributable to the Common Shareholders of the Company						
	Number of shares (in thousands)	Share Capital (note 21)	Merger reserve	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity
Balance at December 25, 2016	59,982	\$ 723,724	\$ -	9,764	(3,790)	\$ (175,756)	\$ 553,942
Net earnings and comprehensive income	-	-	-	-	-	82,349	82,349
Dividends	-	-	-	-	-	(18,176)	(18,176)
Share re-purchase	(1,251)	(28,584)	-	-	-	-	(28,584)
Stock options exercised	14	146	-	(27)	-	-	119
Stock-based compensation (note 20)	-	-	-	1,807	-	-	1,807
	(1,237)	(28,438)	-	1,780	-	64,173	37,515
Balance at September 24, 2017	58,745	\$ 695,286	\$ -	11,544	(3,790)	\$ (111,583)	\$ 591,457

See accompanying notes to the unaudited condensed consolidated interim financial statements.

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Condensed Consolidated Interim Balance Sheets

As at September 30, 2018, December 31, 2017 and September 24, 2017

(in thousands of Canadian dollars)

	As at September 30, 2018	As at December 31, 2017	As at September 24, 2017
Assets			
Current Assets			
Cash	\$ 35,709	\$ 41,971	\$ 11,843
Accounts receivable (note 25)	67,903	60,991	68,483
Inventories (note 12)	39,556	26,321	30,180
Prepaid expenses and other assets	8,858	8,573	7,704
Total Current Assets	\$ 152,026	\$ 137,856	\$ 118,210
Long-term receivables (note 13)	31,752	40,033	47,470
Property, plant and equipment (note 14)	413,023	336,210	330,551
Investment in the Keg Limited Partnership (note 26)	128,493	-	-
Brands and other assets (note 15)	615,942	614,968	604,585
Goodwill (note 16)	192,011	191,111	189,448
Deferred tax asset (note 11)	29,666	23,361	29,168
Total Assets	\$ 1,562,913	\$ 1,343,539	\$ 1,319,432
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	\$ 107,603	\$ 86,131	\$ 93,600
Provisions (note 17)	7,362	6,959	7,423
Gift card liability	94,155	57,495	29,161
Income taxes payable	3,364	4,107	3,892
Current portion of long-term debt (note 18)	157,144	2,916	2,517
Total Current Liabilities	\$ 369,628	\$ 157,608	\$ 136,593
Long-term debt (note 18)	310,002	401,700	414,375
Note payable to The Keg Royalties Income Fund	57,000	-	-
Provisions (note 17)	7,203	8,171	7,473
Other long-term liabilities (note 19)	90,348	67,842	66,912
Deferred gain on sale of The Keg Rights (note 26)	134,664	-	-
Deferred tax liability (note 11)	98,876	100,798	102,622
Total Liabilities	\$ 1,067,721	\$ 736,119	\$ 727,975
Shareholders' Equity			
Common share capital (note 21)	\$ 784,169	\$ 690,968	\$ 695,286
Contributed surplus	11,453	11,957	11,544
Merger reserve (note 26)	(216,728)	-	-
Accumulated other comprehensive loss	(3,194)	(5,326)	-
Deficit	(80,508)	(90,179)	(115,373)
Total Shareholders' Equity	\$ 495,192	\$ 607,420	\$ 591,457
Total Liabilities and Equity	\$ 1,562,913	\$ 1,343,539	\$ 1,319,432
Commitments, contingencies and guarantees (note 24)			
Subsequent events (note 28)			

See accompanying notes to the unaudited condensed consolidated interim financial statements.

Recipe Unlimited Corporation

Condensed Consolidated Interim Statements of Cash Flows

For the 13 and 39 weeks ended September 30, 2018 and September 24, 2017

(in thousands of Canadian dollars)	For the 13 weeks ended		For the 39 weeks ended	
	September 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
Cash from (used in)				
Operating Activities				
Net earnings	\$ 23,808	\$ 21,230	\$ 64,811	\$ 82,489
Depreciation and amortization	12,639	12,889	43,077	36,812
Net gain on disposal of property, plant and equipment	(2,673)	(380)	(3,139)	(1,966)
Net loss on sale of other assets	844	-	844	-
Losses on early buyout/cancellation of equipment rental contracts	344	122	819	241
Impairment of assets, net of reversals	-	715	1,267	4,337
Net interest expense and other financing charges (note 10)	2,819	3,216	9,122	8,986
Stock based compensation	2,249	494	3,837	1,807
Income taxes paid	(1,732)	(3,250)	(9,077)	(6,604)
Change in assets held for sale	-	1,721	-	-
Change in restructuring provision	2,417	230	1,454	2,344
Change in deferred tax (note 11)	4,629	6,030	16,441	(9,642)
Change in franchise onerous contract provision (note 17)	(1,389)	(383)	(2,657)	(856)
Change in fair value of Exchangable Keg Partnership units	(363)	-	-	-
Other non-cash items	(931)	2,863	1,383	(626)
Net change in non-cash operating working capital (note 23)	3,480	(8,450)	(41,475)	(20,615)
Cash flows from operating activities	<u>46,141</u>	<u>37,047</u>	<u>86,707</u>	<u>96,707</u>
Investing Activities				
Business acquisitions, net of cash assumed (note 5 and 26)	(4,948)	(10)	(76,701)	1,276
Purchase of property, plant and equipment	(10,861)	(15,192)	(29,141)	(42,276)
Proceeds on disposal of property, plant and equipment	5,877	165	6,106	1,570
Proceeds on early buyout of equipment rental contracts	232	470	493	570
Proceeds on sale of JV restaurants	1,369	-	1,369	-
Investment in joint ventures	-	833	-	(14,653)
Share of (earnings) loss from investment in joint ventures	238	106	482	(165)
Additions to other assets	(348)	(182)	(475)	(314)
Change in long-term receivables	5,111	(8,419)	5,915	(7,356)
Cash flows used in investing activities	<u>(3,330)</u>	<u>(22,229)</u>	<u>(91,952)</u>	<u>(61,348)</u>
Financing Activities				
Issuance of long-term credit facility, net of financing costs (note 18)	-	18,775	104,000	36,025
Repayment of long-term credit facility (note 18)	(31,000)	-	(65,000)	(32,000)
Issuance of subordinated voting common shares (note 21)	(4,306)	-	(4,168)	119
Share re-purchase (note 21)	(746)	(28,038)	(1,700)	(28,584)
Change in finance leases (note 18)	(750)	(626)	(729)	(757)
Interest paid	(7,876)	(2,547)	(13,265)	(6,907)
Dividends paid subordinate and multiple voting common shares	(6,655)	(5,974)	(19,978)	(18,176)
Cash flows (used in) from financing activities	<u>(51,333)</u>	<u>(18,410)</u>	<u>(840)</u>	<u>(50,280)</u>
Change in cash during the year	(8,522)	(3,592)	(6,085)	(14,921)
Foreign currency translation adjustment	156	-	(177)	-
Cash - Beginning of period	44,075	15,435	41,971	26,764
Cash - End of period	\$ 35,709	\$ 11,843	\$ 35,709	\$ 11,843

See accompanying notes to the unaudited condensed consolidated interim financial statements.

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Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 30, 2018 and September 24, 2017

1 Nature and description of the reporting entity

Recipe Unlimited Corporation (formerly Cara Operations Limited) is a Canadian Company incorporated under the Ontario Business Corporations Act and is a Canadian full service restaurant operator and franchisor.

The Company's subordinate voting shares are listed on the Toronto Stock Exchange under the stock symbol "RECP". As part of the Company's initial public offering ("IPO") during fiscal 2015, the Company issued multiple voting shares to Fairfax Financial Holdings Limited and its affiliates ("Fairfax") and to the Phelan family through Cara Holdings Limited and its affiliates ("Cara Holdings", and together with Fairfax, the "Principal Shareholders"). As at September 30, 2018, the Principal Shareholders hold 66.8% of the total issued and outstanding shares and have 97.7% of the voting control attached to all the shares.

The Company's registered office is located at 199 Four Valley Drive, Vaughan, Canada L4K 0B8. Recipe Unlimited Corporation and its controlled subsidiaries are together referred to in these condensed consolidated interim financial statements as "Recipe" or "the Company".

2 Basis of Presentation

Statement of compliance

The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). The unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's 2017 audited annual consolidated financial statements and accompanying notes, except for new accounting standards that have been adopted in 2018, as described in note 3.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors ("Board") on November 8, 2018.

Functional and presentation currency

The condensed consolidated interim financial statements are presented in Canadian dollars which is the Company's functional currency. The Company determines its foreign subsidiaries' functional currency by reviewing the currencies in which their respective operating activities occur. The Company translates assets and liabilities of its non-Canadian dollar functional currency subsidiaries into Canadian dollars using the rate in effect at the balance sheet date and revenues and expenses are translated at the average exchange rates during the year. Foreign currency translation gains and losses are included in Shareholders' equity as a component of accumulated other comprehensive loss in the accompanying consolidated financial statements.

Monetary assets and liabilities denominated in a currency that is different from a reporting entity's functional currency must be first remeasured from the applicable currency to the legal entity's functional currency.

All financial information presented in Canadian dollars has been rounded to the nearest thousands of dollars except where otherwise indicated.

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Seasonality of operations

Results of operations for the condensed consolidated interim period are not necessarily indicative of the results of operations for the full year. Total gross revenues are subject to seasonal fluctuations due to consumer spending patterns. The Company may also experience quarterly variations in its operating results as its revenues may be subject to fluctuations resulting from a number of factors such as economic conditions, the effect of severe weather and the number of new locations opened or closures of existing franchise or company-owned restaurants. Occupancy related expenses, certain operating expenses, depreciation and amortization, and interest expense remain relatively steady throughout the year.

Critical accounting judgements and estimates

The preparation of the interim financial statements requires management to make judgements, estimates and assumptions that affect the Company's accounting policies that affect the reported amounts and disclosures made in the condensed consolidated interim financial statements and accompanying notes. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Company's accounting policies except those adopted using the judgements during the 39 weeks ended September 30, 2018 and the key sources of estimation of uncertainty were the same as those that applied to the Company's audited annual consolidated financial statements as at and for the year ended December 31, 2017.

3 Significant accounting policies

Accounting standards implemented in 2018

Revenue

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"). IFRS 15 replaced IAS 11, "Construction Contracts", IAS 18 "Revenue", IFRIC 13, "Customer Loyalty Programmes", IFRIC 15, "Agreements for the Construction of Real Estate", IFRIC 18, "Transfer of Assets from Customers", and SIC 31, "Revenue – Barter Transactions Involving Advertising Services". On April 12, 2016, the IASB issued "Clarifications to IFRS 15, Revenue from Contracts with Customers", which is effective at the same time as IFRS 15. The standard contains a single model that applies to contracts with customers and two approaches for recognizing revenue. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The clarifications to IFRS 15 provide additional guidance with respect to the five-step analysis, transition, and the application of the Standard to licenses of intellectual property. The new standard is effective for annual periods beginning on or after January 1, 2018, but earlier application is permitted either following a full retrospective approach or a modified retrospective approach. The modified retrospective approach allows the standard to be applied to existing contracts beginning with the initial period of adoption and restatements to the comparative periods are not required. The Company has adopted IFRS 15 and the clarifications in its financial statements for the annual period beginning on January 1, 2018. The Company has determined that the new standard has changed the presentation of advertising fund payments received from franchisees to Recipe and the related transfers from

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Recipe to the advertising funds, including payments from Recipe corporate restaurants, which were previously reported on a net basis in the consolidated financial statements. Under the new standard, advertising fund payments from franchisees and advertising fund transfers from Recipe are reported separately on a gross basis (notes 7 and 8). The Company has applied this change retrospectively, and therefore, prior year comparative amounts have been restated to reflect this revenue change. There was no impact to the opening balance sheet as at December 26, 2016. Below is the revised Revenue recognition policy as a result of the new standard adopted.

Revenue recognition

Gross revenues include revenue from the Company's food service activities. These activities consist primarily of food and beverage sales at restaurants operated by the Company, food product sales related to the sale of manufactured products to grocery retailers and certain franchisees, franchise revenues earned as part of the license agreements between the Company and its franchisees, and advertising fund payments received from franchisees, including payments from Recipe corporate restaurants. Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control, at a point in time or over time, requires judgement.

Financial Instruments

In July 2014, the IASB issued the complete IFRS 9, "Financial Instruments" ("IFRS 9") which has replaced IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 introduces new requirements for the classification and measurement of financial assets. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. The Company adopted IFRS 9 on January 1, 2018. The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities. Full details of the Company's adoption of IFRS 9 was disclosed in the same section of the Notes to condensed consolidated interim financial statements for the 13 weeks ended April 1, 2018.

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

On June 20, 2016, the IASB issued amendments to IFRS 2 Share-based Payment Transactions, clarifying how to account for certain types of share-based payment transactions. The amendments apply for annual periods beginning on or after January 1, 2018. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Company has adopted the amendments to IFRS 2 in its financial statements for the annual period beginning on January 1, 2018. Cash settled awards do not have any vesting or non-vesting conditions, therefore, the adoption of the amendment did not have a material impact on the condensed consolidated interim financial statements.

Foreign Currency Transactions

On December 8, 2016, the IASB issued IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration. The Interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on

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which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. The Company has adopted the amendments of IFRIC 22 for annual periods beginning on January 1, 2018. There was no material impact on the condensed consolidated interim financial statements.

Other Standards

On December 8, 2016 the IASB issued narrow-scope amendments to two standards as part of its annual improvements process (Annual Improvements to IFRS Standards (2014-2016) cycle). There was clarification that the election to measure an associate or joint venture at fair value under IAS 28 “Investments in Associates and Joint Ventures” for investments held directly, or indirectly, through a venture capital or other qualifying entity can be made on an investment-by-investment basis which the Company adopted in its financial statements for the annual period beginning on January 1, 2018. The amendments did not have a material impact on the condensed consolidated interim financial statements.

4 Future accounting standards

Leases

In January 2016, the IASB issued IFRS 16 Leases with a mandatory effective date of January 1, 2019. The new standard will replace IAS 17 Leases and will carry forward the accounting requirements for lessors. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on December 31, 2018. The Company has developed a comprehensive work plan which includes the review of all the Company’s leases and sublease arrangements and adjustments to the Company’s database systems to quantify the impact of this standard. As the Company is a lessee with numerous leases and subleases to franchisees, this standard is expected to have a significant impact on assets, liabilities and the statements of earnings and comprehensive income.

Transfer of assets between an investor and its associate or joint venture

On September 11, 2014 the IASB issued Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28). The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture (JV). Specifically, under the existing consolidation standard the parent recognizes the full gain on the loss of control, whereas under the existing guidance on associates and JVs the parent recognizes the gain only to the extent of unrelated investors’ interests in the associate or JV. The main consequence of the amendments is that a full gain/loss is recognized when the assets transferred meet the definition of a ‘business’ under IFRS 3 Business Combinations. A partial gain/loss is recognized when the assets transferred do not meet the definition of a business, even if these assets are housed in a subsidiary. The Company did not adopt these amendments in its financial statements for the annual period beginning January 1, 2018, as the effective date for these amendments has been deferred indefinitely.

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Long-term interest in associates and joint ventures

In October 2017, the IASB issued narrow-scope amendments to IAS 28 Investments in Associates and Joint Ventures, clarifying that long-term interests in associates and joint ventures, to which the equity method is not applied, are in the scope of both IFRS 9 Financial Instruments (including its impairment requirements) and IAS 28. The amendments are effective for annual periods beginning on or after January 1, 2019. The Company intends to adopt the amendments to IAS 28 in its financial statements for the annual period beginning on December 31, 2018. The Company does not expect the amendments to have a material impact on its financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments

On June 7, 2017, the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation requires an entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution, reflect an uncertainty in the amount of income tax payable (recoverable) if it is probable that it will pay (or recover) an amount for the uncertainty, and measure a tax uncertainty based on the most likely amount or expected value depending on whichever method better predicts the amount payable (recoverable). The Company intends to adopt the Interpretation in its financial statements for the annual period beginning on December 31, 2018. The extent of the impact of adoption of this Interpretation has not yet been determined.

Annual Improvements to IFRS Standards (2015-2017) Cycle

On December 12, 2017 the IASB issued narrow-scope amendments to three standards as part of its annual improvements process. The amendments are effective on or after January 1, 2019, with early application permitted. Each of the amendments has its own specific transition requirements.

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements - to clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business;
- IAS 12 Income Taxes – to clarify that all income tax consequences of dividends are recognized consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI, or equity; and
- IAS 23 Borrowing Costs – to clarify that specific borrowings – i.e. funds borrowed specifically to finance the construction of a qualifying asset – should be transferred to the general borrowings pool once the construction of the qualifying asset has been completed.

The Company intends to adopt these amendments in its financial statements for the annual period beginning on December 31, 2018. The Company does not expect the amendments to have a material impact on its financial statements.

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Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

On February 7, 2018, the IASB issued Plan Amendment, Curtailment or Settlement (Amendments to IAS 19). The amendments apply for plan amendments, curtailments or settlements that occur on or after January 1, 2019, or the date on which they are first applied (earlier application is permitted). The amendments to IAS 19 clarify that:

- on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and
- the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan.

The Company intends to adopt the amendments to IAS 19 in its financial statements for the annual period beginning on December 31, 2018. The Company does not expect the amendments to have a material impact on its financial statements.

5 Acquisitions and Buyouts

The Company has accounted for all acquisitions using the acquisition method, with the results of the businesses acquired included in the consolidated financial statements from the date of acquisition.

The Keg merger – see note 26 Related parties

Pickle Barrel

On December 1, 2017 (the “Pickle Barrel” Acquisition Date”), the Company completed the acquisition of Pickle Barrel Restaurants Inc. for \$21.5 million comprised of \$17.4 million in cash, the assumption of \$3.4 million debt, and through the issuance of \$0.8 million in Recipe subordinate voting shares to the vendor. The cash portion of the transaction was settled by drawing on the Company’s existing credit facility. As at September 30, 2018, there were no changes to the preliminary determination of the identifiable assets acquired and liabilities assumed at fair value in connection with the acquisition of Pickle Barrel disclosed in the December 31, 2017 financial statements.

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For the 13 and 39 weeks ended September 30, 2018 and September 24, 2017**Re-acquired franchise locations**

In the normal course of business, the Company may acquire or re-acquire franchise restaurants and convert them into corporate restaurants. During the 13 and 39 weeks ended September 30, 2018, 10 and 13 franchise locations, respectively (13 and 39 weeks ended September 24, 2017 – 2 and 5 locations) were re-acquired by the Company.

(in thousands of Canadian dollars)

	For the 13 weeks ended		For the 39 weeks ended	
	September 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
Consideration				
Cash	\$ 4,948	\$ 10	\$ 4,966	\$ 244
Accounts receivable	-	-	-	84
Total Consideration	\$ 4,948	\$ 10	\$ 4,966	\$ 328
Net assets acquired				
Inventories	\$ 239	\$ -	\$ 257	\$ 30
Property, plant and equipment	1,329	10	1,329	69
Brands and other assets	2,480	-	2,480	54
Total Assets	4,048	10	4,066	153
Goodwill	900	-	900	175
Total	\$ 4,948	\$ 10	\$ 4,966	\$ 328

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6 Sales

Sales are made up of the direct sale of prepared food and beverage to customers at company-owned restaurants and from its catering division, sales of St-Hubert and The Keg branded 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, and revenue from processing off-premise phone, web and mobile orders for franchised locations.

(in thousands of Canadian dollars)	For the 13 weeks ended		For the 39 weeks ended	
	September 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
Sales at corporate restaurants	\$ 189,703	\$ 101,697	519,734	\$ 292,492
Food processing and distribution sales	67,660	57,774	194,941	170,009
Call centre service charge revenues	2,468	2,703	8,431	8,674
Catering sales	1,102	-	3,497	-
	<u>\$ 260,933</u>	<u>\$ 162,174</u>	<u>726,603</u>	<u>\$ 471,175</u>

7 Franchise revenues

The Company grants license agreements to independent operators ("franchisees"). As part of the license agreements, the franchisees pay franchise fees, marketing fund contributions, conversion fees for established locations, and other payments, which may include payments for royalties, equipment and property rents.

(in thousands of Canadian dollars)	For the 13 weeks ended		For the 39 weeks ended	
	September 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
Royalty revenue	\$ 28,613	\$ 23,232	80,046	\$ 68,426
Marketing fund contributions	18,455	17,236	53,656	49,065
Other rental income	2,351	1,757	6,959	6,793
Income on finance leases	393	610	1,227	1,367
Franchise fees on new and renewal licenses	934	648	1,862	1,214
Amortization of unearned conversion fees income	729	261	905	798
	<u>\$ 51,475</u>	<u>\$ 43,744</u>	<u>144,655</u>	<u>\$ 127,663</u>

Recipe Unlimited Corporation

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 30, 2018 and September 24, 2017**8 Selling, general and administrative expenses**

Included in operating income are the following selling, general and administrative expenses.

(in thousands of Canadian dollars)	For the 13 weeks ended		For the 39 weeks ended	
	September 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
Corporate restaurant expenses	\$ 111,205	\$ 60,589	\$ 308,364	\$ 177,581
Franchise assistance and bad debt	1,991	2,906	6,397	7,230
Advertising fund transfers	18,455	17,236	53,656	49,065
Franchisor over-contribution to advertising funds	659	484	1,948	1,654
The Keg royalty expense	6,350	-	14,808	-
Depreciation of property, plant and equipment (note 14)	10,294	10,329	36,449	29,485
Amortization of other assets (note 15)	1,394	1,737	4,134	4,843
Other	5,960	4,769	38,131	21,943
	\$ <u>156,308</u>	\$ <u>98,050</u>	\$ <u>463,887</u>	\$ <u>291,801</u>

For the 13 and 39 weeks ended September 30, 2018, \$1.0 million and \$2.5 million, respectively (13 and 39 weeks ended September 24, 2017 - \$0.8 million and \$2.5 million) of depreciation related to property, plant and equipment has been included in cost of inventories sold as part of food processing and distribution.

Recipe Unlimited Corporation

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 30, 2018 and September 24, 2017

9 Restructuring and other

Restructuring and other costs consist of plans to consolidate and eliminate certain home office and brand operations positions related to Recipe's acquisitions, comprised primarily of severance costs and lease settlement costs.

During the 13 and 39 weeks ended September 30, 2018, the Company approved a plan to take-back certain underperforming Swiss Chalet restaurants in western Canada with the intention to re-franchise locations to stronger franchisee partners and to permanently close locations that do not meet the Company's long-term strategic portfolio of restaurants. Total restructuring costs under this plan were estimated to be approximately \$1.9 million comprised of expected lease exit costs.

The following table provides a summary of the costs recognized and cash payments made, as well as the corresponding net liability as at September 30, 2018:

(in thousands of Canadian dollars)	For the 13 weeks ended		For the 39 weeks ended	
	September 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
Net liability, beginning of period	\$ 1,094	\$ 3,761	2,057	\$ 1,647
Cost recognized				
Employee termination benefits	670	215	1,130	505
Site closing costs and other	1,946	470	2,231	2,851
Total	2,616	685	3,361	3,356
Cash payments				
Employee termination benefits	131	269	1,081	659
Site closing costs and other	68	186	826	353
Total	199	455	1,907	1,012
Net liability, end of period	\$ 3,511	\$ 3,991	3,511	\$ 3,991

Recorded in the consolidated balance sheets as follows:

(in thousands of Canadian dollars)	September 30, 2018	December 31, 2017	September 24, 2017
Employee termination benefits:			
Accounts payable and accrued liabilities	\$ 1,401	\$ 1,469	\$ 837
Other long-term liabilities	-	65	-
Site closing costs and other:			
Accounts payable and accrued liabilities	-	-	2,745
Provisions - current	1,101	517	296
Provisions - long-term	1,009	6	113
	\$ 3,511	\$ 2,057	\$ 3,991

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Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 30, 2018 and September 24, 2017**10 Net interest expense and other financing charges**

(in thousands of Canadian dollars)	For the 13 weeks ended		For the 39 weeks ended	
	September 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
Interest expense on long-term debt	\$ 5,197	\$ 2,711	14,608	\$ 7,816
Interest on finance leases	487	430	1,419	1,365
Financing costs	200	165	558	494
Interest expense - other	83	106	272	315
Interest income on Partnership units	(2,734)	-	(6,280)	-
Interest income	(414)	(196)	(1,455)	(1,004)
	<u>\$ 2,819</u>	<u>\$ 3,216</u>	<u>9,122</u>	<u>\$ 8,986</u>

11 Income taxes

The Company's provision for income taxes is comprised of the following:

(in thousands of Canadian dollars)	For the 13 weeks ended		For the 39 weeks ended	
	September 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
Current income tax expense				
Current period	\$ 3,298	\$ 3,388	8,834	\$ 7,780
Adjustment for prior years	(229)	(252)	(217)	(1,096)
	<u>3,069</u>	<u>3,136</u>	<u>8,617</u>	<u>6,684</u>
Deferred income tax expense (recovery)				
Origination and reversal of temporary differences	4,319	4,288	15,368	13,785
Adjustments for prior years	497	1,062	623	337
Benefit from previously unrecognized tax asset	(281)	680	(238)	(23,764)
	<u>4,535</u>	<u>6,030</u>	<u>15,753</u>	<u>(9,642)</u>
Net income tax expense (recovery)	<u>\$ 7,604</u>	<u>\$ 9,166</u>	<u>24,370</u>	<u>\$ (2,958)</u>

Recipe Unlimited Corporation

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 30, 2018 and September 24, 2017

Recognized deferred tax assets and liabilities

(in thousands of Canadian dollars)	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 24, 2017</u>
Opening balance	\$ (77,437)	\$ (85,031)	\$ (85,031)
Deferred income tax (expense)/recovery	(15,848)	4,398	9,642
Keg acquisition	24,075	-	-
Pickle Barrel acquisition	-	362	-
St-Hubert acquisition	-	1,004	1,004
Original Joe's acquisition	-	1,272	931
Income taxes recognized in other comprehensive income	-	558	-
	<u>\$ (69,210)</u>	<u>\$ (77,437)</u>	<u>\$ (73,454)</u>

Recorded in the consolidated balance sheets as follows:

Deferred tax asset	\$ 29,666	\$ 23,361	\$ 29,168
Deferred tax liability	(98,876)	(100,798)	(102,622)
	<u>\$ (69,210)</u>	<u>\$ (77,437)</u>	<u>\$ (73,454)</u>

12 Inventories

Inventories consist of food and packaging materials used in St-Hubert's food processing and distribution division and food and beverage items for use at the Company's corporately-owned locations. Corporate restaurant inventories are stated at the lower of cost and estimated net realizable value of the inventory. Costs consist of the cost to purchase, direct labour, an allocation of variable and fixed manufacturing overheads, and other costs incurred in bringing the inventory to its present location reduced by vendor allowances. The cost of inventories is determined using the first-in, first-out method.

(in thousands of Canadian dollars)	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 24, 2017</u>
Raw materials	\$ 5,498	\$ 6,198	\$ 6,088
Work in progress	979	716	1,006
Finished goods	21,189	12,840	17,518
Food and beverage supplies	11,890	6,567	5,568
	<u>\$ 39,556</u>	<u>\$ 26,321</u>	<u>\$ 30,180</u>

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Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 30, 2018 and September 24, 2017

13 Long-term receivables

(in thousands of Canadian dollars)	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 24, 2017</u>
Franchise receivable	\$ 20,179	\$ 24,366	\$ 25,439
Due from related parties (note 26)	10,771	14,571	20,519
Promissory notes	802	1,096	1,512
	<u>\$ 31,752</u>	<u>\$ 40,033</u>	<u>\$ 47,470</u>

Franchise receivable

In prior years, the Company converted certain corporate restaurants to franchise and sold the restaurants to independent operators (“franchisees”). As part of these conversion agreements certain franchisees entered into rental agreements to rent certain restaurant assets from the Company. Franchise receivables of \$20.2 million (December 31, 2017 - \$24.4 million; September 24, 2017 - \$25.4 million) relates primarily to the long-term obligation of the franchisees to pay the Company over the term of the rental agreement which is equal to the term of the license agreement or the term to the expected buyout date assuming that the franchisee is more likely than not to acquire the rented assets from the Company.

Long-term franchise receivables are reviewed for impairment when a triggering event has occurred. An impairment loss is recorded when the carrying amount of the long-term franchise receivable exceeds its estimated net realizable value. For the 13 and 39 weeks ended September 30, 2018, the Company recorded \$nil (13 and 39 weeks ended September 24, 2017 - \$nil) of impairment losses on long-term franchise receivables.

Long-term receivable maturities

Long-term receivables have maturity dates ranging from 2019 to 2034 and bear an average effective interest rate of 8% - 10%.

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Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 30, 2018 and September 24, 2017

14 Property, plant and equipment

(in thousands of Canadian dollars)	As at September 30, 2018						
	Land	Buildings	Equipment	Leasehold improvements	Assets under finance lease	Construction-in-progress	Total
Cost							
Balance, beginning of year	\$ 38,816	\$115,801	\$ 214,017	\$ 143,250	\$ 42,439	\$ 6,456	\$ 560,779
Additions	-	-	1,218	2,038	-	4,127	7,383
Additions from The Keg merger (note 26)	-	-	17,748	71,339	-	542	89,629
Disposals and adjustments	-	(16)	(19,755)	(2,796)	-	-	(22,567)
Foreign exchange translation	-	-	226	577	-	4	807
Transfer to/(from) construction-in-progress	-	45	1,114	1,168	-	(2,327)	-
Balance at April 1, 2018	\$ 38,816	\$115,830	\$ 214,568	\$ 215,576	\$ 42,439	\$ 8,802	\$ 636,031
Additions	-	9	363	(1,537)	1,490	10,572	10,897
Disposals and adjustments	-	(5)	(2,270)	(4,390)	-	-	(6,665)
Foreign exchange translation	-	-	278	703	-	10	991
Transfer to/(from) construction-in-progress	-	6	3,106	4,070	-	(7,182)	-
Balance at July 1, 2018	\$ 38,816	\$115,840	\$ 216,045	\$ 214,422	\$ 43,929	\$ 12,202	\$ 641,254
Additions	-	14	2,483	2,367	-	5,997	10,861
Acquisitions (note 5)	-	-	540	789	-	-	1,329
Disposals and adjustments	-	-	7,291	2,554	-	-	9,845
Foreign exchange translation	-	-	(231)	(589)	-	-	(820)
Transfer to/(from) construction-in-progress	-	-	22	(683)	-	661	-
Balance at September 30, 2018	\$ 38,816	\$115,854	\$ 226,150	\$ 218,860	\$ 43,929	\$ 18,860	\$ 662,469
Accumulated depreciation and impairment losses							
Balance, beginning of year	\$ -	\$ 7,964	\$ 134,454	\$ 63,372	\$ 18,779	\$ -	\$ 224,569
Depreciation expense	-	634	6,441	4,818	1,167	-	13,060
Impairment losses	-	-	-	578	-	-	578
Foreign exchange translation	-	-	192	463	-	-	655
Disposals and adjustments	-	(16)	(19,735)	(2,999)	-	-	(22,750)
Balance at April 1, 2018	\$ -	\$ 8,582	\$ 121,352	\$ 66,232	\$ 19,946	\$ -	\$ 216,112
Depreciation expense	-	1,336	6,567	6,407	328	-	14,638
Foreign exchange translation	-	-	236	574	-	-	810
Disposals and adjustments	-	(5)	(2,538)	(4,324)	(111)	-	(6,978)
Balance at July 1, 2018	\$ -	\$ 9,913	\$ 125,617	\$ 68,889	\$ 20,163	\$ -	\$ 224,582
Depreciation expense	-	969	6,739	2,765	772	-	11,245
Foreign exchange translation	-	-	(193)	(470)	-	-	(663)
Disposals and adjustments	-	-	6,981	7,190	111	-	14,282
Balance at September 30, 2018	\$ -	\$ 10,882	\$ 139,144	\$ 78,374	\$ 21,046	\$ -	\$ 249,446
Carrying amount as at:							
September 30, 2018	\$ 38,816	\$104,972	\$ 87,006	\$ 140,486	\$ 22,883	\$ 18,860	\$ 413,023
December 31, 2017	\$ 38,816	\$ 107,837	\$ 79,563	\$ 79,878	\$ 23,660	\$ 6,456	\$ 336,210
September 24, 2017	\$ 38,546	\$ 108,362	\$ 81,327	\$ 74,147	\$ 19,191	\$ 8,978	\$ 330,551

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Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 30, 2018 and September 24, 2017

15 Brands and other assets

Brands and other assets including re-acquired franchise rights are recorded at their fair value at the date of acquisition. The Company assesses each intangible asset and other assets for legal, regulatory, contractual, competitive or other factors to determine if the useful life is definite. Brands are measured at cost less net accumulated impairment losses and are not amortized as they are considered to have an indefinite useful life. Indefinite life intangible assets are tested for impairment at least annually and whenever there is an indication that the asset may be impaired. Re-acquired franchise rights and other assets are amortized on a straight-line basis over their estimated useful lives, averaging approximately five years and are tested for impairment whenever there is an indication that the asset may be impaired.

(in thousands of Canadian dollars)	As at September 30, 2018			
	Brands	Other assets	Investment in joint ventures and associates (note 26)	Total
Cost				
Balance, beginning of year	\$ 526,072	\$ 90,222	\$ 19,675	\$ 635,969
Additions	-	127	-	127
Additions from The Keg merger (note 26)	-	4,443	-	4,443
Share of gain	-	-	99	99
Balance as at April 1, 2018	\$ 526,072	\$ 94,792	\$ 19,774	\$ 640,638
Adjustments	-	(236)	-	(236)
Share of earnings	-	-	509	509
Balance as at July 1, 2018	\$ 526,072	\$ 94,556	\$ 20,283	\$ 640,911
Additions	-	2,485	344	2,829
Loss on disposal	-	-	(2,213)	(2,213)
Adjustments	-	(5)	14	9
Share of earnings	-	-	161	161
Balance as at September 30, 2018	\$ 526,072	\$ 97,036	\$ 18,589	\$ 641,697
Accumulated amortization				
Balance, beginning of year	\$ -	\$ 21,001	\$ -	\$ 21,001
Amortization	-	1,535	-	1,535
Balance as at April 1, 2018	\$ -	\$ 22,536	\$ -	\$ 22,536
Amortization	-	1,205	-	1,205
Impairment loss	-	689	-	689
Adjustments	-	(242)	-	(242)
Other	-	114	-	114
Balance as at July 1, 2018	\$ -	\$ 24,302	\$ -	\$ 24,302
Amortization	-	1,394	-	1,394
Other	-	59	-	59
Balance as at September 30, 2018	\$ -	\$ 25,755	\$ -	\$ 25,755
Net carrying amount as at:				
September 30, 2018	\$ <u>526,072</u>	\$ <u>71,281</u>	\$ <u>18,589</u>	\$ <u>615,942</u>
December 31, 2017	\$ 526,072	\$ 69,221	\$ 19,675	\$ 614,968
September 24, 2017	\$ 514,639	\$ 71,086	\$ 18,860	\$ 604,585

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Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 30, 2018 and September 24, 2017

16 Goodwill

Goodwill arising in a business combination is recognized as an asset at the date that control is acquired. Goodwill represents the excess of the purchase price of a business acquired over the fair value of the underlying net assets acquired at the date of acquisition. Goodwill is allocated at the date of the acquisition to a group of cash generating units that are expected to benefit from the synergies of the business combination, but no higher than an operating segment. Goodwill is not amortized and is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

(in thousands of Canadian dollars)	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 24, 2017</u>
Cost			
Balance, beginning of period	\$ 191,111	\$ 188,998	\$ 188,998
Additions	900	941	175
Additions resulting from change in Preliminary Purchase Equation	-	1,347	275
Disposals	-	(175)	-
Balance, end of period	<u>\$ 192,011</u>	<u>\$ 191,111</u>	<u>\$ 189,448</u>

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For the 13 and 39 weeks ended September 30, 2018 and September 24, 2017

17 Provisions

Provisions are recognized when there is a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the obligation can be measured reliably. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risk specific to the liability. Provisions are reviewed on a regular basis and adjusted to reflect management's best current estimates. Due to the judgemental nature of these items, future settlements may differ from amounts recognized.

(in thousands of Canadian dollars)	As at September 30, 2018					Total
	Asset retirement obligations	Lease obligations for closed restaurants	Franchise onerous contracts	Other		
Balance, beginning of period	\$ 5,994	\$ 2,156	\$ 4,064	\$ 2,916	\$	15,130
Additions	6	-	-	-		6
Accretion	69	-	-	-		69
Payments	-	(568)	-	-		(568)
Adjustments	(24)	440	(254)	(310)		(148)
Balance at April 1, 2018	\$ 6,045	\$ 2,028	\$ 3,810	\$ 2,606	\$	14,489
Additions	29	-	-	-		29
Accretion	66	-	-	-		66
Payments	(23)	(311)	-	-		(334)
Adjustments	(75)	877	(1,014)	86		(126)
Balance at July 1, 2018	\$ 6,042	\$ 2,594	\$ 2,796	\$ 2,692	\$	14,124
Additions	-	914	-	-		914
Accretion	60	-	-	-		60
Payments	(78)	(289)	(565)	-		(932)
Adjustments	(284)	1,573	(824)	(66)		399
Balance at September 30, 2018	\$ 5,740	\$ 4,792	\$ 1,407	\$ 2,626	\$	14,565
December 31, 2017	\$ 5,994	\$ 2,156	\$ 4,064	\$ 2,916	\$	15,130
September 24, 2017	\$ 5,589	\$ 2,307	\$ 3,834	\$ 3,166	\$	14,896

Recorded in the consolidated balance sheets as follows:

(in thousands of Canadian dollars)	September 30, 2018	December 31, 2017	September 24, 2017
Provisions - current	\$ 7,362	\$ 6,959	\$ 7,423
Provisions - long-term	7,203	8,171	7,473
	<u>\$ 14,565</u>	<u>\$ 15,130</u>	<u>\$ 14,896</u>

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Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 30, 2018 and September 24, 2017

18 Long-term debt

(in thousands of Canadian dollars)	September 30, 2018	December 31, 2017	September 24, 2017
Term credit facility - revolving	\$ 270,025	\$ 229,025	\$ 246,025
Term credit facility - non-revolving	150,000	150,000	150,000
The Keg credit facilities	22,000	-	-
Finance leases	26,767	27,496	22,936
	<u>468,792</u>	<u>406,521</u>	<u>418,961</u>
Less: Financing costs	1,646	1,905	2,069
	<u>\$ 467,146</u>	<u>\$ 404,616</u>	<u>\$ 416,892</u>

Recorded in the consolidated balance sheets as follows:

Current portion of long-term debt	\$ 157,144	\$ 2,916	\$ 2,517
Long-term portion of long-term debt	<u>310,002</u>	<u>401,700</u>	<u>414,375</u>
	<u>\$ 467,146</u>	<u>\$ 404,616</u>	<u>\$ 416,892</u>

Term credit facility

On September 2, 2016, the Company amended and extended the terms of its existing term credit facility. The fourth amended and restated term credit facility is comprised of a revolving credit facility in the amount of \$400.0 million with an accordion feature of up to \$50.0 million maturing on September 2, 2021 and a non-revolving term credit facility in the amount of \$150.0 million maturing on September 2, 2019. A maximum amount of \$26.3 million per year may be repayable on the term credit facility if certain covenant levels are exceeded by the Company. The Company is evaluating refinancing options available and expects to extend the term or refinance the \$150.0 million non-revolving credit facility in 2019.

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

As at September 30, 2018, \$420.0 million (December 31, 2017 - \$379.0 million; September 24, 2017 - \$396.0 million) was drawn under the amended and extended credit facilities with an effective interest rate of 3.71% representing bankers acceptance rate of 1.75% plus 1.83% borrowing spread, standby fees and the amortization of deferred financing fees of 0.13%.

The Company is required to pay a standby fee of between 0.25% to 0.60% per annum, on the unused portion of the credit facility, for the term of its credit facilities. The standby fee rate is based on the Company's total funded net DEBT to EBITDA ratio. As of September 30, 2018, the standby fee rate was 0.35%.

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As at September 30, 2018, the Company was in compliance with all covenants and has not exceeded any covenant levels requiring early repayments.

The Keg Credit Facilities

In connection with The Keg merger (note 26), the Company assumed a multi-option credit agreement with a 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. These facilities are comprised of a \$14.0 million reducing term facility, a \$35.0 million revolving facility for future restaurant expansion which is subject to annual repayment based on 25% of excess operating cash flow, and a revolving demand operating facility of up to \$3.0 million available for general corporate purposes, including working capital, overdrafts and letters of credit.

Excess operating cash flow is defined in the credit agreement as operating cash flow for the financial year plus extraordinary or non-recurring items and any net decrease in working capital less interest paid, debt principal repayments, unfunded capital expenditures, income taxes paid and any net increase in working capital. Operating cash flow is defined as the sum of net income for the financial year, adjusted for gains or losses from dispositions not in the ordinary course of business, extraordinary or non-recurring items and equity income or losses from subsidiaries plus interest expense, income tax expense and depreciation and amortization.

As at September 30, 2018, \$22.0 million of the revolving facility has been drawn and is due on the July 2, 2020 maturity date, and less than \$0.1 million of the revolving demand operating facility has been used to issue letters of credit.

On June 18, 2018, the Company renegotiated the terms of its credit agreement with its existing banking syndicate. The credit facilities now bear interest at a rate between bank prime plus 0.25% to bank prime plus 1.0% based on certain financial criteria. As at September 30, 2018, the Company meets the criteria for interest at bank prime plus 0.25%.

The above credit facilities are secured by a general security agreement and hypothecation over Keg Restaurants Ltd.'s ("KRL's") Canadian and US assets and a pledge of all equity interests in The Keg Rights Limited Partnership (the "Partnership").

Finance leases

Included in finance leases are obligations that bear interest at an average rate of 6.7% (December 31, 2017 - 6.8%; September 24, 2017 - 7.0%).

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The movement in long-term debt from December 31, 2017 to September 30, 2018 is as follows:

(in thousands of Canadian dollars)	<u>Term Credit facility</u>	<u>Keg credit facilities</u>	<u>Finance leases</u>	<u>Total</u>
Balance at December 31, 2017	\$ 379,025	\$ -	\$ 27,496	\$ 406,521
Less Financing costs	(1,905)	-	-	(1,905)
	<u>377,120</u>	<u>-</u>	<u>27,496</u>	<u>404,616</u>
Changes from financing cash flows				
Issuance of borrowings	104,000	-	-	104,000
Repayment of borrowings	(15,000)	-	-	(15,000)
Debt assumed on acquisition (note 26)	-	23,774	-	23,774
Payment of finance lease liabilities	-	-	(1,206)	(1,206)
Balance due to changes from financing cash flows as at April 1, 2018	\$ 466,120	\$ 23,774	\$ 26,290	\$ 516,184
Repayment of borrowings	(18,000)	(1,000)	-	(19,000)
Payment of finance lease liabilities	-	-	(1,195)	(1,195)
Balance due to changes from financing cash flows as at July 1, 2018	\$ 448,120	\$ 22,774	\$ 25,095	\$ 495,989
Repayment of borrowings	(30,000)	(774)	-	(30,774)
Payment of finance lease liabilities	-	-	(1,238)	(1,238)
Balance due to changes from financing cash flows as at September 30, 2018	\$ 418,120	\$ 22,000	\$ 23,857	\$ 463,977
Non-cash movements				
Adjustment to capitalized borrowing costs	421	(162)	-	259
New finance leases	-	-	1,490	1,490
Interest expense	-	-	1,420	1,420
Balance at September 30, 2018	<u>\$ 418,541</u>	<u>\$ 21,838</u>	<u>\$ 26,767</u>	<u>\$ 467,146</u>

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The movement in long-term debt from December 25, 2016 to September 24, 2017 is as follows:

(in thousands of Canadian dollars)	<u>Term Credit facility</u>	<u>Finance leases</u>	<u>Total</u>
Balance at December 25, 2016	\$ 392,000	\$ 23,693	\$ 415,693
Less Financing costs	(2,547)	-	(2,547)
	389,453	23,693	413,146
Changes from financing cash flows			
Repayment of borrowings	(32,000)	-	(32,000)
Payment of finance lease liabilities	-	(1,180)	(1,180)
Total changes from financing cash flows as at March 26, 2017	357,453	22,513	379,966
Issuance of borrowings	17,250	-	17,250
Payment of finance lease liabilities	-	(1,076)	(1,076)
Total changes from financing cash flows as at June 25, 2017	374,703	21,437	396,140
Issuance of borrowings	18,775	-	18,775
Payment of finance lease liabilities	-	(1,056)	(1,056)
Total changes from financing cash flows as at September 24, 2017	393,478	20,381	413,859
Non-cash movements			
New finance leases	-	1,190	1,190
Adjustment to capitalized borrowing costs	(17)	-	(17)
Interest expense	166	502	668
Balance at March 26, 2017	\$ 393,627	\$ 22,073	\$ 415,700
Interest expense	164	433	597
Balance at June 25, 2017	\$ 393,791	\$ 22,506	\$ 416,297
Interest expense	165	430	595
Balance at September 24, 2017	\$ 393,956	\$ 22,936	\$ 416,892

19 Other long-term liabilities

(in thousands of Canadian dollars)	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 24, 2017</u>
Accrued pension and other benefit plans	\$ 23,208	\$ 23,653	\$ 21,873
Non-controlling interest liability	21,511	19,511	19,511
Contingent liability (note 26)	17,000	-	-
Deferred income	8,569	10,860	10,779
Deferred rental income	7,591	9,375	9,936
Accrued rent expense	7,020	5,100	4,730
Other long-term liabilities	7,732	2,324	2,990
Deferred share units	1,164	720	516
Restructuring	-	65	3,991
	\$ 93,795	\$ 71,608	\$ 74,326

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Recorded in the consolidated balance sheets as follows:

(in thousands of Canadian dollars)	September 30, 2018	December 31, 2017	September 24, 2017
Accounts payable and accrued liabilities	\$ 3,447	\$ 3,766	\$ 7,414
Other long-term liabilities	90,348	67,842	66,912
	<u>\$ 93,795</u>	<u>\$ 71,608</u>	<u>\$ 74,326</u>

Accrued pension and other benefit plans

The Company sponsors 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.

For the 13 and 39 weeks ended September 30, 2018, the Company recorded expenses of \$0.2 million and \$0.6 million (13 and 39 weeks ended September 24, 2017 - \$0.2 million and \$0.6 million) related to pension benefits.

Deferred income

Unearned franchise and conversion fee income

At September 30, 2018, the Company had deferred \$4.2 million (December 31, 2017 - \$5.6 million; September 24, 2017 - \$5.8 million) of initial franchise fees and conversion fees received from franchisees that will be recognized over the remaining term of the respective franchise agreements.

Sale-leaseback transactions

At September 30, 2018, the Company had deferred \$3.0 million (December 31, 2017 - \$3.5 million; September 24, 2017 - \$3.7 million) related to gains realized on sale-leaseback transactions.

Deferred rental income

In prior years, the Company converted certain corporate restaurants to franchise and sold the restaurants to independent operators ("franchisees"). As part of these conversion agreements, certain franchisees entered into rental agreements to rent certain restaurant assets from the Company. The \$7.6 million (December 31, 2017 - \$9.4 million; September 24, 2017 - \$9.9 million) represents the unearned revenue associated with the rental agreements calculated as the present value of the minimum lease payments using an interest rate implicit in the rental agreement.

Deferred share units ("DSU")

The non-employee board members receive DSUs as compensation for their participation on the board. These DSUs are settled for cash when members cease to participate on the board of directors. For the 13 and 39 weeks ended September 30, 2018, the Company recognized an expense of \$0.2 million and \$0.5 million (13 and 39 weeks ended September 24, 2017 - \$0.1 million and \$0.3 million) and a liability was recorded as part of Other

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For the 13 and 39 weeks ended September 30, 2018 and September 24, 2017

Long-Term Liabilities in the amount of \$1.2 million as at September 30, 2018 (December 31, 2017 - \$0.7 million; September 24, 2017 - \$0.5 million).

20 Long-term incentive plans

Under the various stock option plans, the Company may grant options to buy up to 15% of its total Subordinate and Multiple Voting Shares outstanding, a total of 9.4 million shares, a guideline the Company has set on the number of stock option grants. As at September 30, 2018, approximately 7.4 million stock options were granted and outstanding.

Stock options outstanding as at September 30, 2018 have a term of up to eight years from the initial grant date. Each stock option is exercisable into one Subordinate Voting Share at the price specified in the terms of the option agreement. There were no accelerated vesting features upon the initial public offering under any of the plans described below.

The following table summarizes the options granted:

	For the 13 and 39 weeks ended September 30, 2018					
	CEO stock option plan		Employee stock option plan		Total	
	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share
Outstanding options, December 31, 2017	2,449,355	\$ 8.74	1,680,071	\$ 17.06	4,129,426	\$ 12.12
Exercised	-	\$ -	(16,270)	\$ 8.51	(16,270)	\$ 8.51
Forfeited	-	\$ -	(32,181)	\$ 23.06	(32,181)	\$ 23.06
Outstanding options, April 1, 2018	2,449,355	\$ 8.74	1,631,620	\$ 17.02	4,080,975	\$ 12.05
Granted	450,000	\$ 27.24	3,150,000	\$ 34.63	3,600,000	\$ 33.71
Forfeited	-	\$ -	(2,080)	\$ 25.51	(2,080)	\$ 25.51
Outstanding options, July 1, 2018	2,899,355	\$ 11.61	4,779,540	\$ 28.62	7,678,895	\$ 22.20
Exercised	-	\$ -	(215,054)	\$ 8.51	(215,054)	\$ 8.51
Forfeited	-	\$ -	(56,318)	\$ 26.63	(56,318)	\$ 26.63
Outstanding options, end of period	2,899,355	\$ 11.61	4,508,168	\$ 29.61	7,407,523	\$ 22.56
Options exercisable, end of period	2,419,355	\$ 8.51	241,935	\$ 8.51	2,661,290	\$ 8.51

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	For the 13 and 39 weeks ended September 24, 2017								
	CEO stock option plan			Employee stock option plan			Total		
	Options (number of shares)	Weighted average exercise price/share		Options (number of shares)	Weighted average exercise price/share		Options (number of shares)	Weighted average exercise price/share	
Outstanding options, December 25, 2016	2,429,355	\$ 8.61		1,374,397	\$ 14.70		3,803,752	\$ 10.81	
Granted	20,000	\$ 24.64		491,577	\$ 24.64		511,577	\$ 24.64	
Forfeited	-	\$ -		(52,234)	\$ 15.27		(52,234)	\$ 15.27	
Exercised	-	\$ -		(13,920)	\$ 8.51		(13,920)	\$ 8.51	
Outstanding options, March 26, 2017	2,449,355	\$ 8.74		1,799,820	\$ 17.44		4,249,175	\$ 12.44	
Granted	-	\$ -		1,678	\$ 25.90		1,678	\$ 25.90	
Outstanding options, July 1, 2017	2,449,355	\$ 8.74		1,801,498	\$ 17.44		4,250,853	\$ 12.44	
Forfeited	-	\$ -		(34,019)	\$ 19.18		(34,019)	\$ 19.18	
Outstanding options, end of period	2,449,355	\$ 8.74		1,767,479	\$ 17.41		4,216,834	\$ 12.39	
Options exercisable, end of period	2,419,355	\$ 8.51		241,935	\$ 8.51		2,661,290	\$ 8.51	

CEO stock option plan

Under the CEO Stock Option Plan (“CEO Plan”), the Company’s CEO was granted the right to purchase Subordinate Voting Shares of the Company. The options vest pro-rata each year and expire after eight years. The settlement of the option can only be into the common share equity of the Company.

During the 13 and 39 weeks ended September 30, 2018, nil and 150,000 stock options at an exercise price of \$27.39 were granted under the CEO Plan to the Executive Chair of the Board and the former CEO, Bill Gregson (13 and 39 weeks ended June 25 2017 – nil and 20,000 stock options at an exercise price of \$24.64) and nil and 300,000 stock options at an exercise price of \$27.17 were granted to the current CEO, Frank Hennessey. These options vest over five years and expire after ten years.

During the 13 and 39 weeks ended September 30, 2018 and September 24, 2017, no options were exercised.

For the 13 and 39 weeks ended September 30, 2018, the Company recognized stock-based compensation costs of \$0.4 million and \$0.6 million (13 and 39 weeks ended September 24, 2017 - \$15 thousand and \$46 thousand, respectively) related to the CEO Plan with a corresponding increase to contributed surplus.

Employee stock option plan

Under the Employee Stock Option Plan (“Employee Plan”), the Company granted options in accordance with certain terms of the CFO employment agreement to purchase Subordinate Voting Shares of the Company which vested on the third anniversary of the grant date (October 31, 2016). Vested options can be exercised upon the earlier of an initial public offering of the Company and the fifth anniversary of the grant date (October 31, 2018). During the 13 and 39 weeks ended September 30, 2018 the CFO was granted nil and 150,000 stock options at an exercise price of \$27.39, with a 5 year vesting period and expire after ten years. The CFO now has 448,377 options at a weighted average exercise price of \$16.08.

During the 13 and 39 weeks ended September 30, 2018, in connection with his appointment to the board, Mr. David Aisenstat was granted nil and 3,000,000 stock options at an exercise price of \$35.00. These stock options vest upon the achievement of specific Company performance measures and expire after 8 years.

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For the 13 and 39 weeks ended September 30, 2018 and September 24, 2017

Under the Employee Plan, the Company also granted options to various members of the Company's management team to purchase Subordinate Voting Shares of the Company. These options vest over a three year period and may not be exercised until January 1, 2019. The options expire after eight years. During the 13 and 39 weeks ended September 30, 2018, no options were granted (13 and 39 weeks ended September 24, 2017 – nil and 493,255 stock options, respectively, at a weighted average exercise price of \$24.65). As at September 30, 2018 the Company's management team has 1,059,791 at an average exercise price of \$20.08.

During the 13 and 39 weeks ended September 30, 2018, 215,054 and 231,324 stock options with an exercise price of \$8.51 were exercised, respectively (13 and 39 weeks ended September 24, 2017 – nil and 13,920 stock options with an exercise price of \$8.51).

During the 13 and 39 weeks ended September 30, 2018, 56,318 and 90,574 stock options with a weighted average exercise price of \$26.63 and \$25.33, respectively were forfeited (13 and 39 weeks ended September 24, 2017 – 34,019 and 86,253 stock options with a weighted average exercise price of \$19.18 and \$16.81, respectively).

For the 13 and 39 weeks ended September 30, 2018, the Company recognized stock-based compensation cost of \$1.1 million and \$2.5 million, respectively (13 and 39 weeks ended September 24, 2017 - \$0.5 million and \$1.8 million, respectively) related to the Employee Plan with a corresponding increase to contributed surplus.

Restricted share units (“RSU”)

During the 13 and 39 weeks ended September 30, 2018, nil and 225,000 RSUs were granted to certain key employees in connection with new long-term employment agreements. These RSUs vest over 3 or 4 years and will be settled for subordinate voting shares. For the 13 and 39 weeks ended September 30, 2018, the Company recognized an expense of \$0.4 million and \$0.7 million (13 and 39 weeks ended September 24, 2017- \$nil).

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For the 13 and 39 weeks ended September 30, 2018 and September 24, 2017

21 Share capital

The Company's authorized share capital consists of an unlimited number of two classes of issued and outstanding shares: Subordinate Voting Shares and Multiple Voting Shares, and together with the Subordinate Voting Shares (the "Shares"). The Multiple Voting Shares are held by the Principal Shareholders, either directly or indirectly. Multiple Voting Shares may only be issued to the Principal Shareholders. The Subordinate Voting Shares and the Multiple Voting Shares are substantially identical with the exception of the voting, pre-emptive and conversion rights attached to the Multiple Voting Shares. Each Subordinate Voting Share is entitled to one vote and each Multiple Voting Share is entitled to 25 votes on all matters. The Multiple Voting Shares are convertible into Subordinate Voting Shares on a one-for-one basis at any time at the option of the holders thereof and automatically in certain other circumstances. The holders of Subordinate Voting Shares benefit from "coattail" provisions that give them certain rights in the event of a take-over bid for the Multiple Voting Shares.

Holders of Multiple Voting Shares and Subordinate Voting Shares will be entitled to receive dividends out of the assets of the Company legally available for the payment of dividends at such times and in such amount and form as the Board may determine. The Company will pay dividends thereon on a pari passu basis, if, as and when declared by the Board.

On June 20, 2018, the Company announced its notice of intention to make a normal course issuer bid ("NCIB") for its Subordinate Voting Shares. The Company may purchase up to 1,907,816 Subordinate Voting Shares during the period from June 22, 2018 to June 22, 2019. Purchases of the Subordinate Voting Shares are made at market prices and any Subordinate Voting Shares purchased through the NCIB will be cancelled. During the 13 and 39 weeks ended September 30, 2018, the Company purchased and cancelled 27,700 and 66,147 Subordinate Voting Shares for \$0.7 million and \$1.7 million, respectively (53 weeks ended December 31, 2017 - 1,468,006 Subordinate Voting Shares for \$33.9 million, 39 weeks ended September 24, 2017 - 1,251,069 Subordinate Voting Shares for \$28.6 million).

On December 1, 2017 the Company issued 30,290 subordinate voting shares in connection with the Pickle Barrel transaction.

On February 22, 2018 the Company issued 3,801,284 subordinate voting shares in connection with the Keg merger.

As at September 30, 2018, there were 34,396,284 Multiple Voting Shares and 27,927,923 Subordinate Voting Shares issued and outstanding.

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The following table provides a summary of changes to the Company's share capital:

	Number of Common Shares (in thousands)			Share Capital (in thousands of dollars)		
	Multiple voting common shares	Subordinate voting common shares	Total Common Shares	Multiple voting common shares	Subordinate voting common shares	Total Share Capital
Balance at December 25, 2016	34,396	25,586	59,982	\$ 192,548	\$ 531,176	\$ 723,724
Shares issued under stock option plan (note 20)	-	28	28	-	351	351
Share re-purchase	-	(1,468)	(1,468)	-	(33,857)	(33,857)
Shares issued as part of Pickle Barrel transaction	-	30	30	-	750	750
Balance at December 31, 2017	34,396	24,176	58,572	\$ 192,548	\$ 498,420	\$ 690,968
Shares issued under stock option plan (note 20)	-	17	17	-	173	173
Share re-purchase	-	(27)	(27)	-	(654)	(654)
Shares issued as part of Keg merger	-	3,801	3,801	-	94,728	94,728
Balance at April 1, 2018	34,396	27,967	62,363	\$ 192,548	\$ 592,667	\$ 785,215
Share re-purchase	-	(11)	(11)	-	(300)	(300)
Balance at July 1, 2018	34,396	27,956	62,352	\$ 192,548	\$ 592,367	\$ 784,915
Share re-purchase	-	(28)	(28)	-	(746)	(746)
Balance at September 30, 2018	34,396	27,928	62,324	\$ 192,548	\$ 591,621	\$ 784,169

	Number of Common Shares (in thousands)			Share Capital (in thousands of dollars)		
	Multiple voting common shares	Subordinate voting common shares	Total Common Shares	Multiple voting common shares	Subordinate voting common shares	Total Share Capital
Balance at December 27, 2015	34,396	14,767	49,163	\$ 192,548	\$ 245,453	\$ 438,001
Subscription receipts, net of costs, exchanged for shares	-	7,863	7,863	-	223,674	223,674
Shares issued as part of St-Hubert transaction	-	1,788	1,788	-	53,891	53,891
Shares issued under dividend reinvestment plan	-	7	7	-	227	227
Shares issued under stock option plan	-	1,161	1,161	-	7,931	7,931
Balance at December 25, 2016	34,396	25,586	59,982	\$ 192,548	\$ 531,176	\$ 723,724
Shares issued under stock option plan (note 20)	-	14	14	-	146	146
Balance at March 26, 2017	34,396	25,600	59,996	\$ 192,548	\$ 531,322	\$ 723,870
Share re-purchase	-	(23)	(23)	-	(546)	(546)
Balance at June 25, 2017	34,396	25,577	59,973	192,548	530,776	723,324
Share re-purchase	-	(1,228)	(1,228)	-	(28,038)	(28,038)
Balance at September 24, 2017	34,396	24,349	58,745	192,548	502,738	695,286

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22 Earnings per share

Basic earnings per share amounts are calculated by dividing the net earnings attributable to common shareholders of the Company by the weighted average number of shares issued during the period. Diluted earnings per share amounts are calculated by dividing the net earnings attributable to common shareholders of the Company by the weighted average number of shares issued during the period.

The following table sets forth the calculation of basic and diluted earnings per share (“EPS”) attributable to Common Shareholders:

<u>13 weeks ended September 30, 2018</u>				<u>13 weeks ended September 24, 2017</u>			
	<u>Net earnings attributable to shareholders of the Company</u>	<u>Weighted average number of shares</u>	<u>EPS</u>		<u>Net earnings attributable to shareholders of the Company</u>	<u>Weighted average number of shares</u>	<u>EPS</u>
Basic	\$ 23,617	62,334	\$ 0.38	\$	20,974	59,608	\$ 0.35
Diluted	\$ 23,617	64,643	\$ 0.37	\$	20,974	61,840	\$ 0.34

<u>39 weeks ended September 30, 2018</u>				<u>39 weeks ended September 24, 2017</u>			
	<u>Net earnings attributable to shareholders of the Company</u>	<u>Weighted average number of shares</u>	<u>EPS</u>		<u>Net earnings attributable to shareholders of the Company</u>	<u>Weighted average number of shares</u>	<u>EPS</u>
Basic	\$ 64,766	61,638	\$ 1.05	\$	82,349	59,863	\$ 1.38
Diluted	\$ 64,766	63,858	\$ 1.01	\$	82,349	62,113	\$ 1.33

The weighted average number of shares used in the calculation of basic and diluted earnings per share (“EPS”):

	<u>For the 13 weeks ended</u>		<u>For the 39 weeks ended</u>	
	<u>September 30, 2018</u>	<u>September 24, 2017</u>	<u>September 30, 2018</u>	<u>September 24, 2017</u>
Common shares	62,333,643	59,607,811	61,637,928	59,862,535
Effect of stock options issued ⁽¹⁾	2,309,592	2,232,214	2,219,754	2,250,754
	64,643,235	61,840,025	63,857,682	62,113,289

⁽¹⁾ 3,393,913 and 3,694,490 shares have been excluded from the 13 and 39 weeks ended September 30, 2018 because they are anti-dilutive (13 and 26 weeks ended September 24, 2017 - 844,268 options)

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23 Cash flows

The changes in non-cash working capital components, net of the effects of acquisitions and discontinued operations, are as follows:

(in thousands of Canadian dollars)	For the 13 weeks ended		For the 39 weeks ended	
	September 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
Accounts receivable	\$ 8,220	\$ (4,372)	2,658	\$ 15,124
Inventories	452	(388)	(7,006)	(2,313)
Income taxes (recoverable) payable	1,086	(939)	(743)	(730)
Prepaid expenses and other assets	7,605	466	1,800	(1,767)
Accounts payable and accrued liabilities	(11,809)	(2,543)	(9,575)	(1,725)
Gift card liability	(9,053)	(3,255)	(42,389)	(33,728)
Income taxes paid	1,732	3,250	9,077	6,604
Change in interest payable	5,247	(669)	4,703	(2,080)
Net change in non-cash operating working capital	\$ <u>3,480</u>	\$ <u>(8,450)</u>	<u>(41,475)</u>	\$ <u>(20,615)</u>

24 Commitments, contingencies and guarantees

The Company is involved in and potentially subject to various claims by third parties arising out of the normal course and conduct of its business including, but not limited to, labour and employment, regulatory, franchisee related and environmental claims. In addition, the Company is involved in and potentially subject to regular audits from federal and provincial tax authorities relating to income, commodity and capital taxes and as a result of these audits may receive assessments and reassessments.

Although such matters cannot be predicted with certainty, management currently considers the Company's exposure to such claims and litigation, to the extent not covered by the Company's insurance policies or otherwise provided for, not to be material to these consolidated financial statements.

The Company has outstanding letters of credit amounting to \$0.6 million (December 31, 2017 - \$0.6 million; September 24, 2017 - \$0.6 million) primarily for various utility companies that provide services to corporate owned or franchised locations and support for certain franchisees' external financing used to fund their initial franchise fees and conversion fees, if applicable, payable to the Company. The probability of the letters of credit being drawn as a result of default by a franchisee is low.

Indemnification provisions

In addition to the above guarantees, the Company has also provided and the Company receives customary indemnifications in the normal course of business and in connection with business dispositions and acquisitions. These indemnifications include items relating to taxation, litigation or claims that may be suffered by a

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counterparty as a consequence of the transaction. Until such times as events take place and/or claims are made under these provisions, it is not possible to reasonably determine the amount of liability under these arrangements. Historically, the Company has not made significant payments relating to these types of indemnifications.

25 Financial instruments and risk management

Market risk

Market risk is the loss that may arise from changes in factors such as interest rate, commodity prices and the impact these factors may have on other counterparties.

Interest rate risk

The Company is exposed to interest rate risk from the issuance of variable rate long-term debt. To manage the exposure, the Company closely monitors market conditions for potential changes in interest rates and may enter into interest rate derivatives from time to time.

Commodity price risk

The Company is exposed to increases in the prices of commodities in operating its corporate restaurants and food manufacturing and distribution division. To manage this exposure, the Company uses purchase arrangements for a portion of its needs for certain consumer products that may be commodities based.

Liquidity and capital availability risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price.

Should the Company's financial performance and condition deteriorate, the Company's ability to obtain funding from external sources may be restricted. In addition, credit and capital markets are subject to inherent global risks that may negatively affect the Company's access and ability to fund its long-term debt as it matures. The Company mitigates these risks by maintaining appropriate availability under the credit facilities and varying maturity dates of long-term obligations and by actively monitoring market conditions.

Credit risk

Credit risk refers to the risk of losses due to failure of the Company's customers or other counterparties to meet their payment obligations.

In the normal course of business, the Company is exposed to credit risk from its customers, primarily franchisees, joint ventures, and retail customers of the Company's food manufacturing operations. The Company performs ongoing credit evaluations of new and existing customers', primarily franchisees, financial condition and reviews the collectability of its trade and long-term accounts receivable in order to mitigate any possible credit losses.

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Under IFRS 9, credit risk assessment now requires impairment to be recognized on financial assets. For accounts receivables, lifetime expected credit losses are recognized in the statement of earnings for assets that have increases in credit risk after initial recognition.

The following is an aging of the Company's accounts receivable, net of the allowance for uncollectible accounts, as at September 30, 2018, December 31, 2017, and September 24, 2017:

(in thousands of Canadian dollars)

	September 30, 2018			
	Current	> 30 days past due	> 60 days past due	Total
Accounts receivable (net of allowance)	\$ 55,741	\$ 6,803	\$ 5,359	\$ 67,903
Balances at December 31, 2017	\$ 49,363	\$ 6,976	\$ 4,652	\$ 60,991
Balances at September 24, 2017	\$ 60,916	\$ 5,403	\$ 2,164	\$ 68,483

As at September 30, 2018, the Company had recorded a provision for uncollectible accounts in the amount of \$15.6 million (December 31, 2017 - \$11.9 million; September 24, 2017 - \$12.0 million) to cover any credit risk related to the receivable balances past due.

Fair value of financial instruments

The different levels used to determine fair values have been defined as follows:

- Level 1 - inputs use quoted prices (unadjusted) in active markets for identical financial assets or financial liabilities that the Company has the ability to access.
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the financial asset or financial liability, either directly or indirectly. Level 2 inputs include quoted prices for similar financial assets and financial liabilities in active markets, and inputs other than quoted prices that are observable for the financial assets or financial liabilities.
- Level 3 - inputs are unobservable inputs for the financial asset or financial liability and include situations where there is little, if any, market activity for the financial asset or financial liability.

The following describes the fair value determinations of financial instruments:

Long-term debt

Fair value (Level 2) is based on the Company's current incremental borrowing rate for similar types of borrowing arrangements. The carrying amount of the debt associated with the Company's current financing would approximate its fair value as at September 30, 2018.

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Other financial instruments

Other financial instruments of the Company consist of cash, accounts receivable, franchise receivables, due from related parties, and accounts payable and accrued liabilities. The carrying amount for these financial instruments approximates fair value due to the short term maturity of these instruments and/or the use of at market interest rates.

Some amounts due from related parties relate to loans provided by the Company to its joint ventures for business purposes. These assets are classified at fair value through the statement of earnings under IFRS 9. The Company's collection of the loan principal is contingent on the financial performance of the joint venture and are classified as level 3 financial instruments.

The Class C unit investment in the Partnership is measured at amortized cost. The Exchangeable unit investment in the Partnership is measured at fair value through profit or loss. Investment of ten common shares in The Keg G.P. Ltd. ("KGP") and one general partnership unit in the Partnership are measured at amortized cost.

26 Related parties

Shareholders

As at September 30, 2018, the Principal Shareholders hold 66.8% of the total issued and outstanding shares and have 97.7% of the voting control attached to all the shares. Cara Holdings holds 23.3% of the total issued and outstanding shares, representing 40.8% voting control. Fairfax holds 43.5% of the total issued and outstanding shares, representing 56.9% voting control.

On February 22, 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.

During the 13 and 39 weeks ended September 30, 2018, the Company paid a dividend of \$0.1068 and \$0.3204 per share, respectively, on issued and outstanding Subordinate and Multiple Voting Shares of which Fairfax and Cara Holdings received \$8.7 million and \$4.6 million, respectively.

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 September 30, 2018, no payments were outstanding.

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

The Keg

On February 22, 2018 (the "Keg Acquisition Date"), the Company completed the merger with the Keg Restaurants Limited ("The Keg") for approximately \$200.0 million comprised of \$105.0 million in cash and 3,801,284 Cara subordinate voting shares at the exchange amount. 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

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within the first three fiscal years following closing. The cash portion of the purchase price was settled by drawing on its existing credit facility.

The Company has elected not to account for the merger as a business combination under IFRS 3 Business Combinations, as the transaction represents a combination of entities under common control of Fairfax. Accordingly, the combination was recorded on a book value basis with the following balances as at February 22, 2018:

	February 22, 2018
Consideration	
Cash paid to vendor	\$ 105,000
Cara subordinated voting shares issued	94,728
Contingent liability	17,000
Total consideration	\$ 216,728
Assets	
Cash	\$ 33,247
Accounts receivable	9,912
Inventories	5,973
Prepaid expenses and other assets	2,085
Total Current Assets	51,217
Long-term receivables	750
Property, plant and equipment	89,629
Investment in The Keg Rights Ltd. Partnership	128,494
Brands and other assets	4,443
Deferred income tax asset	24,668
Total Assets	\$ 299,201
Liabilities	
Accounts payable and accrued liabilities	\$ 31,274
Gift cards liability	79,049
Current portion of long-term debt	4,000
Total current liabilities	\$ 114,323
Other long-term liabilities	5,813
Long-term debt	19,775
Note payable to The Keg Royalties Income Fund	57,000
Deferred gain on sale of Keg Rights	135,614
Total liabilities	\$ 332,525
Equity	\$ (33,324)
Total liabilities and equity	\$ 299,201

A merger reserve equal to total consideration of \$216.7 million has been recorded on the balance sheet. The results from The Keg are included in the statement of earnings from The Keg acquisition date.

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Investment in The Keg Partnership

The Company's equity investment in the Partnership is represented by the investment in 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").

(in thousands of Canadian dollars)	<u># of units</u>	<u>Fair Value</u>
Class A Partnership units	905,944 \$	16,071
Class B Partnership units	176,700	3,135
Class C Partnership units	2,947,424	52,287
Exchangeable unit investment in the Partnership	4,030,068 \$	71,493
Class C unit investment in the Partnership	5,700,000	57,000
	<u>9,730,068 \$</u>	<u>128,493</u>

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 September 30, 2018 was \$17.74.

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 September 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

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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 units in the condensed consolidated interim statement of earnings and comprehensive income.

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 Initial Public Offering (“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 The Keg Royalties Income Fund (“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 (note 18). 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 units in the condensed consolidated interim statement of earnings and comprehensive income.

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 31st of each year when the actual full year performance of the new restaurants is known with certainty.

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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 September 30, 2018, long-term receivables include a non-interest bearing employee demand note in the amount \$0.8 million (December 31, 2017 - \$nil, September 24, 2017 - \$nil).

As at September 30, 2018, the Company has a \$2.5 million royalty fee payable, including GST, to the Fund (December 31, 2017 - \$nil, September 24, 2017 - \$nil) and a \$0.4 million interest payable amount due to the Fund on the Keg Loan (December 31, 2017 - \$nil, September 24, 2017 - \$nil) included in accounts payable and accrued liabilities.

As at September 30, 2018, the Company has \$1.0 million in distributions receivable from the Partnership (December 31, 2017 - \$nil, September 24, 2017 - \$nil) 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 39 weeks ended September 30, 2018, Keg Restaurants Ltd. ("KRL") earned \$0.1 million and \$0.2 million for these services (13 and 39 weeks ended September 24, 2017 - \$nil), 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 \$6.4 million and \$14.8 million for the 13 and 39 weeks ended September 30, 2018 (13 and 39 weeks ended September 24, 2017 - \$nil).

The Company also records investment income on its investment in Exchangeable and Class C units of the Partnership, which is presented as interest income on Partnership units in the condensed consolidated interim statements of earnings and comprehensive income. During the 13 and 39 weeks ended September 30, 2018, the Company recorded investment income of \$2.7 million and \$6.3 million related to these units (13 and 39 weeks ended September 24, 2017 - \$nil).

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 September 30, 2018 there was a due from related party balance of \$8.4 million (December 31, 2017 - \$12.2 million; September 24, 2017 - \$13.1 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, 2019. The term loans are reviewed and renewed on an annual basis. The expected current portion of these loans is \$2.2 million (December 31, 2017 - \$2.2 million; September 24, 2017 - \$2.4 million). The demand loans bear interest at 5% and have no specific terms of repayment. During the 13 and 39 weeks ended September 30, 2018, the Company sold its ownership interest in 8 joint venture restaurants and received \$6.2 million in cash of which

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\$4.8 million was applied to settle the outstanding term loans and demand loans. 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. Management determines the fair value of these loans based on expected cash flows from the restaurant at a discount rate of 15%. For the 13 and 39 weeks ended September 30, 2018, the Company charged interest in the amount of \$0.1 million and \$0.5 million (13 and 39 weeks ended September 24, 2017 - \$0.2 million and \$0.8 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 September 30, 2018 the accounts receivable balance included \$0.1 million (December 31, 2017 - \$0.4 million; September 24, 2017 - \$0.1 million) due from related parties in relation to these royalty and marketing payments. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties in accordance with the franchise agreement.

The Company's investment in joint ventures and associates are increased by the proportionate share of income earned. For the 13 and 39 weeks ended September 30, 2018, a \$0.1 million and \$0.5 million increase (13 and 39 weeks ended September 24, 2017 - \$0.1 decrease and \$0.2 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 associates and joint ventures on the condensed consolidated interim statement of earnings.

Investment in Burger's Priest joint venture

On June 1, 2017, the Company completed the investment in a joint venture in New & Old Kings and Priests Restaurants Inc. ("Burger's Priest") for cash consideration of \$14.7 million. Burger's Priest owns and operates 14 fast casual restaurants in Ontario and Alberta. The Company has a 79.4% ownership interest in the joint venture 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. The transaction is considered a joint venture arrangement as 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 39 weeks ended September 30, 2018, a \$0.1 and \$0.2 million increase (13 and 39 weeks ended September 24, 2017 - \$0.1 million) to the investment balance was recorded in relation to the Company's proportionate share of income for the period and included in share of income from investment in joint ventures on the condensed consolidated interim statement of earnings.

Investment in restaurant joint venture

The Company has an investment in a joint venture to operate two restaurants with a third party. As at September 30, 2018, the Company has invested \$3.8 million, recorded in long-term receivables. The loan receivable is unsecured, non-interest bearing and does not have defined repayment terms. The Company and the third party each have a 50% ownership interest in the joint venture. The transaction is considered a joint venture arrangement as 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.

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The Company's investment is increased by the proportionate share of income earned. For the 13 and 39 weeks ended September 30, 2018, a \$0.6 million and \$1.3 million decrease (13 and 39 weeks ended September 24, 2017 - \$0.1 million) to the long term receivable 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 condensed consolidated interim 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. 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 39 weeks ended September 30, 2018, a \$0.1 million decrease and \$nil, respectively (13 and 39 weeks ended September 24, 2017 - \$nil) 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 condensed consolidated interim statement of earnings.

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

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.

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27 Segmented information

Recipe divides its operations into the following four business segments: corporate restaurants, franchise restaurants, food processing and distribution 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 the 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 restaurant sales. Recipe provides financial assistance to certain franchisees and the franchise royalty income reported is net of any assistance being provided.

Food processing and distribution represent sales of St-Hubert and The Keg branded 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.

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; and income generated from the lease of buildings and certain equipment to franchisees as well as the collection of new franchise and franchise renewal fees. Central operations also include 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, the Executive Chair of the Board, and the CFO are the chief operating decision makers and they regularly review the operations and performance by segment. The CEO, Executive Chair of the Board, 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.

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(in thousands of Canadian dollars)	For the 13 weeks ended		For the 39 weeks ended	
	September 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
Gross revenue				
Sales	\$ 199,033	\$ 111,179	\$ 548,750	\$ 313,306
Proportionate share of equity accounted joint venture sales	(9,330)	(9,517)	(29,016)	(20,814)
Sales at corporate restaurants	189,703	101,662	519,734	292,492
Franchise revenues	27,662	22,936	79,148	67,565
Proportionate share of equity accounted joint venture royalty revenue	951	297	898	861
Royalty revenue	28,613	23,233	80,046	68,426
Food processing and distribution	67,660	57,774	194,941	170,009
Central	7,248	5,754	21,976	18,083
Non-allocated revenue	19,183	259	54,560	763
	<u>\$ 312,407</u>	<u>\$ 188,682</u>	<u>\$ 871,257</u>	<u>\$ 549,773</u>
Operating income				
Corporate	\$ 11,794	\$ 7,955	\$ 33,051	\$ 19,577
Franchise	25,671	20,030	72,750	60,335
Food processing and distribution	1,923	219	1,542	798
Central	59	6,880	2,967	14,940
Proportionate share equity accounted joint venture results included in corporate and franchise segment	358	(722)	1,647	(1,954)
Non-allocated costs	(4,016)	(622)	(11,172)	(5,322)
	<u>\$ 35,789</u>	<u>\$ 33,740</u>	<u>\$ 100,785</u>	<u>\$ 88,374</u>
Depreciation and amortization				
Corporate	\$ 8,708	\$ 3,797	\$ 23,844	\$ 10,592
Franchise	-	-	-	-
Food processing and distribution	2,440	3,201	8,253	7,908
Central	1,491	5,891	10,980	18,312
	<u>\$ 12,639</u>	<u>\$ 12,889</u>	<u>\$ 43,077</u>	<u>\$ 36,812</u>
Capital expenditures				
Corporate	\$ 4,787	\$ 12,777	\$ 15,345	\$ 37,890
Franchise	-	-	-	-
Food processing and distribution	2,487	345	3,890	1,019
Central	3,587	(132)	9,906	5,497
	<u>10,861</u>	<u>12,990</u>	<u>29,141</u>	<u>44,406</u>

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28 Subsequent Event

On November 8, 2018, the Company's Board of Directors declared a dividend of \$0.1068 per share of subordinate and multiple voting common stock. Payment of the dividend will be made on December 14, 2018 to shareholders of record at the close of business on November 30, 2018.