RECIPE UNLIMITED CORPORATION
(formerly Cara Operations Limited)
Management's Discussion and Analysis
For the 13 and 39 weeks ended September 30, 2018

The following Management's Discussion and Analysis ("MD&A") for Recipe Unlimited Corporation ("Recipe" or the "Company") provides information concerning the Company's financial condition and results of operations for the 13 and 39 weeks ended September 30, 2018 ("third quarter", "Q3", "the quarter" or "the period"). This MD&A should be read in conjunction with the Company's unaudited Condensed Consolidated Interim Financial Statements ("interim financial statements") and accompanying notes as at September 30, 2018. The consolidated results from operations for the 13 and 39 weeks ended September 30, 2018 are compared to the 13 and 39 weeks ended September 24, 2017. Recipe's fiscal year ends on the last Sunday in December.

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

This MD&A was prepared as at November 8, 2018. Additional information relating to the Company can be found on SEDAR at www.sedar.com.

Basis of Presentation

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

Highlights for the 13 and 39 weeks ended September 30, 2018:

- System Sales[1] grew $195.1 million to $879.8 million for the 13 weeks ended September 30, 2018 compared to 2017, representing an increase of 28.5%. For the 39 weeks ended September 30, 2018, System Sales[1] grew $505.4 million to $2,510.0 million compared to the same period in 2017, representing an increase of 25.2%. The increase in System Sales is primarily related to same restaurant sales increases, the additions of Pickle Barrel in December 2017 and The Keg in February 2018.

- Same Restaurant Sales ("SRS") Growth[1] for the 13 and 39 weeks ended September 30, 2018 was an increase of 1.8% and 1.9% compared to the same 13 and 39 weeks in 2017. This SRS increase represents the fifth consecutive positive SRS quarter. At the end of Q3 on September 28, 2018, the Company experienced a malware incident resulting in the disruption of service impacting sales at certain restaurants, see page 7 for further details. The Company estimates that the SRS impact was approximately 0.3% for the quarter. While management is pleased with the positive trend, management continues to focus on long-term profitable SRS growth with both short and long term strategies to improve SRS with focus on 4 Pillars - Quality of Food, Quality of Service, Value for Experience, and Ambience.

- Operating EBITDA[1] increased to $52.4 million for the 13 weeks ended September 30, 2018 compared to $48.0 million in 2017, an improvement of $4.4 million or 9.2% for the quarter. Year to date, Operating EBITDA was $155.0 million compared to $132.5 million in 2017, an improvement of $22.5 million or 17.0%. The increases have been driven by the same restaurant sales increases, improved contribution from the corporate and franchise segments, improved contribution from Original Joe's, and the addition of The Keg in February 2018, partially offset by The Keg royalty expense paid to the Keg Royalty Income Fund, higher net overhead costs from the addition of The Keg, and a third quarter shift in overhead bonus accrual expenses. Bonus expense excluding the Keg for the 13 weeks ended September 30, 2018 was $2.8 million higher than Q3 2017.

- Operating EBITDA Margin on System Sales[1] was 6.0% for the third quarter as compared to 7.0% in 2017. The decrease is primarily related to The Keg royalty expense and the shift in bonus accrual expenses. Excluding the Keg royalty expense and the impact from the shift in bonus accrual expenses, Operating EBITDA Margin on System Sales was 6.7% for the quarter. Year to date, Operating EBITDA Margin on System Sales was 6.2% compared to 6.6% in 2017. The decrease is primarily related to The Keg royalty expense. Year to date, Operating

EBITDA Margin on System Sales excluding The Keg royalty was 6.5% compared to 6.6% in 2017. While The Keg will add EBITDA dollars, because of higher net central overhead costs and the royalty payments to the Keg Royalty Income Fund in the medium term, The Keg merger will reduce Recipe's Operating EBITDA margin on System Sales below the target 7% to 8% range. Management's focus will continue to be on improving the earnings efficiency of our assets and our increased sales base to grow Operating EBITDA as a percentage of System Sales back to within our 7% to 8% target range by 2020-2022.

- Earnings before change in fair value of non-controlling interest liability, change in fair value of Exchangeable Keg Partnership units, and income taxes was $32.0 million for the 13 weeks ended September 30, 2018 compared to $30.4 million in 2017, an increase of $1.6 million for the quarter. The increase in the quarter is primarily related to same restaurant sales increases, improved contribution from the corporate and franchise segments, and the addition of the Keg. Year to date, Earnings before changes in fair value of certain financial instruments and income taxes was $91.2 million for the 39 weeks ended September 30, 2018 compared to $79.5 million in 2017, an increase of $11.7 million or 14.7% year-to-date. The increase was primarily related to the same restaurant sales increases, improved contribution from the corporate and franchise segments, improved contribution from Original Joe's, and the addition of The Keg in February 2018, partially offset by The Keg royalty expense paid to the Keg Royalty Income Fund.

- 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.

- Adjusted Basic Earnings per Share ("EPS") for the 13 and 39 weeks ended September 30, 2018 was $0.51 and $1.43 compared to $0.48 and $1.35 in 2017, an increase of $0.03 per share and $0.08 per share, respectively. Adjusted Diluted EPS for the 13 and 39 weeks ended September 30, 2018 was $0.50 and $1.38 compared to $0.46 and $1.30 in 2017, also an increase of $0.04 per share and $0.08 per share, respectively.

- During the 13 and 39 weeks ended September 30, 2018, the Company purchased and cancelled 27,700 and 66,237 Subordinate Voting Shares for $0.7 million and $1.7 million, respectively under the Company's normal course issuer bid ("NCIB").

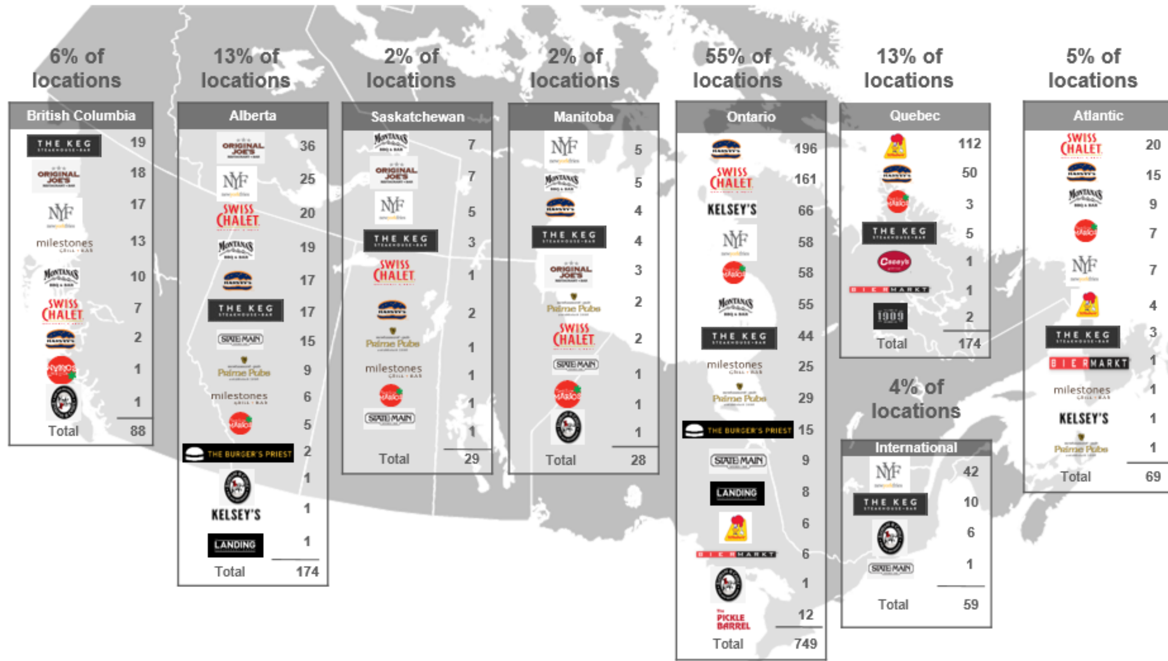
(1) See "Non-IFRS Measures" on page 28 for definitions of System Sales, SRS Growth, Adjusted Net Earnings, Operating EBITDA, Operating EBITDA Margin on System Sales, and Adjusted EPS. See "Reconciliation of Net Earnings to EBITDA" and "Reconciliation of Net Earnings to Adjusted Net Earnings" for a reconciliation of Operating EBITDA and Adjusted Net Earnings.

Subsequent events

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. With the Company's strong balance sheet and growing cash flows, management will continue to pursue strategic acquisitions and will explore alternatives to return more capital to its shareholders including continuation of its NCIB and increases to the Company's dividend rate.

Overview

Recipe is a full-service restaurant company that franchises and operates iconic restaurant brands. As at September 30, 2018, Recipe had 19 brands and 1,370 restaurants, 85% of which are operated by franchisees and joint venture partners. Recipe's restaurant network includes, Harvey's, Swiss Chalet, Kelsey's, East Side Mario's, Montana's, Milestones, Prime Pubs, Casey's, Bier Markt, Landing, New York Fries, St-Hubert, Original Joe's, State & Main, Elephant & Castle, Burger's Priest, Pickle Barrel, 1909 Taverne Moderne, and The Keg restaurants. Recipe's iconic brands have established Recipe as a nationally recognized franchisor of choice.



Unit count (unaudited)	As at September 30, 2018 Corporate	Franchise	Joint Venture	Total	As at December 31, 2017 Corporate	Franchise	Joint Venture	Total
Swiss Chalet ………………	15	196	0	211	8	210	0	218
Harvey's ……………………	9	277	0	286	11	271	0	282
Montana's ……………….	7	98	0	105	7	98	0	105
East Side Mario's [1]………	2	74	0	76	3	73	0	76
Kelsey's………….....……….	5	63	0	68	12	56	0	68
Casey's………….....……….	0	1	0	1	0	2	0	2
Prime Pubs...……....……….	4	38	0	42	4	37	0	41
Bier Markt.....……....……….	8	0	0	8	8	0	0	8
Milestones....……....……….	22	22	2	46	23	23	2	48
Landing…......……....……….	9	0	0	9	9	0	0	9
New York Fries …………….	16	143	0	159	15	146	0	161
St-Hubert……………………	12	110	0	122	12	110	0	122
Original Joe's………………	19	27	18	64	20	18	28	66
State & Main………………	9	11	7	27	15	4	8	27
Elephant & Castle…………	9	1	0	10	10	1	0	11
Burger's Priest………....….	0	0	17	17	0	0	14	14
1909 Taverne Moderne…..	0	0	2	2	0	0	2	2
Pickle Barrel………………..	12	0	0	12	12	0	0	12
The Keg…………………..	49	56	0	105	0	0	0	0
Total restaurants....……….	207	1,117	46	1,370	169	1,049	54	1,272
	15%	82%	3%	100%	13%	83%	4%	100%

[1] Unit count excludes East Side Mario restaurants located in the United States.

Selected Financial Information

The following table summarizes select results of Recipe's operations for the 13 and 39 weeks ended September 30, 2018 and September 24, 2017:

	For the 13 weeks ended		For the 39 weeks ended	
(C$ millions unless otherwise stated)	Sept 30, 2018	Sept 24, 2017	Sept 30, 2018	Sept 24, 2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
System Sales [2][4]	**$ 879.8**	**$ 684.7**	**$ 2,510.0**	**$ 2,004.6**
Sales	$ 260.9	$ 162.2	$ 726.6	$ 471.2
Franchise revenues [3]	51.5	43.7	144.7	127.7
Total gross revenue [1]	**$ 312.4**	**$ 205.9**	**$ 871.3**	**$ 598.8**
Cost of inventories sold	(117.7)	(72.7)	(302.0)	(211.0)
Selling, general and administrative expenses [3]	(156.3)	(98.1)	(463.9)	(291.8)
Impairment of assets, net of reversals	-	(0.7)	(1.3)	(4.3)
Restructuring and other	(2.6)	(0.7)	(3.4)	(3.4)
Operating income [1]	**$ 35.8**	**$ 33.7**	**$ 100.8**	**$ 88.4**
Net interest expense and other financing charges	(2.8)	(3.2)	(9.1)	(9.0)
Share of loss from investment in associates and joint ventures	(0.9)	(0.1)	(0.5)	0.1
Earnings before change in fair value and income taxes [1]	**$ 32.0**	**$ 30.4**	**$ 91.2**	**$ 79.5**
Change in fair value of non-controlling interest liability	(1.0)	-	(2.0)	-
Change in fair value of exchangeable partnership units	0.4	-	-	-
Earnings before income taxes [1]	**$ 31.4**	**$ 30.4**	**$ 89.2**	**$ 79.5**
Income taxes - current	(3.1)	(3.1)	(8.6)	(6.7)
Income taxes - deferred	(4.5)	(6.0)	(15.8)	9.6
Net earnings [1]	**$ 23.8**	**$ 21.2**	**$ 64.8**	**$ 82.5**
Adjusted Net Earnings [2]	**$ 32.1**	**$ 28.4**	**$ 88.3**	**$ 80.5**
Total assets	$ 1,562.9	$ 1,319.4	$ 1,562.9	$ 1,319.4
Non-current financial liabilities	$ 698.1	$ 591.4	$ 698.1	$ 591.4
Earnings per share attributable to common shareholders (in dollars)				
Basic EPS	$ 0.38	$ 0.35	$ 1.05	$ 1.38
Diluted EPS	$ 0.37	$ 0.34	$ 1.01	$ 1.33
Adjusted Basic EPS[2]	$ 0.51	$ 0.48	$ 1.43	$ 1.35
Adjusted Diluted EPS[2]	$ 0.50	$ 0.46	$ 1.38	$ 1.30

[1] Figures may not total due to rounding.
[2] See "Non-IFRS Measures" on page 28 for definitions of System Sales, Adjusted Net Earnings, Adjusted Basic EPS and Adjusted Diluted EPS. See page 5 for a reconciliation of Net Earnings to Adjusted Net Earnings.
[3] Prior year comparative figures have been updated to include advertising fund payments as a result of implementing IFRS 15.
[4] Results from East Side Mario restaurants in the United States are excluded from System Sales totals. See "Non-IFRS Measures" on page 28 for definition of System Sales.

(C$ millions unless otherwise stated)	For the 13 weeks ended Sept 30, 2018	For the 13 weeks ended Sept 24, 2017	For the 39 weeks ended Sept 30, 2018	For the 39 weeks ended Sept 24, 2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Dividends Declared (in dollars per share) [1]				
Subordinate Voting Shares, Multiple Voting Shares and Subscription Receipts	$ 0.10	$ 0.10	$ 0.32	$ 0.31
Earnings [2]				
Net earnings	$ 23.8	$ 21.2	$ 64.8	$ 82.5
Deferred income taxes	4.6	6.0	15.8	(9.6)
Restructuring and other	2.6	0.7	3.4	3.4
Transaction costs	0.4	0.1	1.1	0.3
Change in fair value of non-controlling interest liability ..	1.0	-	2.0	-
Change in fair value of exchangeable partnership units ...	(0.4)	-	-	-
Impairment charges	-	0.7	1.3	4.3
Adjusted Net Earnings [1][2]	**$ 32.1**	**$ 28.7**	**$ 88.4**	**$ 80.8**
Reconciliation of net earnings to EBITDA [2]				
Net earnings	$ 23.8	$ 21.2	$ 64.8	$ 82.5
Net interest expense and other financing charges	2.8	3.2	9.1	9.0
Income taxes	7.6	9.2	24.4	(3.0)
Depreciation of property, plant and equipment	11.3	11.2	39.0	32.0
Amortization of other assets and deferred gain	0.8	1.7	3.1	4.8
EBITDA[2]	**$ 46.3**	**$ 46.4**	**$ 140.4**	**$ 125.5**
Reconciliation of EBITDA [2] **to Operating EBITDA** [2]**:**				
Income on Partnership units	2.7	-	6.3	-
Fair value adjustments	0.6	-	2.0	-
Losses on early buyout/cancellation of equipment rental contracts	0.3	0.6	0.8	0.8
Restructuring and other	2.7	0.7	3.4	3.4
Transaction costs	0.4	0.1	1.1	0.3
Conversion fees	(0.7)	(0.3)	(0.9)	(0.8)
Net (gain) loss on disposal of property, plant and equipment and other assets	(1.9)	(0.4)	(2.3)	(2.0)
Impairment of assets	-	0.7	1.3	4.3
Stock based compensation	2.3	0.5	3.9	1.8
Change in onerous contract provision	(1.4)	(0.4)	(2.7)	(0.9)
Proportionate share equity of joint venture results	1.1	(0.1)	1.7	0.1
Operating EBITDA [1][2]	**$ 52.4**	**$ 48.0**	**$ 155.0**	**$ 132.5**
% change	9.2%	30.1%	17.0%	36.2%

[1] Figures may not total due to rounding.

[2] See “Non-IFRS Measures” on page 28 for definitions of Adjusted Net Earnings, EBITDA and Operating EBITDA.

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

(C$ millions unless otherwise stated)	For the 13 weeks ended		For the 39 weeks ended	
	Sept 30, 2018	Sept 24, 2017	Sept 30, 2018	Sept 24, 2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
System Sales [(1)(3)]	$ 879.8	$ 684.7	$ 2,510.0	$ 2,004.6
System Sales Growth [(1)(3)]	28.5%	36.9%	25.2%	43.1%
SRS Growth [(2)(3)]	1.8%	0.9%	1.9%	0.0%
Number of corporate restaurants (at period end)	207	161	207	161
Number of joint venture restaurants (at period end)	46	50	46	50
Number of franchised restaurants (at period end)	1,117	1,038	1,119	1,038
Total number of restaurants (at period end)	**1,370**	**1,249**	**1,372**	**1,249**
Total gross revenue	$ 312.4	$ 205.9	$ 871.3	$ 598.8
Operating EBITDA [(3)]	$ 52.4	$ 48.0	$ 155.0	$ 132.5
Operating EBITDA Margin [(3)]	16.8%	23.3%	17.8%	22.1%
Operating EBITDA on System Sales [(3)]	6.0%	7.0%	6.2%	6.6%
Net Keg royalty expense	$ 3.6	$ -	$ 8.5	$ -
Operating EBITDA [(3)], excluding the Keg royalty	$ 56.0	$ 48.0	$ 163.5	$ 132.5
Operating EBITDA Margin [(3)] excluding the Keg royalty	17.9%	23.3%	18.8%	22.1%
Operating EBITDA on System Sales [(3)] excluding the Keg royalty	6.4%	7.0%	6.5%	6.6%

[(1)] Results from East Side Mario restaurants in the United States are excluded in the System Sales totals and number of restaurants. See "Non-IFRS Measures" on page 28 for definition of System Sales.
[(2)] Results from New York Fries located outside of Canada, East Side Mario restaurants in the United States, Casey's restaurants are excluded from SRS Growth. See "Non-IFRS Measures" on page 28 for definition of SRS Growth.
[(3)] See "Non-IFRS Measures" on page 28 for definitions of System Sales, System Sales Growth, SRS Growth, Operating EBITDA, Operating EBITDA Margin, and Operating EBITDA on System Sales.

Factors Affecting Our Results of Operations

SRS Growth

SRS Growth is a metric used in the restaurant industry to compare sales earned in establishing locations over a certain period of time, such as a fiscal quarter, for the current period and the same period in the previous year. SRS Growth helps explain what portion of sales growth can be attributed to growth in established locations separate from the portion that can be attributed to the opening of net new restaurants. Recipe calculates SRS Growth as the percentage increase or decrease in sales of restaurants open for at least 24 complete months. Recipe's SRS Growth results exclude Casey's restaurants as the Company is in the process of winding down its operations; and sales from international operations from 41 New York Fries and 3 East Side Mario's.

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

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

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

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

SRS growth for the 13 and 39 weeks ended September 30, 2018 was an increase of 1.8% and 1.9%, respectively compared to 2017. At the end of Q3 on September 28, 2018, the Company experienced a malware incident that was detected at head office and on restaurant systems. Immediately after detection the Company contained the malware virus by turning off the internet connections resulting in a disruption of service to certain restaurants. The estimated impact on SRS for the quarter is 0.3%.

The Company is working with a third party IT forensic firm to analyze the malware infection and source. The Company is also reviewing our network and safeguards. The Company has cyber insurance and is working with its insurance providers to recover costs incurred as result of the incident including business interruption. The impact to operating income during the quarter was $0.2 million related to booking the insurance deductible amount under the policy.

See "Non-IFRS Measures" on page 28 for a description of how Recipe calculates SRS growth. SRS Growth for individual brands may be higher or lower than SRS Growth for all restaurants combined, and in some cases, SRS Growth, for individual brands, may be negative.

Competition

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

Restaurant Portfolio Management and Continuous Network Improvement

The opening and success of new restaurants is dependent on a number of factors, including: availability of suitable sites; negotiation of acceptable lease terms for new locations; attracting qualified franchisees with suitable financing; availability, training and retention of management and other employees necessary to operate new corporate restaurants; and other factors, some of which are beyond Recipe's control. Management continues to review its portfolio of restaurants to maximize site potential and profitability to the Company. For restaurant locations that no longer fit the longer strategic plan of the Company, Management will take steps to exit these underperforming sites.

Restaurant renovations also contribute to network improvement. However, the timing of renovations is dependent on having sufficient term remaining on both the particular franchise agreement and lease agreement. Franchisees are responsible for financing franchise restaurant renovations. We have found that renovations are most successful when they include changes to the exterior and interior coupled with a fresh approach to guest service and experience. During the 13 and 39 weeks ended September 30, 2018, the Company completed 25 and 54 renovations, respectively, and expects to complete a total of 70 renovations by year end.

Recipe’s restaurant network consists of company-owned corporate locations and franchised locations. As at the end of September 30, 2018, there were 1,372 restaurants. The following table presents the changes in Recipe’s restaurant unit count:

	For the 39 weeks ended							
	September 30, 2018				September 24, 2017			
Unit count (unaudited)	Corporate	Franchised	Joint Venture	Total	Corporate	Franchised	Joint Venture	Total
Beginning of year[(1)]	169	1,049	54	**1,272**	169	1,030	38	**1,237**
Acquisitions [(2)]	49	57	-	**106**	-	-	14	**14**
New openings	2	34	3	**39**	5	30	-	**35**
Closures	(14)	(31)	(1)	**(46)**	(7)	(28)	-	**(35)**
Casey's closures	-	(1)	-	**(1)**	-	(2)	-	**(2)**
Corporate buy backs [(3)]	16	(14)	(2)	**-**	4	(4)	-	**-**
Restaurants re-franchised [(4)]	(15)	23	(8)	**-**	(12)	12	-	**-**
End of period	207	1,117	46	**1,370**	159	1,038	52	**1,249**

[(1)] Unit count excludes East Side Marios restaurants located in the United States.

[(2)] Burger's Priest was acquired on June 1, 2017, Pickle Barrel was acquired on December 1, 2017 and the Keg was acquired on February 22, 2018.

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

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

In the 39 weeks ended September 30, 2018, excluding the acquisitions, the Company opened 39 new restaurant locations as compared to 35 in 2017. Year to date the Company closed 46 restaurants (excluding Casey’s closures) compared to 35 closures in 2017. Included in the closures were underperforming locations where the closure will benefit the overall system performance and the Company’s profitability going forward. Management will continue to review its portfolio of restaurants and will opportunistically close underperforming or non-strategic locations that will benefit the Company long term. Management expects to achieve positive net new restaurants openings in the fourth quarter and for the full year ended 2018.

Financial results

System Sales

System Sales for the 13 and 39 weeks ended September 30, 2018 were $879.8 million and $2,510.0 million compared to $684.7 million and $2,004.6 million in 2017, representing an increase of $195.1 million or 28.5% for the quarter and $505.4 million or 25.2% year-to-date. This increase was primarily the result of positive SRS, new restaurants opened in 2018, the December 2017 addition of Pickle Barrel and the addition of The Keg in February 2018, which together generated higher system sales offsetting restaurant closures and the impact from the first quarter calendar shift.

Total gross revenue

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

Total gross revenue was $312.4 million and $871.3 million for the 13 and 26 weeks ended September 30, 2018 compared to $205.9 million and $598.8 million in 2017, representing an increase of $106.5 million or 51.7% for the quarter and $272.5 million or 45.5% year-to-date. The increase in gross revenues was primarily the result of positive SRS, the Pickle Barrel acquisition in December 2017 and the addition of The Keg in February 2018.

Selling, general and administrative expenses

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

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

(C$ millions unless otherwise stated)	For the 13 weeks ended Sept 30, 2018 (unaudited)	For the 13 weeks ended Sept 24, 2017 (unaudited)	For the 39 weeks ended Sept 30, 2018 (unaudited)	For the 39 weeks ended Sept 24, 2017 (unaudited)
Corporate restaurant expenses	$ 111.2	$ 60.6	$ 308.4	$ 177.6
Franchise assistance and bad debt	2.0	2.9	6.4	7.2
Advertising fund transfers	18.5	17.2	53.7	49.1
Franchisor over-contribution to advertising funds	0.7	0.5	1.9	1.7
The Keg royalty expense	6.4	0.0	14.8	0.0
Depreciation and amortization	12.4	12.0	40.5	34.3
Other	5.3	4.8	38.1	21.9
Total selling, general and adminstirative expenses (1)	**$ 156.3**	**$ 98.1**	**$ 463.9**	**$ 291.8**

(1) Figures may not total due to rounding.

SG&A expenses for the 13 and 39 weeks ended September 30, 2018 were $156.3 million and $463.9 million compared to $98.1 million and $291.8 million in 2017, representing an increase of $58.2 million or 59.3% for the quarter and $172.1 million or 59.0% year to date. The increases are largely related to higher corporate restaurant expenses of $50.6 million for the quarter and $130.8 million year to date from the addition of 48 corporate restaurants, primarily from the addition of the Pickle Barrel and The Keg. While corporate restaurant expenses have increased, corporate restaurant contribution as a percentage of corporate restaurant sales and contribution dollars from the corporate segment have increased from the improved mix of corporate restaurants after adding the Keg and Pickle Barrel and refranchising certain restaurants in franchise banners. SG&A expenses also increased $6.4 million for the quarter and $14.8 million year to date as a result of the Keg royalty expense, and $2.8 million for the quarter from the shift in overhead bonus accrual expenses.

Net interest expense and other financing charges

Finance costs are derived from Recipe's financing activities which include the Existing Credit Facility and amortization of financing fees.

Net interest expense and other financing charges were $2.8 million and $9.1 million for the 13 and 39 weeks ended September 30, 2018 compared to $3.2 million and $9.0 million in 2017, a decrease of $0.4 million and an increase $0.1 million. The increase is due to the additional borrowings made for the Pickle Barrel and The Keg transactions, net of interest income from Keg Partnership units.

Adjusted net earnings

Adjusted net earnings for the 13 and 39 weeks ended September 30, 2018 was $32.1 million and $88.3 million compared to $28.4 million and $80.5 million in 2017, an increase of $3.7 million and $7.8 million. The increase was driven by the SRS increase, higher contribution from the corporate and franchise segments, from the addition of Pickle Barrel in December 2017 and The Keg in February 2018, partially offset by The Keg royalty expense paid to the Keg Royalty Income Fund, an increase in interest in long-term debt related to the acquisitions, and increased depreciation expense from the addition of corporate restaurants primarily related to the Pickle Barrel and The Keg additions.

Income taxes

Recipe's earnings are subject to both federal and provincial income taxes. Recipe has income tax losses available from prior years to offset taxable earnings and at present does not pay significant cash income taxes on its operating earnings.

The Company recorded a current income tax expense of $3.1 million and $8.6 million for the 13 and 39 weeks ended September 30, 2018, compared to $3.1 million and $6.7 million in 2017, representing an income tax expense increase of $nil million and $1.9 million. The current income tax expense is primarily related to St-Hubert earnings that are subject to cash taxes payable.

The Company recorded a net deferred income tax expense of $4.5 million and $15.8 million for the 13 and 39 weeks ended September 30, 2018, compared to an expense of $6.0 million and a recovery of $9.6 million in 2017, representing a deferred income tax expense change of $1.5 million and $24.8 million. The change is due to the Company recognizing a deferred tax asset of $24.4 million in 2017 related to additional non-capital losses available to offset future income tax payable on operating profits. Management determined it was appropriate to record a deferred tax asset based on the likelihood that the tax losses would be available to offset future taxable profits.

Net earnings

Net earnings were $23.8 million and $64.8 million for the 13 and 39 weeks ended September 30, 2018 compared to $21.2 million and $82.5 million in 2017, representing an increase of $2.6 million for the quarter and a decrease of $17.7 million year-to-date. The decrease is primarily related to the $24.4 million change in deferred income taxes described above, increased depreciation and interest expense, partially offset by improvements in the corporate and franchise segments, and earnings from the addition of Pickle Barrel and The Keg.

Segment Performance

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 1909 Taverne Moderne joint venture, which generate revenues from the direct sale of prepared food and beverages to consumers.

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

Food processing and distribution represent sales of St-Hubert and 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; catering sales; 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 includes corporate (non-restaurant) expenses which include head office people and non-people overhead expenses, finance and IT support, occupancy costs, and general and administrative support services offset by vendor purchase allowances. The Company has determined that the allocation of corporate (non-restaurant) revenues and expenses which include finance and IT support, occupancy costs, and general and administrative support services would not reflect how the Company manages the business and has not allocated these revenues and expenses to a specific segment.

The CEO, 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, the 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.

Operating EBITDA

Operating EBITDA[1] before The Keg royalty expense was $56.1 million and $163.6 million, representing 6.4% and 6.5% contribution as a percentage of Total System Sales for the 13 and 39 weeks ended September 30, 2018 compared to $48.0 million and $132.5 million, representing 7.0% and 6.6% in 2017.

Operating EBITDA after The Keg royalty expense was $52.4 million and $155.0 million for the 13 and 39 weeks ended September 30, 2018 compared to $48.0 million and $132.5 million in 2017, representing an increase of $4.4 million or 9.2% for the quarter, and an increase of $22.5 million or 17.0% year-to-date. The increases were driven by SRS increases, higher contribution in the corporate and franchise segments from the addition of Pickle Barrel in December 2017 and The Keg in February 2018, partially offset by The Keg royalty expense paid to the Keg Royalty Income Fund, and the third quarter shift in overhead bonus accrual expense.

[1] See "Non-IFRS Measures" on page 28 for definition of Operating EBITDA.

The following table presents the financial performance of Recipe's business segments:

(C$ thousands unless otherwise stated)	For the 13 week period ended September 30, 2018 Corporate	Franchise	Central	Total	September 24, 2017 Corporate	Franchise	Central	Total
		(unaudited)				(unaudited)		
System Sales (unaudited)………………	**$ 202,808**	**$ 607,165**	**$ 69,875**	**$ 879,848**	**$ 111,179**	**$ 515,745**	**$ 57,774**	**$ 684,698**
Corporate Results								
Sales……………………………………	$ 199,033	$ -	$ 2,469	$ 201,502	$ 111,179	$ -	$ 2,703	$ 113,882
Cost of inventories sold and cost of	(127,829)	-	-	(127,829)	(71,014)	-	-	(71,014)
Restaurant contribution before other	71,204	-	2,469	73,673	40,165	-	2,703	42,868
Restaurant contribution before other costs	35.8%				36.1%			
Other operating costs…………………	(49,627)	-	-	(49,627)	(28,413)	-	-	(28,413)
Total Contribution………………………	**21,577**	**-**	**2,469**	**24,046**	**11,752**	**-**	**2,703**	**14,455**
Franchise Results								
Franchise royalty income………………	-	27,662	-	27,662	-	22,936	-	22,936
Franchise royalty income as a % of franchise		4.6%	-	-		4.4%		-
New franchise fees, rent revenue and equipment	-	-	3,672	3,672	-	-	3,015	3,015
Franchise rent assistance and bad debt	-	(1,991)	-	(1,991)	-	(2,906)	-	(2,906)
Contribution from franchise	**-**	**25,671**	**3,672**	**29,343**	**-**	**20,030**	**3,015**	**23,045**
Food processing and distribution								
Net food processing and distribution contribution ………	**-**	**-**	4,363	4,363	**-**	**-**	3,420	3,420
Central								
Net central contribution………………	**-**	**-**	(1,693)	(1,693)	**-**	**-**	7,053	7,053
Operating EBITDA [(1)] before royalty expense………………	**$ 21,577**	**$ 25,671**	**$ 8,811**	**$ 56,059**	**$ 11,752**	**$ 20,030**	**$ 16,191**	$ 47,973
Net royalty expense	$ -	$ -	$ (3,615)	$ (3,615)	$ -	$ -	$ -	$ -
Operating EBITDA [(1)] ……………	**$ 21,577**	**$ 25,671**	**$ 5,196**	**$ 52,444**	**$ 11,752**	**$ 20,030**	**$ 16,191**	**$ 47,973**
Contribution as a % of corporate sales……	10.8%	-	-	-	10.6%	-	-	-
Contribution as a % of franchise sales….	-	4.2%	-	-	-	3.9%	-	-
Contribution as a % of total System Sales	-	-	0.6%	6.0%	-	-	2.4%	7.0%
Contribution (excluding net royalty expense) as a % of total System Sales	10.8%	4.2%	1.0%	6.4%	10.6%	3.9%	2.4%	7.0%

(1) See "Non-IFRS Measures" on page 28 for definitions of Operating EBITDA and page 5 for a reconciliation of Net Earnings to Operating EBITDA.

(C$ thousands unless otherwise stated)	For the 39 week period ended September 30, 2018 Corporate	Franchise	Central	Total	September 24, 2017 Corporate	Franchise	Central	Total
		(unaudited)				(unaudited)		
System Sales (unaudited)……………….	**$ 560,133**	**$1,747,077**	**$ 202,763**	**$2,509,974**	**$ 313,306**	**$1,521,270**	**$ 170,009**	**$2,004,585**
Corporate Results								
Sales……………………………………	$ 548,750	$ -	$ 8,432	$ 557,182	$ 313,306	$ -	$ 8,674	$ 321,980
Cost of inventories sold and cost of	(349,343)	-	-	(349,343)	(199,147)	-	-	(199,147)
Restaurant contribution before other	199,407	-	8,432	207,839	114,159	-	8,674	122,833
Restaurant contribution before other costs	36.3%				36.4%			
Other operating costs…………………	(140,413)	-	-	(140,413)	(83,990)	-	-	(83,990)
Total Contribution………………………	**58,994**	**-**	**8,432**	**67,426**	**30,169**	**-**	**8,674**	**38,843**
Franchise Results								
Franchise royalty income………………	-	79,148	-	79,148	-	67,565	-	67,565
Franchise royalty income as a % of franchise		4.5%	-	-		4.4%		-
New franchise fees, rent revenue and equipment	-	-	10,073	10,073	-	-	9,374	9,374
Franchise rent assistance and bad debt	-	(6,398)	-	(6,398)	-	(7,230)	-	(7,230)
Contribution from franchise	**-**	**72,750**	**10,073**	**82,823**	**-**	**60,335**	**9,374**	**69,709**
Food processing and distribution								
Net food processing and distribution contribution ………	**-**	**-**	9,795	9,795	**-**	**-**	8,706	8,706
Central								
Net central contribution………………	**-**	**-**	3,519	3,519	**-**	**-**	15,204	15,204
Operating EBITDA [(1)] before royalty expense………………	**$ 58,994**	**$ 72,750**	**$ 31,819**	**$ 163,563**	**$ 30,169**	**$ 60,335**	**$ 41,958**	$ 132,462
Net royalty expense	$ -	$ -	$ (8,528)	$ (8,528)	$ -	$ -	$ -	$ -
Operating EBITDA [(1)]……………	**$ 58,994**	**$ 72,750**	**$ 23,291**	**$ 155,035**	**$ 30,169**	**$ 60,335**	**$ 41,958**	**$ 132,462**
Contribution as a % of corporate sales……	10.8%	-	-	-	9.6%	-	-	-
Contribution as a % of franchise sales….	-	4.2%	-	-	-	4.0%	-	-
Contribution as a % of total System Sales	-	-	0.9%	6.2%	-	-	2.1%	6.6%
Contribution (excluding net royalty expense) as a % of total System Sales	10.8%	4.2%	1.3%	6.5%	9.6%	4.0%	2.1%	6.6%

[(1)] See "Non-IFRS Measures" on page 28 for definitions of Operating EBITDA and page 5 for a reconciliation of Net Earnings to Operating EBITDA.

Corporate

As at September 30, 2018, the corporate segment restaurant count consisted of 207 restaurants compared to 169 at December 31, 2017, an increase of 38 locations. Year to date, the Company has added of 49 Keg locations related to the merger in February 2018, 2 new restaurant openings, and 16 corporate buybacks, offset by 14 closures and 15 restaurants re-franchised during the first three quarters of 2018. The corporate restaurant segment includes the proportionate results from the Company's 46 joint venture restaurants from the Original Joe's investment, the Burger's Priest investment, and 1909 Taverne Moderne joint venture.

Sales

Sales represent food and beverage sales from Recipe's corporate restaurants. Corporate restaurant sales are impacted by SRS Growth and the change in number of corporate restaurants. Sales were $199.0 million and $548.8 million for the 13 and 39 weeks ended September 30, 2018 compared to $111.2 million and $313.3 million in 2017, an increase of $87.8 million or 79.0% for the quarter and $235.5 million or 75.2% year-to-date. The increase was primarily related to the increase in number of corporate restaurants from the addition of Pickle Barrel in December 2017, the addition of The Keg in February 2018, and the SRS increase, partially offset by closures.

Cost of inventories sold and cost of labour

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

Cost of inventories sold and cost of labour was $127.8 million and $349.3 million for the 13 and 39 weeks ended September 30, 2018 compared to $71.0 million and $199.1 million in 2017, respectively, an increase of $56.8 million or 80.0% for the quarter and $150.2 million or 75.4% year-to-date. The increase was primarily due to the addition of 48 corporate restaurants primarily from the Pickle Barrel and The Keg transactions. Cost of inventories sold and cost of labour as a percentage of sales increased from 63.9% to 64.2% for the 13 weeks ended September 30, 2018, an increase of 0.3 percentage points. For the 39 weeks ended September 30, 2018, cost of inventories sold and cost of labour as a percentage of sales have decreased from 63.6% to 63.7%, a decrease of 0.1 percentage points. Management expects to operate at a lower gross margin rate in 2018 due to higher minimum wage rates in Ontario and Alberta. Despite the impact from the minimum wage increases, sales increases have led to increased contribution dollars and a higher Operating EBITDA percentage. Original Joe's and the Pickle Barrel operate at higher costs and as these brands benefit from the Company's purchasing power and labour management tools, management expects that their costs as a percentage of sales will improve toward the targeted gross margin levels achieved by Recipe's historical brands.

Contribution from Corporate segment

Total contribution from corporate restaurants was $21.6 million and $59.0 million for the 13 and 39 weeks ended September 30, 2018 compared to $11.8 million and $30.2 million in 2017, an improvement of $9.8 million or 83.1% for the quarter and $28.8 million or 95.4% year-to-date. The increases are primarily driven by SRS increases, and the increase in number of corporate restaurants, including the additions of The Keg and Pickle Barrel.

For the 13 and 39 weeks ended September 30, 2018, total contribution from corporate restaurants as a percentage of corporate sales was 10.8% and 10.8% compared to 10.6% and 9.6% in 2017. The addition of The Keg which operates corporate restaurants within our target range was offset by lower percentage contribution rates from Original Joe's and Pickle Barrel corporate restaurants that operate at lower contribution levels.

Franchise

As at September 30, 2018, the franchise restaurant segment consisted of 1,117 restaurants compared to 1,038 at September 24, 2017, an increase of 79 locations. Year to date, the Company has added 57 restaurants from The Keg merger, completed 34 new restaurant openings, 15 corporate restaurants were re-franchised, 8 joint ventures that were sold and fully franchised, partially offset by 31 closures, and 14 corporate buybacks. The franchise segment includes the proportionate share of royalties earned from the joint venture restaurants from the Original Joe's transaction.

Franchise segment System Sales were $607.2 million and $1,747.1 million during the 13 and 39 weeks ended September 30, 2018 compared to $515.7 million and $1,521.3 million in 2017, an increase of $91.5 million or 17.7% for the quarter and $225.8 million or 14.8% year-to-date. The increase was primarily attributed to the new restaurant openings in 2017 and 2018, the addition of The Keg, SRS improvements, partially offset by restaurant closures, and corporate buybacks.

Franchise revenues

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

The primary factors impacting franchise revenues are SRS Growth and net new restaurant activity, as well as the rate of royalty fees (net of contractual subsidies and temporary assistance) paid to Recipe by its franchisees. In certain circumstances, the royalty rate paid to Recipe can be less than Recipe's standard 5.0% royalty rate due to different contractual rates charged for certain brands (e.g. St-Hubert's standard royalty rate is 4%) and contractual subsidies primarily associated with prior year's conversion transactions or agreements to temporarily assist certain franchisees. With the majority of contractual subsidies scheduled to end at prescribed dates and the reduction in the number of restaurants requiring temporary assistance, management believes the effective royalty recovery rate will gradually increase over time closer to 5.0% for franchisees (excluding St-Hubert at 4%). The addition of The Keg will also increase Recipe's overall net royalty rate as new and renewed Keg franchisees pay 6.0% royalty while others pay 5% until their franchise agreement is renewed.

Franchise revenues were $27.7 million and $79.1 million for the 13 and 39 weeks ended September 30, 2018 compared to $22.9 million and $67.6 million in 2017, an increase of $4.8 million or 21.0% for the quarter, and $11.5 million or 17.0% year-to-date. The increase was primarily attributed to the addition of The Keg and new restaurants opened in 2017 and during the first three quarters of 2018, and the SRS improvements.

Contribution from franchise segment

Total contribution from franchise restaurants was $25.7 million and $72.8 million for the 13 and 39 weeks ended September 30, 2018 compared to $20.0 million and $60.3 million in 2017, an increase of $5.7 million or 28.5% for the quarter and $12.5 million or 20.7% year-to-date. The increase was related to increased royalty income as a result of the franchise sales increases and the addition of The Keg.

The effective net royalty rate for the 13 weeks ended September 30, 2018 was 4.2% compared to 3.9% in 2017. For the 39 weeks ended September 30, 2018, the effective net royalty rate was 4.2% compared to 4.0% in 2017. Recipe's standard royalty rate is 5.0%. There are brands acquired since 2014 which charge different standard royalty rates, in particular St-Hubert which charges 4% as its standard royalty and The Keg which charges over 5.0% when considering its total franchise portfolio.

As at September 30, 2018, a total of 130 restaurants were paying Recipe a royalty below the standard rate as compared to 138 restaurants at December 31, 2017. 49 out of the 130 restaurants paying below the standard royalty are related to previously agreed upon conversion agreements, an improvement of 10 restaurants compared to 59 as at December 31, 2017. 81 out of the 130 restaurants paying less than the standard royalty were related to temporary assistance provided to certain other restaurants, a change of 2 restaurants compared to 79 as at December 31, 2017.

Central

Sales

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

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

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

Total central segment sales were $69.9 million and $202.8 million for the 13 and 39 weeks ended September 30, 2018 compared to $57.8 million and $170.0 million in 2017, representing an increase of $12.1 million or 20.9% for the quarter and $32.8 million or 19.3% year-to-date. The increases are related to the addition of catering sales from the acquisition of Pickle Barrel and Rose Reisman Catering, the addition of The Keg retail sales, and increases in St-Hubert food processing and distribution sales.

New franchise fees, rent revenue and equipment rent

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

Franchise fees, property rent revenue and equipment rent from franchisees were $3.7 million and $10.1 million for the 13 and 39 weeks ended September 30, 2018 compared to $3.0 million and $9.4 million in 2017.

Contribution from food processing and distribution

Contribution from food processing and distribution for the 13 and 39 weeks ended September 30, 2018 was $4.4 million and $9.8 million compared to $3.4 million and $8.7 million for the same 13 and 39 week periods in 2017, an increase of $1.0 million or 29.4% for the quarter and $1.1 million or 12.6% year-to-date.

Contribution from central segment

Central segment contribution before the net royalty expense for the 13 and 39 weeks ended September 30, 2018 was $8.8 million and $31.8 million compared to $16.2 million and $42.0 million in 2017, representing a decrease of $7.4 million or 45.7% for the quarter and $10.2 million or 24.3% year-to-date. Total central segment contribution, before the net royalty expense, as a percentage of total System Sales for the 13 and 39 weeks ended September 30, 2018 was 1.0% and 1.3% compared to 2.4% and 2.1% in 2017, a decrease for the quarter and a decrease year-to-date. The decreases are primarily related to the addition of The Keg which operates with higher net overhead costs and the third quarter shift in overhead bonus accrual expenses. Bonus expense excluding the Keg for the 13 weeks ended September 30, 2018 was $2.8 million higher than Q3 2017.

Selected Quarterly Information

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

(C$ millions unless otherwise stated) [(1)]	Q3 – 2018 Sept 30, 2018 (unaudited)	Q2 – 2018 July 1, 2018 (unaudited)	Q1 – 2018 Apr 1, 2018 (unaudited)	Q4 – 2017 Dec 31, 2017 (unaudited)	Q3 – 2017 Sept 24, 2017 (unaudited)	Q2 – 2017 Jun 25, 2017 (unaudited)	Q1 – 2017 Mar 26, 2017 (unaudited)	Q4 – 2016 Dec 25, 2016 (unaudited)
System Sales [(1)]	$ 879.8	$ 874.2	$ 755.9	$ 774.9	$ 684.7	$ 660.8	$ 659.1	$ 641.1
Total System Sales Growth [(1)]	28.5%	32.3%	14.7%	20.9%	36.9%	46.7%	46.4%	39.0%
SRS Growth [(1)]	1.8%	1.9%	2.1%	2.5%	0.9%	(0.3%)	(0.6%)	(2.8%)
Number of restaurants (at period end)	1,370	1,379	1,382	1,272	1,249	1,255	1,238	1,237
Operating EBITDA before Keg royalty[(1)]	**$ 56.1**	**$ 58.7**	**$ 48.8**	**$ 58.5**	**$ 48.0**	**$ 41.6**	**$ 42.9**	**$ 46.7**
Operating EBITDA Margin on System Sales before Keg royalty [(1)]	**6.4%**	**6.7%**	**6.5%**	**7.6%**	**7.0%**	**6.3%**	**6.5%**	**7.3%**
Operating EBITDA [(1)]	**$ 52.4**	**$ 55.2**	**$ 47.4**	**$ 58.5**	**$ 48.0**	**$ 41.6**	**$ 42.9**	**$ 46.7**
Operating EBITDA Margin on System Sales [(1)]	**6.0%**	**6.3%**	**6.3%**	**7.6%**	**7.0%**	**6.3%**	**6.5%**	**7.3%**
Corporate restaurant sales	$ 199.0	$ 203.6	$ 146.1	$ 125.8	$ 111.2	$ 103.4	$ 98.7	$ 82.1
Number of corporate restaurants	207	212	213	169	161	162	166	169
Contribution from Corporate segment	$ 21.6	$ 24.3	$ 13.1	$ 12.3	$ 11.8	$ 10.4	$ 8.0	$ 6.8
Contribution as a % of corporate sales	10.8%	12.0%	9.0%	9.8%	10.6%	10.1%	8.1%	8.3%
Number of joint venture restaurants	46	54	55	54	50	52	38	38
Franchise restaurant sales	$ 607.2	$ 596.8	$ 543.1	$ 571.0	$ 515.7	$ 504.7	$ 500.8	$ 492.5
Number of franchised restaurants	1,117	1,113	1,114	1,049	1,038	1,041	1,034	1,030
Contribution from Franchise segment	$ 25.7	$ 24.7	$ 22.4	$ 24.1	$ 20.0	$ 19.9	$ 20.4	$ 20.1
Contribution as a % of Franchise sales	4.2%	4.1%	4.1%	4.2%	3.9%	3.9%	4.1%	4.1%
Contribution from food processing and distribution	$ 4.4	$ 2.5	$ 2.9	$ 6.6	$ 3.4	$ 0.6	$ 4.7	$ 5.9
Contribution from Central segment	$ 5.2	$ 6.2	$ 11.9	$ 22.1	$ 16.2	$ 11.3	$ 14.5	$ 19.8
Contribution as a % of total System Sales	0.6%	0.7%	1.6%	2.9%	2.4%	1.7%	2.2%	3.1%
Total gross revenue	$ 312.4	$ 312.3	$ 246.5	$ 242.3	$ 203.8	$ 194.4	$ 198.6	$ 191.1
Operating EBITDA Margin [(1)]	16.8%	17.7%	19.2%	24.2%	23.6%	21.4%	21.6%	24.4%
Earnings before income taxes	**$ 31.4**	**$ 28.5**	**$ 29.3**	**$ 37.0**	**$ 30.4**	**$ 21.6**	**$ 27.5**	**$ 30.3**
Net earnings	$ 23.8	$ 19.5	$ 21.5	$ 27.3	$ 21.2	$ 17.4	$ 43.8	$ 19.7
Adjusted Net Earnings [(1)]	**$ 32.1**	**$ 30.5**	**$ 25.9**	**$ 36.3**	**$ 28.7**	**$ 26.4**	**$ 25.8**	**$ 25.9**
Net earnings operations attributable to common shareholders of the Company	$ 23.6	$ 19.5	$ 21.7	$ 27.4	$ 21.0	$ 17.4	$ 44.0	$ 19.7
EPS attributable to common shareholders of the Company (in dollars)								
Basic EPS	$ 0.38	$ 0.31	$ 0.36	$ 0.47	$ 0.35	$ 0.29	$ 0.73	$ 0.33
Diluted EPS	$ 0.37	$ 0.30	$ 0.35	$ 0.45	$ 0.34	$ 0.28	$ 0.71	$ 0.32
Adjusted Basic EPS [(1)]	**$ 0.51**	**$ 0.49**	**$ 0.43**	**$ 0.62**	**$ 0.48**	**$ 0.44**	**$ 0.43**	**$ 0.44**
Adjusted Diluted EPS [(1)]	**$ 0.50**	**$ 0.47**	**$ 0.41**	**$ 0.59**	**$ 0.46**	**$ 0.42**	**$ 0.41**	**$ 0.42**

[(1)] See “Non-IFRS Measures” on page 28 for definitions of System Sales, System Sales Growth, SRS Growth, Operating EBITDA, Operating EBITDA Margin, Operating EBITDA Margin on System Sales, Adjusted Net Earnings, Adjusted Basic EPS, and Adjusted Diluted EPS.

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

- restaurant and other complimentary acquisitions;
- the timing of restaurant openings and closures;
- increases and decreases in SRS Growth;
- royalty recovery rates and the extent to which Recipe provides financial assistance or incurs bad debts with franchisees;
- restaurant operating costs for corporate-owned restaurants;
- labour availability and costs for hourly and management personnel at corporate-owned restaurants and at its manufacturing and distribution facilities;
- profitability of the corporate-owned restaurants, especially in new markets;
- fluctuations in sales to retail grocery chains, including seasonality;
- changes in interest rates;
- impairment of long-lived assets and any loss on restaurant closures for corporate-owned restaurants;
- macroeconomic conditions, both nationally and locally;
- changes in consumer preferences and competitive conditions;
- expansion in new markets;
- increases in fixed costs; and
- fluctuations in commodity prices.

Calendar Shift

The Company's 2018 fiscal year will end on December 30, 2018 and will consist of 52 weeks as compared to 53 weeks in fiscal 2017. For comparative purposes, results in the first quarter of 2018 compared to 2017 were negatively impacted by 2 significant factors: (1) a shift in the calendar as the sales period from December 26, 2016 to January 1, 2017 was included in Q1 2017 but the same holiday week, typically a higher sales week, is not in our fiscal 2018 first quarter, thus negatively impacting total System Sales and related corporate and franchise contribution; (2) Q1 2018 includes Easter weekend (March 29 to 31, 2018), a low sales period, as compared to 2017 when Easter was included in Q2, thus negatively impacting SRS, total System Sales and related corporate and franchise contribution. The fourth quarter of 2018 will return to 13 weeks as compared to 14 weeks in Q4 2017, a difference of 1 week. The table below summarizes the change in comparative periods:

Fiscal 2016	Fiscal 2017	Fiscal 2018
52 weeks	53 weeks	52 weeks
Dec 28, 2015 to Dec 25, 2016	Dec 26, 2016 to Dec 31, 2017	Jan 1, 2018 to Dec 30, 2018
Q1	Q1	Q1
13 weeks	13 weeks	13 weeks
Dec 28, 2015 to Mar 27, 2016	Dec 26, 2016 to Mar 26, 2017	Jan 1, 2018 to Apr 1, 2018
Q2	Q2	Q2
13 weeks	13 weeks	13 weeks
Mar 28, 2016 to Jun 26, 2016	Mar 27, 2017 to Jun 25, 2017	Apr 2, 2018 to Jul 1, 2018
Q3	Q3	Q3
13 weeks	13 weeks	13 weeks
Jun 27, 2016 to Sept 25, 2016	Jun 26, 2017 to Sept 24, 2017	Jul 2, 2018 to Sept 30, 2018
Q4	Q4	Q4
13 weeks	14 weeks	13 weeks
Sept 26, 2016 to Dec 25, 2016	Sept 25, 2017 to Dec 31, 2017	Oct 1, 2018 to Dec 30, 2018

Historical Commentary on Quarterly Results

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

System Sales have grown each quarter (year over year) since 2016 from $641.1 million in Q4 2016 to $684.7 million in Q3 2017 and $879.8 million in Q3 2018. System Sales increases are driven by SRS increases, the addition of new restaurants, the acquisitions of St-Hubert in September 2016, Original Joe's in December 2016, Burger's Priest in June 2017, Pickle Barrel in December 2017, and The Keg in February 2018, and increases in food processing and distribution sales.

SRS has been positive for five consecutive quarters. While management is pleased with the positive trend, management continues to focus on long-term profitable SRS growth with both short and long term strategies to improve SRS with focus on 4 Pillars - Quality of Food, Quality of Service, Value for Experience, and Ambience.

Operating EBITDA has improved significantly from $46.7 million in the fourth quarter of 2016 to $48.0 million in the third quarter of 2017 and to $52.4 million in the third quarter of 2018. Operating EBITDA has improved each quarter (year over year) as a result of growth in all three of the Company's historical segments, positive SRS, the addition of new restaurants, and from the acquisitions of Burger's Priest, Pickle Barrel, and The Keg.

Operating EBITDA Margin on System Sales was 6.0% and 6.4% before the net Keg royalty for the third quarter compared to 7.0% in 2017. Year to date, Operating EBITDA Margin on System Sales was 6.2% and 6.5% before the net Keg royalty compared to 6.6% in 2017.

Contribution dollars from the corporate restaurant segment have increased (year over year) each quarter as a result of the addition of corporate restaurants. Contribution as a percentage of sales from the corporate restaurant segment is impacted by seasonality where the sales are lower in the first quarter and highest during the fourth quarter, thus contribution as a percentage of sales is typically lower in the first quarter as a result of lower sales in the period.

The franchise restaurant segment was 4.2% in the third quarter 2018 compared to 3.9% in 2017. Quarterly contribution from the franchise segment has improved each quarter (year over year) from $20.1 million in the fourth quarter of 2016 to $20.0 million in the third quarter of 2017 and $25.7 million in the third quarter of 2018. The increases are the result of positive SRS, increased sales from the addition of new restaurants and the additions of St-Hubert in September 2016, Original Joe's in December 2016, and The Keg in February 2018.

Contribution from the central segment before the net royalty expense has decreased from $16.2 million in the third quarter of 2017 to $5.2 million in the third quarter of 2018. The decrease is primarily related to the addition of The Keg's net of overhead costs and shift in timing of bonus expenses being recorded.

Total gross revenue has increased significantly each quarter (year over year) from $191.1 million in the fourth quarter of 2016 to $203.8 million in the third quarter of 2017 and $312.4 million in the third quarter of 2018 as a result of the increase in the number corporate restaurants; positive SRS, the addition of corporate restaurants from the St-Hubert, Original Joe's, Pickle Barrel, and The Keg transactions; and the addition of the St-Hubert food processing and distribution business.

Quarterly earnings before income taxes has increased from $30.4 million in the third quarter of 2017 to $31.4 million in the third quarter of 2018. The increase is related to improvements in contribution dollars from its corporate and franchised segments, improvements in the food processing and distribution segment, and from the additions of the Keg and Pickle Barrel, partially offset by the net Keg royalty expense of $3.6 million, a $1.9 million increase in restructuring expense, and higher depreciation from the addition of Pickle Barrel and The Keg.

Liquidity and Capital Resources

Recipe's principal uses of funds are for operating expenses, capital expenditures, finance costs, debt service and dividends. Management believes that cash generated from operations, together with amounts available under its credit facility (refer to page 22), will be sufficient to meet its future operating expenses, capital expenditures, future debt service costs and discretionary dividends. However, Recipe's ability to fund future debt service costs, operating expenses, capital expenditures and dividends will depend on its future operating performance which will be affected by general economic, financial and other factors including factors beyond its control. See "Risk and Uncertainties" (refer to page 31). Recipe's management reviews acquisition and investment opportunities in the normal course of its business and, if suitable opportunities arise, may make selected acquisitions and investments to implement Recipe's business strategy. Historically, the funding for any such acquisitions or investments have come from cash flow from operating activities, additional debt, or the issuance of equity. Similarly, from time to time, Recipe's management reviews opportunities to dispose of non-core assets and may, if suitable opportunities arise, sell certain non-core assets.

Working Capital

A working capital deficit is typical of restaurant operations, where the majority of sales are for cash and there are rapid turnover of inventories. In general, the turnover of accounts receivable and inventories is faster than accounts payable, resulting in negative working capital. Sales of Recipe's Ultimate Gift Card and the addition of The Keg gift card significantly improve the Company's liquidity in the fourth quarter as cash is received within one to two weeks from time of sale. Gift card sales are highest in November and December followed by high redemptions in the January to March period. Recipe's gift card liability at September 30, 2018 was $94.2 million compared to $57.5 million at December 31, 2017, an increase of $36.7 million due to the addition of The Keg gift card liability offset by higher redemptions in the first three quarters.

At September 30, 2018, Recipe had a working capital deficit of ($217.6) million compared to ($19.8) million at December 31, 2017. The change of ($197.8) million was primarily related to the increase in current portion of long-term debt of $150.0 million related to the Company's non-revolving term credit facility maturing September 2019 and to the addition of The Keg which increased the working capital deficit by $59.9 million. Excluding the impact from the term credit facility and The Keg, the change in working capital of $12.1 million was primarily related to a decrease in cash of $33.9 million primarily related to the reduction in the credit facilities net of cash from operations; the net change in accounts receivable, inventory, prepaid expenses and accounts payable of $(10.0) million; offset by an inccrease in working capital from the decrease in gift card liability of $(36.0) million related to higher gift card redemptions following the holiday period.

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

Cash Flows

The following table presents Recipe's cash flows for the 13 and 39 weeks ended September 30, 2018 compared to the 13 and 39 weeks ended September 24, 2017:

	For the 13 weeks ended		**For the 39 weeks ended**	
(C$ millions unless otherwise stated)	**Sept 30, 2018**	**Sept 24, 2017**	**Sept 30, 2018**	**Sept 24, 2017**
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash flows from operating activities ………………………….	$ 46.1	$ 37.0	$ 86.7	$ 96.7
Cash flows (used in) investing activities……………………….	$ (3.3)	$ (22.2)	$ (92.0)	$ (61.3)
Cash flows (used in) from financing activities………………..	$ (51.3)	$ (18.4)	$ (0.8)	$ (50.3)
Change in cash during the period [(1)]……………………………..	$ (8.5)	$ (3.6)	$ (6.1)	$ (14.9)

Cash flows from operating activities of continuing operations

Cash flows from operating activities were $46.1 million and $86.7 million for the 13 and 39 weeks ended September 30, 2018 compared to $37.0 million and $96.7 million in 2017, an increase of $9.1 million and a decrease of $10.0 million, respectively. The decrease year to date was primarily related to the reduction in gift card liability due to higher redemptions following the Q4 2017 holiday period, partially offset by increases in accounts payable.

Cash flows used in investing activities of continuing operations

The following table presents Recipe's capital expenditures for the 13 and 39 weeks ended September 30, 2018 as compared to the 13 and 39 weeks ended September 24, 2017:

	For the 13 weeks ended		For the 39 weeks ended	
(C$ millions unless otherwise stated)	**Sept 30, 2018**	**Sept 24, 2017**	**Sept 30, 2018**	**Sept 24, 2017**
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Purchase of property, plant and equipment:				
Maintenance:				
Corporate restaurants	(4.9)	(1.5)	(6.4)	(5.3)
Central / IT expenditures / Other	(2.1)	(1.7)	(9.9)	(8.0)
Total maintenance	$ (7.0)	$ (3.2)	$ (16.3)	$ (13.3)
Growth initiatives:				
Major renovations	(1.9)	(4.8)	(6.3)	(11.6)
New builds	(2.0)	(7.3)	(6.5)	(17.4)
Total growth	$ (3.9)	$ (12.1)	$ (12.8)	$ (29.0)
Total purchase of property, plant and equipment	**$ (10.9)**	**$ (15.2)**	**$ (29.1)**	**$ (42.3)**
Common control transactions, net of cash assumed:				
Acquisitions	-	-	(71.8)	1.5
Buy backs [(1)]	(4.9)	-	(4.9)	(0.2)
Total common control transactions, net of cash assumed	**$ (4.9)**	**$ -**	**$ (76.7)**	**$ 1.3**
Total purchase of property, plant and equipment	(10.9)	(15.2)	(29.1)	(42.3)
Total common control transactions, net of cash assumed	(4.9)	-	(76.7)	1.3
Proceeds on disposal of property, plant and equipment	5.9	0.2	6.1	1.6
Proceeds on early buyout of equipment and rental contracts	0.2	0.5	0.5	0.6
Proceeds on sale of other assets	1.4	-	1.4	-
Investment in joint ventures and assoiates	-	0.8	-	(14.7)
Additions to other assets	(0.3)	(0.2)	(0.5)	(0.3)
Share of loss from investment in associates in joint ventures	0.2	0.1	0.5	(0.2)
Change in long term receivables	5.1	(8.5)	5.9	(7.4)
Total cash flows used in investing activities [(2)]	**$ (3.3)**	**$ (22.2)**	**$ (92.0)**	**$ (61.3)**

(1) There was 1 buy back in the first quarter of 2018 (2017 – 5)
(2) Figures may not total due to rounding.

Cash flows used in investing activities were $3.3 million and $92.0 million during the 13 and 39 weeks ended September 30, 2018 compared to $22.2 million and $61.3 million in 2017, a decrease in use of $18.9 million and an increase in use of $30.7 million. The year-to-date increase is primarily related to The Keg merger partially offset by the sale of corporate and joint venture restaurants.

Commitments for Capital Expenditures

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

Cash flows (used in) from financing activities

The following table presents Recipe's cash used in financing activities for the 13 and 39 weeks ended September 30, 2018 compared to the 13 and 39 weeks ended September 24, 2017:

	For the 13 weeks ended		For the 39 weeks ended	
(C$ millions unless otherwise stated)	**Sept 30, 2018**	**Sept 24, 2017**	**Sept 30, 2018**	**Sept 24, 2017**
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Increases in debt	$ -	$ 18.8	$ 104.0	$ 36.0
Debt repayments	(31.0)	-	(65.0)	(32.0)
Issuance of subordinated voting common shares	(4.3)	-	(4.2)	0.1
Share repurchase	(0.7)	(28.0)	(1.7)	(28.6)
Change in finance leases	(0.8)	(0.6)	(0.7)	(0.8)
Interest paid net of interest income received	(7.9)	(2.5)	(13.3)	(6.9)
Dividends paid	(6.7)	(6.0)	(20.0)	(18.2)
Cash flows from (used in) financing activities [(1)]	$ (51.3)	$ (18.4)	$ (0.8)	$ (50.3)

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

Cash flows from financing activities were ($51.3) million and ($0.8) million for the 13 and 39 weeks ended September 30, 2018. Year to date, cash from financing activities primarily consist of a net increase in the Company's credit facility of $39.0 million related to The Keg merger, less interest paid in the amount of $13.3 million and dividends of $20.0 million.

Cash flows used in financing activities were ($18.4) million and ($50.3) million for the 13 and 39 weeks ended September 24, 2017. Cash used in financing activities were from debt borrowings used to complete the investment in Burger's Priest. Cash used in financing activities primarily consist of a reduction in the Company's credit facility, and interest and dividends paid.

Debt

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) was drawn under the amended and extended term credit facility 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%.

At the end of September 30, 2018, the Company had a Net Debt to EBITDA ratio of 1.94x, positioning the Company for more growth and enhanced shareholder returns.

The Keg Facility

In connection with The Keg merger, 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.

All of the above facilities 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 met 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 Partnership.

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

Off Balance Sheet Arrangements

Letters of credit

Recipe has outstanding letters of credit amounting to $0.6 million as at September 30, 2018 (December 31, 2017 - $0.6 million), primarily for various utility companies that provide services to the corporate owned locations and support for certain franchisees' external financing used to fund their initial conversion fee payable to Recipe.

Outstanding Share Capital

The Company's authorized share capital consists of an unlimited number of common shares and an unlimited number of non-voting common shares. As at November 8, 2018, there were 62,256,500 subordinate and multiple voting shares (December 31, 2017 – 58,572,890) issued and outstanding.

The Company has a common share stock option plan for its directors, CEO and employees. The total number of options granted and outstanding as at November 8, 2018 is 7,407,523.

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 of Subordinate and Multiple Voting Shares of which Fairfax and Holdings received $8.7 million and $4.6 million, respectively.

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

Insurance Provider

Some of Recipe's insurance policies are held by a company that is a subsidiary of Fairfax. The transaction is on market terms and conditions.

The Keg

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

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, 2018. 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 $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 (September 24, 2017 - $0.2 million and $0.8 million) on the term loans and demand loans.

The Company charges Original Joe's joint ventures 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 - $0.5 million) due from related parties in relation to these royalty and marketing charges. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties in accordance with the franchise agreement.

The Company's investment in joint ventures are increased by the proportionate share of income earned. For the 13 and 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 million 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 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 15 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 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 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.

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 decrease) 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.

Outlook

Management is pleased with the third quarter results and continued growth in all segments, Operating EBITDA and SRS. In the third quarter, Total Systems Sales grew $195.1 million or 28.5% to $879.8 million, Operating EBITDA before the net royalty expense increased 9.3% to $52.4 million with a contribution margin of 6.0% as a percentage of Total System Sales, and Adjusted Net Earnings increased to $32.1 million.

With the full year impact of The Keg merger, the Company will add approximately $612.0 million in System Sales, taking the Company to approximately $3.4 billion in 2018 compared to the initial 2015 IPO target range for 2020-2022 of $2.5 billion to $3.0 billion, and the updated target range provided in 2016 after the St-Hubert acquisition of $2.9 billion to $3.7 billion. For a full year on a pro forma basis using prior year results, The Keg merger will add approximately $23.5 million of Operating EBITDA resulting in combined proforma Operating EBITDA of approximately $211.0 million, also within Recipe's updated target EBITDA range of $203.0 million to $296.0 million (based on 7% to 8% of System Sales). However, while The Keg will add EBITDA dollars, because of net central overhead costs and royalty payments to the Keg Royalty Income Fund in the medium term, The Keg merger will reduce Recipe's Operating EBITDA margin on System Sales below the target 7% to 8% range. Management's focus will continue to be on improving the earnings efficiency of our assets and our increased sales base to grow Operating EBITDA as a percentage of System Sales back to within our 7% to 8% target range by 2020-2022.

Management provides the following comments regarding its strategies and initiatives:

- *System Sales and SRS Growth* — Management is pleased with total System Sales growth of 28.5% for the quarter and with SRS of 1.8% for the quarter, which is after the estimated impact of 0.3% from the malware incident .

  Management continues to focus on long-term profitable SRS growth with both short and long term strategies to improve SRS with focus on 4 Pillars - Quality of Food, Quality of Service, Value for Experience, and Ambience. Sales growth initiatives also include new and improved e-commerce applications that will be expanded to most brands over the next 2 years, effective use of technology to enhance Guest experiences and efficiencies, and brand specific digital-social media marketing.

- *Total Operating EBITDA* — The combined contributions from Corporate, Franchise, Food Processing and Distribution, and Central segments resulted in Total Operating EBITDA margin of 6.0% for the quarter compared to 7.0% in 2017. Excluding the impact from the shift in overhead bonus accrual expenses and the net royalty to the Keg Royalties Income Fund, Total Operating EBITDA margin was 6.7% for the quarter. While The Keg will add EBITDA dollars, because of net central overhead costs and royalty payments to the Keg Royalty Income Fund in the medium term, The Keg merger will reduce Recipe's Operating EBITDA margin on System Sales below the target 7% to 8% range. Management's focus will continue to be on improving the earnings efficiency of our assets and our increased sales base to grow Operating EBITDA as a percentage of System Sales back to within our 7% to 8% target range by 2020-2022.

- *Corporate restaurant profitability* — Corporate restaurant profitability was 10.8% for the quarter compared to 10.6% in 2017. The improvement during the quarter was mostly from the addition of The Keg which operates within our target range. Management believes there is significant opportunity for improved contribution in the future from Original Joe's and Pickle Barrel as Management realizes operating synergies from lower food and beverage costs and better labour management tools. Contribution will also improve as renovated restaurants re-open at higher sales levels and from the sale of certain corporate restaurants in franchise banners.

  Management will continue to pursue the sale of certain corporate restaurants in its franchise banners to franchisees and will pursue the sale of its share in joint venture locations to the Company's joint venture partners to convert joint venture locations to franchise to improve the corporate-franchise portfolio mix. During the 39 weeks ended September 30, 2018, 15 corporate restaurants were sold and re-franchised and 8 joint venture restaurants were franchised.

- *Franchise segment* —Franchise contribution as a percentage of franchise sales has improved to 4.2% in the third quarter of 2018 compared to 3.9% in 2017. The increase is primarily related to the addition of The Keg which collects average royalties over 5%.

- *Food processing and distribution* — Contribution dollars from food processing and distribution was $4.4 million and $9.8 million for the 13 and 39 weeks ended September 30, 2018, compared to $3.4 million in and $8.7 million in 2017. A new pie production line was added in the third quarter which will increase capacity and enable the

Company to meet the increased demand for its St-Hubert and Swiss Chalet frozen pie products with less reliance on higher cost third party producers.

- *Central segment* — The addition of The Keg has added net central overhead costs, including the royalty payments to the Keg Royalty Income Fund, thus reducing central contribution as a percentage of System Sales. Management will work towards realizing synergy opportunities with the companies acquired, expand our off premise business, including catering with the addition of Pickle Barrel, and we will continue to improve on our model for growing sales faster than head office expenses, and realizing earnings efficiency on higher system sales.

- *Restaurant Count* — In the 39 weeks ended September 30, 2018, excluding the acquisitions, the Company opened 39 new restaurant locations as compared to 35 in 2017. Year to date the Company closed 46 restaurants (excluding Casey's closures) compared to 35 closures in 2017. Included in the closures were underperforming locations where the closure will benefit the overall system performance and the Company's profitability going forward. Closures also included locations that no longer fit the long term strategy of certain brands. Management will continue to review its portfolio of restaurants and will opportunistically close underperforming or non-strategic locations that will benefit the Company long term. Management expects to achieve positive net new restaurants openings in the fourth quarter and for the full year ended 2018.

- *The Keg merger initiatives* – Management is focused on realizing synergy opportunities from The Keg merger to improve our combined earnings and earnings efficiency. Management is also excited to add the influence of David Aisenstat to the Milestones, Bier Markt and Landing premium brands.

- *Retail opportunities* – Since the acquisition of St-Hubert in 2017, the Company has successfully launched a number of products, including Swiss Chalet ribs and pot pies, across the country in grocery chains. During the third quarter, the Company completed the addition of a pie manufacturing line which will increase production of frozen pot pies and reduce third party costs to meet sales demand. Management is pursuing the launch of several more Recipe branded retail products to expand its retail presence in national grocery chains.

- *Growth and acquisitions* —The Company currently has a debt to EBITDA ratio of approximately 1.94x. At this debt level, and with strong cash flow from operations, the Company has the ability to consider more growth opportunities while continuing to reduce its debt, and by opportunistically repurchasing its subordinate voting shares for cancellation under the NCIB. During the 13 and 39 weeks ended September 30, 2018, the Company purchased and cancelled 27,700 and 66,237 Subordinate Voting Shares for $0.7 million and $1.7 million, respectively, under the Company's NCIB program.

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

Future Accounting Changes

New standards and amendments to existing standards have been issued and are applicable to the Company for its annual periods beginning on or after January 1, 2018. See note 3 of the Company's condensed consolidated interim financial statements for the 13 and 39 weeks ended September 30, 2018 for a summary of new accounting standards adopted during 2018 and note 4 for a summary of future accounting standards not yet adopted.

Controls and Procedures

In accordance with the provisions of National Instrument 52-109 certification of Disclosure in issued annual and interim filings, management, including the CEO and CFO, have limited the scope of their design of the Company's disclosure controls and procedures and procedures and internal control over financial reporting to exclude controls, policies and procedures of The Keg. The scope limitation is in accordance with section 3.3 (1)(b) of National Instrument 52-109, Certification of Disclosure in Issuer's Annual and Interim Filing, which allows an issuer to limit its design and evaluation of internal controls over financial reporting to exclude the controls, policies and procedures of a company acquired no more than 365 days before the end of the financial period to which the certification of interim filings relates. Recipe acquired shares of The Keg on February 22, 2018.

There were no changes in the Company's internal controls over financial reporting during the 13 and 39 weeks ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Critical Accounting Judgments and Estimates

The preparation of the condensed consolidated interim financial statements requires significant judgements made by management in applying the Company's accounting policies except those adopted using the judgements from the first quarter of 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.

Non-IFRS Measures

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

"System Sales" represents top-line sales from restaurant guests at both corporate and franchise restaurants including take-out and delivery customer orders. System Sales includes sales from both established restaurants as well as new restaurants. System sales also includes sales received from its food processing and distribution division. Management believes System Sales provides meaningful information to investors regarding the size of Recipe's restaurant network, the total market share of the Company's brands sold in restaurant and grocery and the overall financial performance of its brands and restaurant owner base, which ultimately impacts Recipe's consolidated financial performance.

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

"SRS Growth" is a metric used in the restaurant industry to compare sales earned in established locations over a certain period of time, such as a fiscal quarter, for the current period against sales in the same period in the previous year. SRS Growth helps explain what portion of sales growth can be attributed to growth in established locations and what portion can be attributed to the opening of net new restaurants. Recipe defines SRS Growth as the percentage increase or decrease in sales during a period of restaurants open for at least 24 complete fiscal months relative to the sales of those restaurants during the same period in the prior year. Recipe's SRS Growth results excludes Casey's restaurants as the Company is in the process of winding down its operations; and sales from international operations from 44 New York Fries and 3 US East Side Mario's.

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

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

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

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

"Adjusted Net Earnings" is defined as net earnings plus (i) deferred income tax expense (reversal); (ii) non-cash amortization of inventory fair value increases related to inventory sold during the period resulting from the St-Hubert purchase determined at acquisition date; (iii) change in fair value of non-controlling interest liability; (iv) change in fair value of Exchangeable Partnership units; (v) one-time transaction costs; (vi) non-cash impairment charges; and (vii) restructuring and other.

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

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

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

(C$ millions unless otherwise stated)	Q3 – 2018 Sept 30, 2018	Q2 – 2018 July 1, 2018	Q1 – 2018 Apr 1, 2018	Q4 – 2017 Dec 31, 2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reconciliation of net earnings to Adjusted Net Earnings				
Net earnings attributable to the common shareholders	$ 23.8	$ 19.5	$ 21.7	$ 27.3
Deferred income taxes	4.5	6.1	5.1	5.2
Change in fair value of non-controlling interest liability	1.0	1.0	-	-
Change in fair value of exchangable Partnership units	(0.3)	2.6	(2.3)	-
Transaction costs	0.5	0.1	0.5	0.1
Restructuring and other	2.6	0.5	0.2	1.0
Impairment charges	-	0.7	0.6	2.5
Adjusted Net Earnings [(1)]	**$ 32.1**	**$ 30.5**	**$ 25.9**	**$ 36.3**

(C$ millions unless otherwise stated)	Q3 - 2017 Sept 24, 2017	Q2 - 2017 June 25, 2017	Q1 - 2017 Mar 26, 2017	Q4 – 2016 Dec 25, 2016
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reconciliation of net earnings to Adjusted Net Earnings				
Net earnings attributable to the common shareholders	$ 21.2	$ 17.4	$ 44.0	$ 19.7
Deferred income taxes	6.0	3.8	(19.5)	5.5
Inventory fair value adjustment resulting from acquisition	-	-	-	0.3
Transaction costs	0.1	0.1	0.1	-
Restructuring and other	0.7	2.7	-	-
Impairment charges	0.7	2.4	1.2	0.4
Adjusted Net Earnings [(1)]	**$ 28.7**	**$ 26.4**	**$ 25.8**	**$ 25.9**

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

The following table provides reconciliations of EBITDA and Operating EBITDA:

(C$ millions unless otherwise stated)	Q3 - 2018 Sept 30, 2018	Q2 - 2018 July 1, 2018	Q1 - 2018 Apr 1, 2018	Q4 – 2017 Dec 31, 2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reconciliation of net earnings from continuing operations to EBITDA:				
Net earnings	$ 23.8	$ 19.5	$ 21.5	$ 27.3
Net interest expense and other financing charges	2.8	3.0	3.3	3.5
Income taxes	7.6	9.0	7.8	9.7
Depreciation of property, plant and equipment	11.3	14.6	13.1	12.0
Amortization of other assets	0.8	0.7	1.5	2.3
EBITDA[1]	**$ 46.3**	**$ 46.8**	**$ 47.2**	**$ 54.8**
Reconciliation of EBITDA to Operating EBITDA:				
Income on Partnership units	2.7	2.6	1.0	-
Fair value adjustments	0.6	3.6	(2.3)	-
(Gains) Losses on early buyout/cancellation of equipment rental contracts	0.3	0.3	0.2	(0.1)
Restructuring	2.7	0.5	0.2	1.0
Transaction costs	0.4	0.1	0.5	0.1
Conversion fees	(0.7)	0.1	(0.3)	(0.3)
Net gain on disposal of property, plant and equipment and other assets	(1.9)	(0.3)	(0.2)	(0.3)
Impairment of assets, net of reversals	-	0.7	0.6	2.5
Stock based compensation	2.3	1.0	0.5	0.5
Change in onerous contract provision	(1.4)	(1.0)	(0.3)	0.3
Proportionate share of equity accounted joint venture	1.1	0.8	0.4	0.2
Operating EBITDA [1]	**$ 52.4**	**$ 55.2**	**$ 47.4**	**$ 58.5**
Net royalty expense	3.6	3.5	1.5	-
Operating EBITDA [1]	**$ 56.0**	**$ 58.7**	**$ 48.8**	**$ 58.5**

(C$ millions unless otherwise stated)	Q3 - 2017 Sept 24, 2017	Q2 - 2017 Jun 25, 2017	Q1 - 2017 Mar 26, 2017	Q4 – 2016 Dec 25, 2016
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reconciliation of net earnings from continuing operations to EBITDA:				
Net earnings	$ 21.2	$ 17.4	$ 43.8	$ 19.7
Net interest expense and other financing charges	3.2	2.7	3.0	2.8
Income taxes	9.2	4.2	(16.3)	10.6
Depreciation of property, plant and equipment	11.2	10.8	10.0	10.1
Amortization of other assets	1.7	1.6	1.5	1.6
EBITDA[1]	**$ 46.4**	**$ 36.7**	**$ 42.0**	**$ 44.9**
Reconciliation of EBITDA to Operating EBITDA:				
Losses on early buyout/cancellation of equipment rental contracts	0.6	0.1	-	0.4
Restructuring	0.7	2.7	-	0.6
Transaction costs	0.1	0.1	0.1	-
Conversion fees	(0.3)	(0.3)	(0.3)	(0.4)
Net (gain) on disposal of property, plant and equipment	(0.4)	(1.1)	(0.4)	(2.6)
Impairment of assets, net of reversals	0.7	2.4	1.2	0.4
Inventory fair value adjustment resulting from acquisition	-	-	0.1	0.4
Stock based compensation	0.5	0.8	0.5	0.7
Change in onerous contract provision	(0.4)	(0.2)	(0.3)	2.3
Proportionate share of equity accounted joint venture	(0.1)	0.4	(0.1)	-
Operating EBITDA [1]	**$ 48.0**	**$ 41.6**	**$ 42.9**	**$ 46.7**

[1] Figures may not total due to rounding.

Forward-Looking Information

Certain statements in this MD&A may constitute "forward-looking" statements within the meaning of applicable Canadian securities legislation which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company or the industry in which they operate, to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this MD&A, such statements use words such as "may", "will", "expect", "believe", "plan" and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this MD&A. These forward-looking statements involve a number of risks and uncertainties, including those related to: (a) the Company's ability to maintain profitability and manage its growth including SRS Growth, System Sales Growth, increases in net income, Operating EBITDA, Operating EBITDA Margin on System Sales,, and Adjusted net earnings (b) competition in the industry in which the Company operates; (c) the general state of the economy; (d) integration of acquisitions by the Company; (e) risk of future legal proceedings against the Company. These risk factors and others are discussed in detail under the heading "Risk Factors" in the Company's Annual Information Form dated March 2, 2018. New risk factors may arise from time to time and it is not possible for management of the Company to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance or achievements of the Company to be materially different from those contained in forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this MD&A.

Risks and Uncertainties

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

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

Please refer to the Company's Annual Information Form available on SEDAR at www.sedar.com for a more comprehensive list.