

RECIPE UNLIMITED CORPORATION
(formerly Cara Operations Limited)
Management's Discussion and Analysis
For the 13 and 52 weeks ended December 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 52 weeks ended December 30, 2018 ("fourth quarter", "Q4", "the quarter" or "the period"). This MD&A should be read in conjunction with the Company's audited Consolidated Financial Statements and accompanying notes as at December 30, 2018. The consolidated results from operations for the 13 and 52 weeks ended December 30, 2018 are compared to the 14 and 53 weeks ended December 31, 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 March 6, 2019. Additional information relating to the Company can be found on SEDAR at www.sedar.com.

Basis of Presentation

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

Highlights for the 13 and 52 weeks ended December 30, 2018:

- The Company generates significant Free Cash Flow⁽¹⁾ which provides the Company the ability to fund growth and enhance shareholder returns. Free Cash Flow before growth capex, dividends, and NCIB for the 52 weeks ended December 30, 2018 was \$164.1 million compared to \$144.3 million for the 53 weeks ended December 31, 2017, an increase of \$19.8 million or 13.7%. Free Cash Flow before growth capex, dividends, and NCIB per share on a diluted basis was \$2.66 for the 52 weeks ended December 30, 2018 compared to \$2.42 for 2017, an increase of \$0.24 per share or 9.9%. During the 52 weeks ended December 30, 2018, the Company repaid \$116.0 million in debt, more than the \$104.0 million that the Company drew on its credit facilities to fund the merger with The Keg in February 2018. At the end of 2018, the Company's Debt to EBITDA ratio was 1.68x compared to the end of Q1 2018 at 2.2x, illustrating how quickly the Company's leverage can reduce from Free Cash Flow.
- On the strength of the Company's Free Cash Flow, the Board of Directors is increasing the dividend by 5% to \$0.1121 per quarter per share on subordinate and multiple voting common shares.
- System Sales⁽¹⁾ grew \$130.5 million to \$905.4 million for the 13 weeks ended December 30, 2018 compared to \$774.9 million for the 14 weeks ended December 31, 2017, representing an increase of 16.8%. For the 52 weeks ended December 30, 2018, System Sales grew \$635.8 million to \$3,415.3 million compared to \$2,779.5 million for the 53 weeks ended December 31, 2017, representing an increase of 22.9%. The sales impact from the additional week in 2017 was \$48.2 million. The increase in System Sales is primarily related to same restaurant sales increases for the year, the additions of Pickle Barrel in December 2017 and The Keg in February 2018.
- Same Restaurant Sales ("SRS") Growth⁽¹⁾ for the 13 weeks ended December 30, 2018 was a decrease of 0.2% and an increase of 1.3% for the 52 weeks ended December 30, 2018 compared to the same 13 and 52 weeks in 2017. 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 of Operational Excellence - Quality of Food, Quality of Service, Value for Experience, and Ambience.
- The Company achieved Operating EBITDA⁽¹⁾ of \$64.5 million for the quarter and \$219.6 million for the 52 weeks ended December 30, 2018 compared to \$58.5 million for the 14 weeks ended December 31, 2017 and \$191.0 million for the 53 weeks ended December 31, 2017, an improvement of \$6.0 million or 10.3% for the quarter, and an improvement of \$28.6 million or 15.0% for the year. The estimated Operating EBITDA impact from the

additional week in Q4 of 2017 was \$3.5 million in Operating EBITDA, increasing the 2018 improvement over 2017 for the quarter to \$9.5 million or 16.2% and on a 52 week basis to \$32.1 million or 16.8%. The increases for the year 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.

- Operating EBITDA Margin on System Sales⁽¹⁾ before The Keg royalty expense was 7.5% for the fourth quarter as compared to 7.6% in 2017. Operating EBITDA Margin on System Sales after The Keg royalty expense was 7.1% for the quarter. Operating EBITDA Margin on System Sales before The Keg royalty for the 52 weeks ended December 30, 2018 was 6.8% compared to 6.9% in 2017. Operating EBITDA Margin on System Sales after The Keg royalty for the year was 6.4% compared to 6.9% in 2017. While The Keg will add EBITDA dollars, because of higher net central overhead costs and the royalty payments to The Keg Royalties 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. In Q4, Operating EBITDA was within our target of 7% to 8%, showing improvement from Q2 and Q3. 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.
- Contribution from retail and catering for the 13 and 52 weeks ended December 30, 2018 was \$8.9 million and \$19.5 million compared to \$6.6 million and \$15.3 million for the 14 and 53 weeks ended December 31, 2017, an increase of \$2.3 million or 34.8% for the quarter and \$4.2 million or 27.5% for the year. The increases are primarily driven by sales increases from the Swiss Chalet branded products, increases in frozen pot pies from the addition of the new pie production line, and the additions of The Keg retail business in February 2018 and Pickle Barrel catering in December 2017.
- Earnings before change in fair value of certain financial instruments and income taxes was \$23.3 million for the 13 weeks ended December 30, 2018 compared to \$37.0 million for the 14 weeks ended December 31, 2017, a decrease of \$13.7 million for the quarter or \$11.1 million when excluding the additional week in Q4 of 2017. The change in the quarter reflects an earnings increase of \$1.1 million over 2017 from the addition of The Keg and improvements in the corporate, franchise, and retail and catering segments before the \$12.2 million impact from the \$7.9 million increase in restructuring costs related to the expected cost to exit the Company's IT data center lease, and \$4.3 million increase in non-cash impairments recorded in the quarter. The Q4 restructuring provisions should result in future earnings increases from reduced home office, and franchise bad debt and rent subsidy costs.

Earnings before changes in fair value of certain financial instruments and income taxes was \$114.4 million for the 52 weeks ended December 30, 2018 compared to \$116.6 million for the 53 weeks ended December 31, 2017, a decrease of \$2.2 million or 1.9%. However, after excluding the \$2.6 million earnings from the additional week in Q4 2017, 2018 earnings was \$0.4 million higher than 2017. This reflects an earnings increase of \$9.6 million over 2017 from the addition of The Keg and improvements in the corporate, franchise, and retail and catering segments before the \$9.2 million impact from the \$7.9 million increase in restructuring costs related to the expected cost to exit the Company's IT data center lease, and \$1.3 million increase in non-cash impairments recorded in the year.

- Adjusted Basic Earnings per Share ("EPS") for the 13 and 52 weeks ended December 30, 2018 was \$0.56 and \$2.00 compared to \$0.62 and \$1.96 for the 14 and 53 weeks ended December 31, 2017, a decrease of \$0.06 per share for the quarter and an increase of \$0.04 per share for the full year. Adjusted Diluted EPS for the 13 and 52 weeks ended December 30, 2018 was \$0.54 and \$1.93 compared to \$0.59 and \$1.88 for the 14 and 53 weeks ended December 31, 2017, a decrease of \$0.05 per share for the quarter and an increase of \$0.05 per share for the full year. The Q4 decreases were the result of the \$7.9 million increase in restructuring costs and \$4.3 million increase in non-cash impairments that offset earnings increase of \$1.1 million from The Keg and improvements in the corporate, franchise, and retail and catering segments.

- On December 11, 2018, the Company completed the 100% acquisition of Marigolds and Onions Ltd. for approximately \$6.8 million, of which \$4.0 million was settled by drawing on the Company's existing credit facility on the date of acquisition. The remaining balance of \$2.8 million will be paid in December 2019 and December 2020 if certain targets and conditions are met. Marigolds and Onions Ltd. is an event catering company based in Ontario with annual sales of approximately \$12.8 million.
- During the 13 and 52 weeks ended December 30, 2018, the Company purchased and cancelled 568,613 and 634,850 Subordinate Voting Shares for \$14.5 million and \$16.2 million, respectively under the Company's normal course issuer bid ("NCIB").

- (1) See "Non-IFRS Measures" on page 44 for definitions of System Sales, SRS Growth, Adjusted Net Earnings, Operating EBITDA, Operating EBITDA Margin on System Sales, Free Cash Flow 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 March 6, 2019, the Company's Board of Directors declared a dividend of \$0.1121 per share of subordinate and multiple voting common stock, a 5% increase over the 2018 quarterly dividend rate. Payment of the dividend will be made on April 15, 2019 to shareholders of record at the close of business on March 29, 2019. 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.

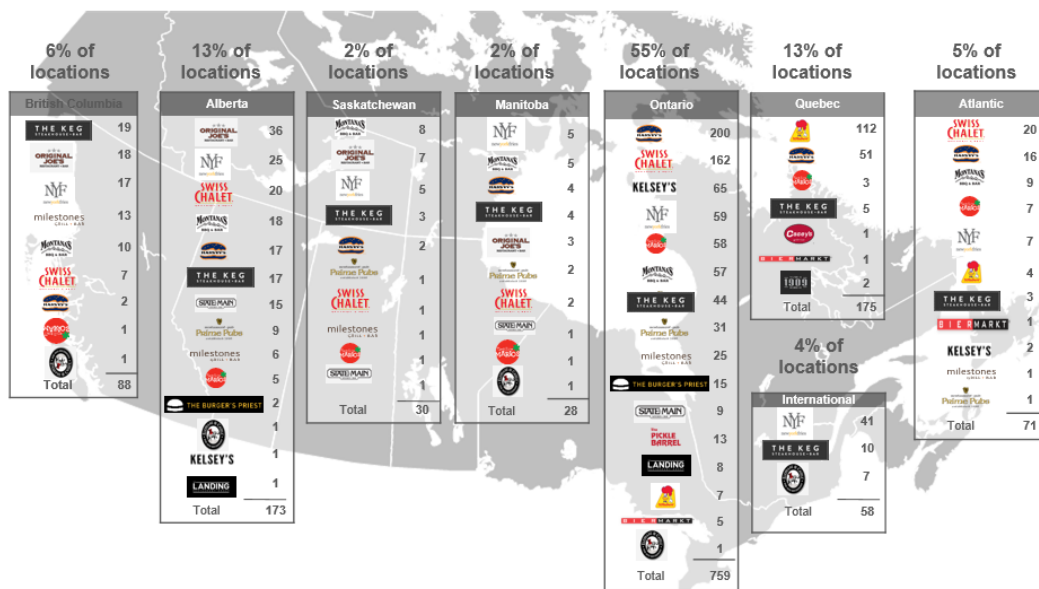
Subsequent to year end, the Company has repurchased 134,885 Recipe subordinate voting shares for \$3.6 million under the NCIB.

On January 1, 2019, an estimated \$12.6 million in annual net sales were added to the KRIF Royalty Pool⁽¹⁾ and the total number of restaurants in the Royalty Pool increased to 105. As a result of the contribution of the additional net sales to the KRIF Royalty Pool, Keg Restaurants Ltd. ("KRL") will receive 294,741 additional Exchangeable Keg Partnership Units, being 1.87% of the KRIF units on a fully diluted basis. On January 1, 2019, KRL received 80% of this entitlement, representing the equivalent of 235,793 KRIF units, being 1.50% of the KRIF units on a fully diluted basis. KRL will also receive a proportionate increase in monthly distributions from The Keg Partnership. Including the initial 235,793 portion of the KRIF Fund units described above, KRL will have the right to exchange its units in the capital of the Partnership for 4,318,857 KRIF units, representing 27.56% of the KRIF units on a fully diluted basis. The balance of the additional entitlement will be adjusted on December 31, 2019, to be effective January 1, 2019, once the actual performance of new restaurants has been confirmed. If the Company were to receive 100% of the estimated Additional Entitlement⁽¹⁾ for 2019, it would have the right to exchange its Partnership units for 4,377,805 Fund units, representing 27.83% of the KRIF units on a fully diluted basis.

⁽¹⁾Royalty Pool - Annually, on January 1st, the Royalty Pool is adjusted to include the gross sales from new Keg restaurants that have opened on or before October 2nd of the prior year, less gross sales from any Keg restaurants that have permanently closed during the preceding calendar year. In return for adding these net sales to the Royalty Pool, KRL receives the right to indirectly acquire additional Fund units (the "Additional Entitlement"). The Additional Entitlement is determined based on 92.5% of the estimated net royalty revenue added to the Royalty Pool, divided by the yield of the Fund units, divided by the weighted average unit price of the Fund units. KRL receives 80% of the estimated Additional Entitlement initially, with the balance received on December 31st of each year when the actual full-year performance of the new restaurants is known with certainty.

Overview

Recipe is a full-service restaurant company that franchises and operates iconic restaurant brands. As at December 30, 2018, Recipe had 22 brands and 1,382 restaurants, 82% of which are operated by franchisees and joint venture partners, operating in 10 countries (Canada, USA, Bahrain, China, Macao, Oman, Panama, Qatar, Saudi Arabia and the UAE). 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, The Keg, Rose Reisman, Marigolds and Onions, and Fresh, whereby Recipe owns the intellectual property as part of a joint venture. Recipe's iconic brands have established Recipe as a nationally recognized franchisor of choice.



Unit count (unaudited)	As at December 30, 2018				As at December 31, 2017			
	Corporate	Franchise	Joint Venture	Total	Corporate	Franchise	Joint Venture	Total
Swiss Chalet	15	197	0	212	8	210	0	218
Harvey's	10	282	0	292	11	271	0	282
Montana's	8	99	0	107	7	98	0	105
East Side Mario's ⁽¹⁾	2	74	0	76	3	73	0	76
Kelsey's	4	64	0	68	12	56	0	68
Casey's	0	1	0	1	0	2	0	2
Prime Pubs	4	40	0	44	4	37	0	41
Bier Markt	7	0	0	7	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	111	0	123	12	110	0	122
Original Joe's	19	27	18	64	20	18	28	66
State & Main	8	11	7	26	15	4	8	27
Elephant & Castle	10	1	0	11	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	13	0	0	13	12	0	0	12
The Keg	49	56	0	105	0	0	0	0
Total restaurants	208	1,128	46	1,382	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 the select results of Recipe's operations for 2018, 2017, 2016, and 2015:

(C\$ millions unless otherwise stated)	52 weeks	53 weeks	52 weeks	52 weeks
	Dec 30, 2018	Dec 31, 2017	Dec 25, 2016	Dec 27, 2015
System Sales ⁽¹⁾⁽³⁾	\$ 3,415.3	\$ 2,779.5	\$ 2,041.7	\$ 1,765.7
System Sales Growth ⁽¹⁾⁽³⁾	22.9%	36.1%	15.6%	4.4%
SRS Growth ⁽²⁾⁽³⁾	1.3%	0.7%	(1.7%)	2.4%
Total number of restaurants	1,382	1,272	1,237	1,010
Total gross revenue ⁽⁴⁾⁽⁵⁾	\$ 1,191.9	\$ 832.7	\$ 512.2	\$ 373.3
Operating EBITDA ⁽³⁾	\$ 219.6	\$ 191.0	\$ 144.0	\$ 112.2
Operating EBITDA Margin ⁽³⁾	18.4%	22.9%	28.1%	30.1%
Operating EBITDA on System Sales ⁽³⁾	6.4%	6.9%	7.1%	6.4%
Net Keg royalty expense	\$ 12.3	\$ -	\$ -	\$ -
Operating EBITDA ⁽³⁾ excluding the Keg royalty expense	\$ 231.9	\$ 191.0	\$ 144.0	\$ 112.2
Operating EBITDA Margin ⁽³⁾ excluding the Keg royalty expense	19.5%	22.9%	28.1%	30.1%
Operating EBITDA on System Sales ⁽³⁾ excluding the Keg royalty expense	6.8%	6.9%	7.1%	6.4%
Free cash flow ⁽³⁾ before growth capex, dividends and NCIB	\$ 164.1	\$ 144.3	\$ 116.5	\$ 81.4
Free cash flow (3) Per Share - Basic (in dollars)	\$ 2.66	\$ 2.42	\$ 2.22	\$ 2.01
Free cash flow (3) Per Share - Diluted (in dollars)	\$ 2.57	\$ 2.32	\$ 2.11	\$ 1.72
Free cash flow (3), after growth capex, dividends and NCIB	\$ 117.7	\$ 57.4	\$ 80.9	\$ 62.6
Free cash flow (3) Per Share - Basic (in dollars)	\$ 1.91	\$ 0.96	\$ 1.55	\$ 1.55
Free cash flow (3) Per Share - Diluted (in dollars)	\$ 1.84	\$ 0.92	\$ 1.47	\$ 1.32
Dividends paid per share	\$ 0.43	\$ 0.41	\$ 0.40	\$ 0.31
Earnings before income taxes	\$ 104.6	\$ 116.6	\$ 96.0	\$ 66.2
Adjusted Net Earnings ⁽³⁾	\$ 123.2	\$ 117.1	\$ 97.0	\$ 64.3
Adjusted Basic EPS ⁽³⁾ (in dollars)	\$ 2.00	\$ 1.96	\$ 1.86	\$ 1.58

⁽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 44 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 44 for definition of SRS Growth.

⁽³⁾ See "Non-IFRS Measures" on page 44 for definitions of System Sales, System Sales Growth, SRS Growth, Operating EBITDA, Operating EBITDA Margin, Operating EBITDA on System Sales, Free cash flow, Adjusted Net Earnings, Adjusted Basic EPS, and Adjusted Diluted EPS. See page 7 for a reconciliation of Net Earnings to Operating EBITDA and to Free Cash Flow.

⁽⁴⁾ Total gross revenue is comprised of (a) Sales from company-owned restaurants; (b) Sales from the catering and retail (St-Hubert, The Keg and other private label products) divisions; (c) call centre revenue from processing off-premise orders for franchised locations; (d) Franchise revenue, including marketing fund contributions, franchise fees, rental income, conversion fees, and other payments.

⁽⁵⁾ Prior year comparative figures have been updated to include advertising fund payments as a result of implementing IFRS 15.

The following table summarizes select results of Recipe's operations for the 13 and 52 weeks ended December 30, 2018 and for the 14 and 53 weeks ended December 31, 2017:

	13 weeks	14 weeks	52 weeks	53 weeks
	Dec 30,	Dec 31,	Dec 30,	Dec 31,
(C\$ millions unless otherwise stated)	2018	2017	2018	2017
	(unaudited)	(unaudited)		
System Sales ⁽²⁾⁽⁴⁾	\$ 905.4	\$ 774.9	\$ 3,415.3	\$ 2,779.5
Sales	\$ 280.1	\$ 196.1	\$ 1,006.7	\$ 667.2
Franchise revenues ⁽³⁾	48.1	43.9	185.3	165.5
Total gross revenue ⁽¹⁾	\$ 328.2	\$ 240.0	\$ 1,191.9	\$ 832.7
Cost of inventories sold	(117.7)	(89.1)	(419.7)	(300.1)
Selling, general and administrative expenses ⁽³⁾	(168.6)	(107.0)	(624.9)	(392.7)
Operating income before impairment, restructuring and other	\$ 41.9	\$ 43.9	\$ 147.3	\$ 139.9
Impairment of assets, net of reversals	(6.8)	(2.5)	(8.1)	(6.9)
Restructuring and other	(8.9)	(1.0)	(12.3)	(4.4)
Operating income ⁽¹⁾	\$ 26.2	\$ 40.3	\$ 126.9	\$ 128.7
Net interest expense and other financing charges	(2.8)	(3.5)	(11.9)	(12.5)
Share of loss from investment in associates and joint ventures	(0.1)	0.2	(0.6)	0.3
Earnings before change in fair value and income taxes ⁽¹⁾	\$ 23.3	\$ 37.0	\$ 114.4	\$ 116.6
Change in fair value of non-controlling interest liability	(1.5)	-	(3.5)	-
Change in fair value of exchangeable partnership units	(6.4)	-	(6.4)	-
Earnings before income taxes ⁽¹⁾	\$ 15.4	\$ 37.0	\$ 104.6	\$ 116.6
Income taxes - current	(5.8)	(4.5)	(14.4)	(11.2)
Income taxes - deferred	(0.6)	(5.2)	(16.4)	4.4
Net earnings ⁽¹⁾	\$ 9.0	\$ 27.3	\$ 73.8	\$ 109.8
Adjusted Net Earnings ⁽²⁾	\$ 34.9	\$ 36.3	\$ 123.2	\$ 117.1
Total assets	\$ 1,591.1	\$ 1,343.5	\$ 1,591.1	\$ 1,343.5
Non-current financial liabilities	\$ 643.9	\$ 578.5	\$ 643.9	\$ 578.5
Earnings per share attributable to common shareholders (in dollars)				
Basic EPS	\$ 0.15	\$ 0.47	\$ 1.20	\$ 1.84
Diluted EPS	\$ 0.14	\$ 0.45	\$ 1.16	\$ 1.77
Adjusted Basic EPS ⁽²⁾	\$ 0.56	\$ 0.62	\$ 2.00	\$ 1.96

⁽¹⁾ Figures may not total due to rounding.

⁽²⁾ See "Non-IFRS Measures" on page 44 for definitions of System Sales, Adjusted Net Earnings, Adjusted Basic EPS and Adjusted Diluted EPS. See page 7 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 44 for definition of System Sales.

	13 weeks	14 weeks	52 weeks	53 weeks
	Dec 30,	Dec 31,	Dec 30,	Dec 31,
(C\$ millions unless otherwise stated)	2018	2017	2018	2017
	(unaudited)	(unaudited)		
Reconciliation of net earnings to Adjusted Net Earnings ⁽²⁾				
Net earnings	\$ 9.0	\$ 27.3	\$ 73.8	\$ 109.8
Transaction costs	1.8	0.1	2.8	0.4
Impairment charges	6.8	2.5	8.1	6.9
Restructuring and other	8.9	1.0	12.3	4.4
Change in fair value of non-controlling interest liability	1.5	-	3.5	-
Change in fair value of exchangeable partnership units	6.4	-	6.4	-
Deferred income taxes	0.6	5.2	16.4	(4.4)
Adjusted Net Earnings ⁽¹⁾⁽²⁾	\$ 34.9	\$ 36.3	\$ 123.2	\$ 117.1
Reconciliation of net earnings to EBITDA ⁽²⁾				
Net earnings	\$ 9.0	\$ 27.3	\$ 73.8	\$ 109.8
Net interest expense and other financing charges	2.8	3.5	11.9	12.5
Income taxes	6.4	9.7	30.8	6.8
Depreciation of property, plant and equipment	15.2	12.0	54.2	43.9
Amortization of other assets and deferred gain	1.0	2.3	4.1	7.1
EBITDA ⁽²⁾	\$ 34.4	\$ 54.8	\$ 174.8	\$ 180.1
Reconciliation of EBITDA ⁽²⁾ to Operating EBITDA ⁽²⁾:				
Income on partnership units	2.7	-	9.0	-
Change in fair value of exchangeable partnership units	6.4	-	6.4	-
Fair value adjustments	1.5	-	3.5	-
Losses on early buyout/cancellation of equipment rental contracts	0.4	(0.1)	1.3	0.2
Restructuring and other	8.9	1.0	12.3	4.4
Transaction costs	1.7	0.1	2.8	0.4
Conversion fees	0.5	(0.3)	(0.4)	(1.1)
Net (gain) loss on disposal of property, plant and equipment and other assets	(0.3)	(0.3)	(3.5)	(2.3)
Impairment of assets	6.8	2.5	8.1	6.9
Stock based compensation	2.1	0.5	5.9	2.3
Change in onerous contract provision	0.9	0.3	(1.8)	(0.6)
Proportionate share equity of joint venture results	(1.4)	0.2	1.2	0.8
Operating EBITDA ⁽¹⁾⁽²⁾	\$ 64.5	\$ 58.5	\$ 219.6	\$ 191.0
Reconciliation of Operating EBITDA ⁽²⁾ to Free Cash Flow				
Operating EBITDA ⁽¹⁾⁽²⁾	\$ 64.5	\$ 58.5	\$ 219.6	\$ 191.0
Cash interest paid	(5.7)	(2.8)	(19.0)	(9.7)
Maintenance capex	(9.5)	(12.9)	(25.8)	(26.2)
Cash taxes	(1.7)	(4.2)	(10.7)	(10.8)
Free Cash Flow before Growth Capex, Dividends & NCIB...	\$ 47.6	\$ 38.6	\$ 164.1	\$ 144.3
Growth Capex (new builds and major renovations)	(4.2)	(2.3)	(17.0)	(31.3)
Proceeds from corporate dispositions net of buy backs	5.8	0.9	13.4	2.5
Dividends paid	(6.6)	(6.0)	(26.6)	(24.2)
NCIB purchases	(14.5)	(5.3)	(16.2)	(33.9)
Free Cash Flow after Growth Capex, Dividends & NCIB.....	\$ 28.1	\$ 25.9	\$ 117.7	\$ 57.4

⁽¹⁾ Figures may not total due to rounding. ⁽²⁾ See "Non-IFRS Measures" on page 44 for definitions of Adjusted Net Earnings, EBITDA, Operating EBITDA, and Free Cash Flow.

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

	13 weeks	14 weeks	52 weeks	53 weeks
	Dec 30,	Dec 31,	Dec 30,	Dec 31,
(C\$ millions unless otherwise stated)	2018	2017	2018	2017
	(unaudited)	(unaudited)		
System Sales ⁽¹⁾⁽³⁾	\$ 905.4	\$ 774.9	\$ 3,415.3	\$ 2,779.5
System Sales Growth ⁽¹⁾⁽³⁾	16.8%	20.9%	22.9%	36.1%
SRS Growth ⁽²⁾⁽³⁾	(0.2)%	2.5%	1.3%	0.7%
Number of corporate restaurants (at period end).....	208	169	208	169
Number of joint venture restaurants (at period end).....	46	54	46	54
Number of franchised restaurants (at period end).....	1,128	1,049	1,128	1,049
Total number of restaurants (at period end).....	1,382	1,272	1,382	1,272
Total gross revenue.....	\$ 328.2	\$ 240.0	\$ 1,191.9	\$ 832.7
Operating EBITDA ⁽³⁾	\$ 64.5	\$ 58.5	\$ 219.6	\$ 191.0
Operating EBITDA Margin ⁽³⁾	19.7%	24.4%	18.4%	22.9%
Operating EBITDA on System Sales ⁽³⁾	7.1%	7.6%	6.4%	6.9%
Net Keg royalty expense.....	\$ 3.8	\$ -	\$ 12.3	\$ -
Operating EBITDA ⁽³⁾ excluding the Keg royalty expense.....	\$ 68.3	\$ 58.5	\$ 231.9	\$ 191.0
Operating EBITDA Margin ⁽³⁾ excluding the Keg royalty expense..	20.8%	24.4%	19.5%	22.9%
Operating EBITDA on System Sales ⁽³⁾ excluding the Keg royalty expense.....	7.5%	7.6%	6.8%	6.9%
Free cash flow ⁽³⁾ , before growth capex, dividends and NCIB.....	\$ 47.6	\$ 38.6	\$ 164.1	\$ 144.3
Free cash flow ⁽³⁾ per share, - basic (in dollars).....	\$ 0.77	\$ 0.66	\$ 2.66	\$ 2.42
Free cash flow ⁽³⁾ per share, - diluted (in dollars).....	\$ 0.74	\$ 0.63	\$ 2.57	\$ 2.32
Free cash flow ⁽³⁾ , after growth capex, dividends and NCIB.....	\$ 28.1	\$ 25.9	\$ 117.7	\$ 57.4
Free cash flow ⁽³⁾ per share, - basic (in dollars).....	\$ 0.45	\$ 0.44	\$ 1.91	\$ 0.96
Free cash flow ⁽³⁾ per share, - diluted (in dollars).....	\$ 0.44	\$ 0.42	\$ 1.84	\$ 0.92

⁽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 44 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 44 for definition of SRS Growth.

⁽³⁾ See "Non-IFRS Measures" on page 44 for definitions of System Sales, System Sales Growth, SRS Growth, Operating EBITDA, Operating EBITDA Margin, Operating EBITDA on System Sales, and Free cash flow. See page 7 for a reconciliation of Net Earnings to Operating EBITDA and to Free Cash Flow.

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 is focused 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⁽¹⁾ for the 13 weeks ended December 30, 2018 was a decrease of 0.2% and an increase of 1.3% for the 52 weeks ended December 30, 2018 compared to the same 13 and 52 weeks in 2017.

See "Non-IFRS Measures" on page 44 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 and a pre-disposition to the hospitality industry; 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. Management's focus is on the quality of sales from its portfolio of restaurants as we improve site selection, close weaker locations and renovate to improve guest experience. 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 52 weeks ended December 30, 2018, the Company completed 23 and 74 renovations, respectively.

Recipe's restaurant network consists of company-owned corporate locations and franchised locations. As at the end of December 30, 2018, there were 1,382 restaurants. The following table presents the changes in Recipe's restaurant unit count:

Unit count (unaudited)	52 week period ended				53 week period ended			
	December 30, 2018				December 31, 2017			
	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	12	-	14	26
New openings	4	54	3	61	7	47	2	56
Closures	(17)	(38)	(1)	(56)	(10)	(34)	-	(44)
Casey's closures	-	(1)	-	(1)	-	(3)	-	(3)
Corporate buy backs ⁽³⁾	15	(15)	-	-	5	(5)	-	-
Restaurants re-franchised ⁽⁴⁾	(12)	22	(10)	-	(14)	14	-	-
End of period	208	1,128	46	1,382	169	1,049	54	1,272

⁽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 52 weeks ended December 30, 2018, excluding the acquisitions, the Company opened 61 new restaurant locations as compared to 56 in 2017; and closed 56 restaurants (excluding Casey's closures) compared to 44 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's focus will continue to be on the quality of sales from its portfolio of restaurants as we improve site selection, close weaker locations and renovate to improve guest experience. For restaurant locations that no longer fit the longer strategic plan of the Company, Management will take steps to exit these underperforming sites.

Financial results

System Sales

System Sales for the 13 and 52 weeks ended December 30, 2018 were \$905.4 million and \$3,415.3 million compared to \$774.9 million and \$2,779.5 million for the 14 and 53 weeks ended December 31, 2017, representing an increase of \$130.5 million or 16.8% for the quarter and \$635.8 million or 22.9% for the year. The System Sales impact from the additional week in 2017 was \$48.2 million. The increase for the year 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.

Total gross revenue

Total gross revenue represents sales from corporate restaurants, 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, sales from our Retail and Catering division including sales to retail grocery customers.

Total gross revenue was \$328.2 million and \$1,191.9 million for the 13 and 52 weeks ended December 30, 2018 compared to \$240.0 million and \$832.7 million for the 14 and 53 weeks ended December 31, 2017, representing an increase of \$88.2 million or 36.8% for the quarter and \$359.2 million or 43.1% for the year. The increase in gross revenues for the year was primarily the result of positive SRS, the Pickle Barrel acquisition in December 2017 and the addition of The Keg in February 2018. The estimated impact from the additional week in 2017 was \$10.5 million in gross revenue.

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.

	13 weeks	14 weeks	52 weeks	53 weeks
	Dec 30,	Dec 31,	Dec 30,	Dec 31,
(C\$ millions unless otherwise stated)	2018	2017	2018	2017
	(unaudited)	(unaudited)		
Corporate restaurant expenses	\$ 114.0	\$ 78.0	\$ 422.4	\$ 255.6
Franchise assistance and bad debt	1.8	1.5	8.2	8.7
Advertising fund transfers and franchisor over-contribution to advertising funds.....	8.9	10.3	64.5	61.1
The Keg royalty expense.....	6.5	-	21.3	-
Depreciation and amortization.....	15.7	13.4	56.2	47.7
Other.....	14.1	(2.3)	52.2	19.7
Total selling, general and administrative expenses (1).....	\$ 161.0	\$ 101.0	\$ 624.9	\$ 392.7

⁽¹⁾ Figures may not total due to rounding.

SG&A expenses for the 13 and 52 weeks ended December 30, 2018 were \$161.0 million and \$624.9 million compared to \$101.0 million and \$392.7 million for the 14 and 53 weeks ended December 31, 2017, representing an increase of \$60.0 million or 59.4% for the quarter and \$232.2 million or 59.1% for the year. The increases are largely related to higher corporate restaurant expenses of \$36.1 million for the quarter and \$166.8 million for the year from the addition of 39 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 improved to 10.7% from 9.8% in the quarter and versus 9.7% for the full year 2017, and contribution dollars from the corporate segment have improved to \$80.5 million for the year from \$42.5 million in 2017 from having a better mix of corporate restaurants after adding The Keg and Pickle Barrel and refranchising certain corporate restaurants in franchise banners. SG&A expenses also increased \$6.5 million for the quarter and \$21.3 million for the year as a result of The Keg royalty expense. Finally, other SG&A expenses have increased \$16.4 million for the quarter and \$32.5 million primarily related to the additions of Pickle Barrel in December 2017 and The Keg in February 2018.

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 \$11.9 million for the 13 and 52 weeks ended December 30, 2018 compared to \$3.5 million and \$12.5 million for the 14 and 53 weeks ended December 31, 2017, a decrease of \$0.7 million and \$0.6 million, respectively. The decrease is related to interest income from Keg Partnership units offset by increases in interest expense related to the additional borrowings made for the Pickle Barrel and The Keg transactions.

Income taxes

Recipe's earnings are subject to both federal and provincial income taxes. Up to 2019, Recipe had income tax losses available for certain legal entities 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 \$5.8 million and \$14.4 million for the 13 and 52 weeks ended December 30, 2018, compared to \$4.5 million and \$11.2 million for the 14 and 53 weeks ended December 31, 2017, representing an income tax expense increase of 1.3 million and \$3.2 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 \$0.6 million and \$16.4 million for the 13 and 52 weeks ended December 30, 2018, compared to an expense of \$5.2 million and a recovery of \$4.4 million for the 14 and 53 weeks ended December 31, 2017, representing a deferred income tax expense change of \$4.6 million and \$20.8 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 \$9.0 million for the 13 weeks ended December 30, 2018 compared to \$27.3 million for the 14 weeks ended December 31, 2017, a decrease of \$18.3 million for the quarter or \$15.7 million when excluding the impact from the additional week in 2017, reflecting an earnings increase of \$4.4 million over 2017 before the \$20.1 million impact from the \$7.9 million increase in restructuring costs related to the expected cost to exit the Company's IT data center lease, \$4.3 million increase in non-cash impairments, and \$7.9 million increase in fair value changes related to non-controlling interest liability and the Exchangeable Keg Partnership units recorded in the quarter.

Net earnings were \$73.8 million for the 52 weeks ended December 30, 2018 compared to \$109.8 million for the 53 weeks ended December 31, 2017, a decrease of \$36.0 million for the year or \$33.4 million when excluding the impact from the additional week in 2017, reflecting an earnings increase of \$9.7 million over 2017 before the \$43.1 million impact from the \$7.9 million increase in restructuring costs related to the expected cost to exit the Company's IT data center lease, \$1.3 million increase in non-cash impairments, \$9.9 million increase in fair value changes related to non-controlling interest liability and the Exchangeable Keg Partnership units, and \$24.0 million increase in income taxes due to deferred tax recoveries recognized in 2017.

Adjusted net earnings

Adjusted net earnings for the 13 and 52 weeks ended December 30, 2018 was \$34.9 million and \$123.2 million compared to \$36.3 million and \$117.1 million for the 14 and 53 weeks ended December 31, 2017, a decrease of \$1.4 million for the quarter and an increase of \$6.1 million for the full year. Excluding the estimated impact of \$2.6 million in net earnings from the 53rd week in 2017, the change in 2018 would have been an increase of \$1.2 million for the quarter and an increase of \$8.8 million for the full year. Additional 2018 Operating EBITDA of \$24.2 million from The Keg, higher contribution from the corporate, franchise, retail and catering segments, improvements from Original Joe's, and the addition of Pickle Barrel in December 2017 was offset by an increase in interest in long-term debt related to the Pickle Barrel and The Keg additions, increased depreciation expense from the addition of corporate restaurants primarily related to the Pickle Barrel and The Keg additions, and an increase in current income tax expense of \$1.3 million for the quarter and \$3.2 million for the year.

Segment Performance

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

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

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

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

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

The CEO, 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 \$68.3 million and \$231.9 million, representing 7.5% and 6.8% contribution as a percentage of Total System Sales for the 13 and 52 weeks ended December 30, 2018 compared to \$58.5 million and \$191.0 million, representing 7.6% and 6.9% for the 14 and 53 weeks ended December 31, 2017. The increases are related to higher contribution from the corporate, franchise, retail and catering segments, improvements in Original Joe's, the addition of Pickle Barrel in December 2017 and The Keg in February 2018. Operating EBITDA and Operating EBITDA Margin from the retail and catering segments increased significantly in 2018 to \$8.9 million and 10.5% for the quarter compared to \$6.6 million and 8.5% in 2017, an increase of \$2.3 million or 34.8% and \$19.5 million and 6.8% contribution margin for the full year 2018 compared to \$15.3 million and 6.2% in 2017. The estimated impact from the additional week in 2017 was \$3.5 million in total Operating EBITDA.

Operating EBITDA after The Keg royalty expense was \$64.5 million and \$219.6 million for the 13 and 52 weeks ended December 30, 2018 compared to \$58.5 million and \$191.0 million for the 14 and 53 weeks ended December 31, 2017, representing an increase of \$6.0 million or 10.2% for the quarter or \$9.5 million and 16.2% excluding the 53rd week in 2017, and an increase of \$28.6 million or 15.0% for the year. The increases were driven by SRS increases, higher contribution in the corporate, franchise, retailing and catering segments, the addition of Pickle Barrel in December 2017 and The Keg in February 2018, improvements in Original Joe's, partially offset by The Keg royalty expense paid to the Keg Royalties Income Fund.

⁽¹⁾ See "Non-IFRS Measures" on page 44 for definition of Operating EBITDA.

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

(unaudited)	13 weeks ended December 30, 2018				
(C\$ thousands unless otherwise stated)	Corporate	Franchised	Retail & Catering	Central	Total
System Sales	\$ 205,008	\$ 615,327	\$ 85,033	\$ -	\$ 905,368
Corporate Results					
Sales	\$ 200,497	\$ -	\$ -	\$ 3,329	\$ 203,826
Cost of inventories sold and cost of labour	(127,269)	-	-	-	(127,269)
Restaurant contribution before other costs	73,228	-	-	3,329	76,557
Restaurant contribution before other costs %	36.5%	-	-	-	-
Other operating costs	(51,719)	-	-	-	(51,719)
Total Contribution	\$ 21,509	-	-	3,329	24,838
Franchise Results					
Franchise royalty income	-	28,421	-	-	28,421
Franchise royalty income as a % of franchise sales	-	4.6%	-	-	-
New franchise fees, property and equipment rent	-	-	-	3,503	3,503
Franchise rent assistance and bad debt	-	(1,835)	-	-	(1,835)
Contribution from franchise restaurants	-	\$ 26,586	-	3,503	30,089
Contribution from Retail and Catering	-	-	\$ 8,909	-	8,909
Net Central contribution	-	-	-	4,460	4,460
Operating EBITDA ⁽¹⁾ before royalty expense	\$ 21,509	\$ 26,586	\$ 8,909	\$ 11,292	\$ 68,296
Net royalty expense	\$ -	\$ -	\$ -	\$ (3,768)	\$ (3,768)
Operating EBITDA ⁽¹⁾	\$ 21,509	\$ 26,586	\$ 8,909	\$ 7,524	\$ 64,528
Contribution as a % of corporate sales	10.7%	-	-	-	-
Contribution as a % of franchise sales	-	4.3%	-	-	-
Contribution as a % of total System Sales	-	-	10.5%	0.8%	7.1%
Contribution (excluding net royalty expense) as a % of total System Sales	10.5%	4.3%	10.5%	1.2%	7.5%
(unaudited)	14 weeks ended December 31, 2017				
(C\$ thousands unless otherwise stated)	Corporate	Franchised	Retail & Catering	Central	Total
System Sales	\$ 125,794	\$ 570,977	\$ 78,144	\$ -	\$ 774,915
Corporate Results					
Sales	\$ 125,794	\$ -	\$ -	\$ 3,672	\$ 129,466
Cost of inventories sold and cost of labour	(78,522)	-	-	-	(78,522)
Restaurant contribution before other costs	47,272	-	-	3,672	50,944
Restaurant contribution before other costs %	37.6%	-	-	-	-
Other operating costs	(34,938)	-	-	-	(34,938)
Total Contribution	\$ 12,334	-	-	3,672	16,006
Franchise Results					
Franchise royalty income	-	25,525	-	-	25,525
Franchise royalty income as a % of franchise sales	-	4.5%	-	-	-
New franchise fees, property and equipment rent	-	-	-	3,200	3,200
Franchise rent assistance and bad debt	-	(1,429)	-	-	(1,429)
Contribution from franchise restaurants	-	\$ 24,096	-	3,200	27,296
Contribution from Retail and Catering	-	-	6,628	-	6,628
Net Central contribution	-	-	-	8,615	8,615
Operating EBITDA ⁽¹⁾ before royalty expense	\$ 12,334	\$ 24,096	\$ 6,628	\$ 15,487	\$ 58,545
Net royalty expense	\$ -	\$ -	\$ -	\$ -	\$ -
Operating EBITDA ⁽¹⁾	\$ 12,334	\$ 24,096	\$ 6,628	\$ 15,487	\$ 58,545
Contribution as a % of corporate sales	9.8%	-	-	-	-
Contribution as a % of franchise sales	-	4.2%	-	-	-
Contribution as a % of total System Sales	-	-	8.5%	2.0%	7.6%
Contribution (excluding net royalty expense) as a % of total System Sales	9.8%	4.2%	8.5%	2.0%	7.6%

⁽¹⁾ See "Non-IFRS Measures" on page 44 for definitions of Operating EBITDA and page 7 for a reconciliation of Net Earnings to Operating EBITDA.

52 weeks ended December 30, 2018					
(C\$ thousands unless otherwise stated)	Corporate	Franchised	Retail & Catering	Central	Total
System Sales (unaudited)	\$ 765,141	\$ 2,362,404	\$ 287,795	\$ -	\$ 3,415,340
Corporate Results					
Sales.....	\$ 749,247	\$ -	\$ -	\$ 11,761	\$ 761,008
Cost of inventories sold and cost of labour.....	(476,612)	-	-	-	(476,612)
Restaurant contribution before other costs.....	272,635	-	-	11,761	284,396
Restaurant contribution before other costs %.....	36.4%	-	-	-	-
Other operating costs.....	(192,131)	-	-	-	(192,131)
Total Contribution	\$ 80,504	-	-	11,761	92,265
Franchise Results					
Franchise royalty income.....	-	107,569	-	-	107,569
Franchise royalty income as a % of franchise sales.....	-	4.6%	-	-	-
New franchise fees, property and equipment rent.....	-	-	-	13,576	13,576
Franchise rent assistance and bad debt.....	-	(8,233)	-	-	(8,233)
Contribution from franchise restaurants	-	\$ 99,336	-	13,576	112,912
Contribution from Retail and Catering	-	-	\$ 19,457	-	19,457
Net Central contribution	-	-	-	7,226	7,226
Operating EBITDA ⁽¹⁾ before royalty expense	\$ 80,504	\$ 99,336	\$ 19,457	\$ 32,563	\$ 231,860
Net royalty expense	\$ -	\$ -	\$ -	\$ (12,296)	\$ (12,296)
Operating EBITDA ⁽¹⁾	\$ 80,504	\$ 99,336	\$ 19,457	\$ 20,267	\$ 219,564
a % of corporate sales.....	10.7%	-	-	-	-
Contribution as a % of franchise sales.....	-	4.2%	-	-	-
Contribution as a % of total System Sales.....	-	-	6.8%	0.6%	6.4%
Contribution (excluding net royalty expense) as a % of total System Sales.....	10.5%	4.2%	6.8%	1.0%	6.8%
53 weeks ended December 31, 2017					
(C\$ thousands unless otherwise stated)	Corporate	Franchised	Retail & Catering	Central	Total
System Sales (unaudited)	\$ 439,100	\$ 2,092,247	\$ 248,153	\$ -	\$ 2,779,500
Corporate Results					
Sales.....	\$ 439,100	\$ -	\$ -	\$ 12,346	\$ 451,446
Cost of inventories sold and cost of labour.....	(277,669)	-	-	-	(277,669)
Restaurant contribution before other costs.....	161,431	-	-	12,346	173,777
Restaurant contribution before other costs %.....	36.8%	-	-	-	-
Other operating costs.....	(118,928)	-	-	-	(118,928)
Total Contribution	\$ 42,503	-	-	12,346	54,849
Franchise Results					
Franchise royalty income.....	-	93,090	-	-	93,090
Franchise royalty income as a % of franchise sales.....	-	4.4%	-	-	-
New franchise fees, property and equipment rent.....	-	-	-	12,573	12,573
Franchise rent assistance and bad debt.....	-	(8,659)	-	-	(8,659)
Contribution from franchise restaurants	-	\$ 84,431	-	12,573	97,004
Contribution from Retail and Catering	-	-	15,334	-	15,334
Net Central contribution	-	-	-	23,818	23,818
Operating EBITDA ⁽¹⁾ before royalty expense	\$ 42,503	\$ 84,431	\$ 15,334	\$ 48,737	\$ 191,005
Net royalty expense	\$ -	\$ -	\$ -	\$ -	\$ -
Operating EBITDA ⁽¹⁾	\$ 42,503	\$ 84,431	\$ 15,334	\$ 48,737	\$ 191,005
Contribution as a % of corporate sales.....	9.7%	-	-	-	-
Contribution as a % of franchise sales.....	-	4.0%	-	-	-
Contribution as a % of total System Sales.....	-	-	6.2%	1.8%	6.9%
Contribution (excluding net royalty expense) as a % of total System Sales.....	9.7%	4.0%	6.2%	1.8%	6.9%

⁽¹⁾ See "Non-IFRS Measures" on page 44 for definitions of Operating EBITDA and page 7 for a reconciliation of Net Earnings to Operating EBITDA.

Corporate

As at December 30, 2018, the corporate segment restaurant count consisted of 208 restaurants compared to 169 at December 31, 2017, an increase of 39 locations. During the year, the Company added 49 Keg locations related to the merger in February 2018, 4 new restaurant openings, and 15 corporate buybacks, offset by 17 closures and 12 restaurants re-franchised. 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 \$205.0 million and \$765.1 million for the 13 and 52 weeks ended December 30, 2018 compared to \$125.8 million and \$439.1 million for the 14 and 53 weeks ended December 31, 2017, an increase of \$79.2 million or 63.0% for the quarter and \$326.0 million or 74.2% for the year. 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. The impact from the additional week of sales in 2017 was \$7.9 million.

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 \$127.3 million and \$476.6 million for the 13 and 52 weeks ended December 30, 2018 compared to \$78.5 million and \$277.7 million for the 14 and 53 weeks ended December 31, 2017, respectively, an increase of \$48.8 million or 62.2% for the quarter and \$198.9 million or 71.6% for the year. 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 62.4% to 63.5% for the 13 weeks ended December 30, 2018, an increase of 1.1 percentage points. For the 52 weeks ended December 30, 2018, cost of inventories sold and cost of labour as a percentage of sales have increased from 63.2% to 63.6%, a increase of 0.4 percentage points. 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 \$21.5 million and \$80.5 million for the 13 and 52 weeks ended December 30, 2018 compared to \$12.3 million and \$42.5 million for the 14 and 53 weeks ended December 31, 2017, an improvement of \$9.2 million or 74.8% for the quarter and \$38.0 million or 89.4% for the year. The increases for the year are primarily driven by SRS increases, and the increase in number of corporate restaurants, including the additions of The Keg and Pickle Barrel. The estimated impact from the additional week in 2017 was \$1.5 million.

For the 13 and 52 weeks ended December 30, 2018, total contribution from corporate restaurants as a percentage of corporate sales was 10.7% and 10.7% compared to 9.8% and 9.7% in 2017, respectively. 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 December 30, 2018, the franchise restaurant segment consisted of 1,128 restaurants compared to 1,049 at December 31, 2017, an increase of 79 locations. During 2018, the Company added 57 restaurants from The Keg merger, completed 54 new restaurant openings, 22 corporate restaurants were re-franchised including 10 joint ventures that were sold and fully franchised, partially offset by 39 closures, and 15 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 \$615.3 million and \$2,362.4 million during the 13 and 52 weeks ended December 30, 2018 compared to \$571.0 million and \$2,092.2 million for the 14 and 53 weeks ended December 31, 2017, an increase of \$44.3 million or 7.8% for the quarter and \$270.2 million or 12.9% for the year. 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. The estimated impact from the additional week of sales in 2017 was \$39.2 million of Franchise System Sales.

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 \$28.4 million and \$107.6 million for the 13 and 52 weeks ended December 30, 2018 compared to \$25.5 million and \$93.1 million for the 14 and 53 weeks ended December 31, 2017, an increase of \$2.9 million or 11.4% for the quarter, and \$14.5 million or 15.6% for the year. The increase was primarily attributed to the addition of The Keg and new restaurants opened in 2017 and 2018, and the SRS improvements. The franchise revenue impact from the additional week in 2017 of sales was \$1.7 million.

Contribution from franchise segment

Total contribution from franchise restaurants was \$26.6 million and \$99.3 million for the 13 and 52 weeks ended December 30, 2018 compared to \$24.1 million and \$84.4 million for the 14 and 53 weeks ended December 31, 2017, an increase of \$2.5 million or 10.4% for the quarter and \$14.9 million or 17.7% for the year. The increase was related to increased royalty income as a result of the franchise sales increases and the addition of The Keg. The estimated impact from the additional week in 2017 was \$1.6 million.

The effective net royalty rate for the 13 weeks ended December 30, 2018 was 4.3% compared to 4.2% in 2017. For the 52 weeks ended December 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.

Retail and Catering

Sales

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

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

Contribution from retail and catering

Contribution from retail and catering for the 13 and 52 weeks ended December 30, 2018 was \$8.9 million and \$19.5 million compared to \$6.6 million and \$15.3 million for the 14 and 53 weeks ended December 31, 2017, an increase of \$2.3 million or 34.8% for the quarter and \$4.2 million or 27.5% for the year. The increases are primarily driven by sales increases from the Swiss Chalet branded products, increases in frozen pot pies from the addition of the new pie production line, and the additions of The Keg retail business in February 2018 and Pickle Barrel catering in December 2017.

Central

Sales

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

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

Total central segment sales were \$3.3 million and \$11.8 million for the 13 and 52 weeks ended December 30, 2018 compared to \$3.7 million and \$12.3 million for the 14 and 53 weeks ended December 31, 2017, representing a decrease of \$0.4 million or 10.8% for the quarter and \$0.5 million or 4.1% for the year. The decrease is related to the Company reducing fees charged to its franchisees, and a shift from phone ordering to web and mobile-based meal orders at lower fees.

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 \$3.5 million and \$13.6 million for the 13 and 52 weeks ended December 30, 2018 compared to \$3.5 million and \$12.6 million for the 14 and 53 weeks ended December 31, 2017. The increases primarily relate to increases in franchise fees partially offset by reductions in equipment rental revenue due related to the expiry of equipment rental agreements, a line of revenue the Company no longer pursues as management prefers franchisees to purchase and finance the business with a third party.

Contribution from central segment

Central segment contribution before the net royalty expense for the 13 and 52 weeks ended December 30, 2018 was \$11.3 million and \$32.6 million compared to \$15.5 million and \$48.7 million for the 14 and 53 weeks ended December 31, 2017, representing a decrease of \$4.2 million or 27.1% for the quarter and \$16.1 million or 33.1% for the year. Total central segment contribution, before the net royalty expense, as a percentage of total System Sales for the 13 and 52 weeks ended

December 30, 2018 was 1.2% and 1.0% compared to 2.0% and 1.8% 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.

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.

	Q4 – 2018 Dec 30, 2018 (unaudited)	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)
(C\$ millions unless otherwise stated) ⁽¹⁾									
System Sales ⁽¹⁾	\$ 905.4	\$ 879.8	\$ 874.2	\$ 755.9	\$ 774.9	\$ 684.7	\$ 660.8	\$ 659.1	\$ 641.1
Total System Sales Growth ⁽¹⁾	16.8%	28.5%	32.3%	14.7%	20.9%	36.9%	46.7%	46.4%	39.0%
SRS Growth ⁽¹⁾	(0.2%)	1.8%	1.9%	2.1%	2.5%	0.9%	(0.3%)	(0.6%)	(2.8%)
Number of restaurants (at period end).....	1,382	1,370	1,379	1,382	1,272	1,249	1,255	1,238	1,237
Operating EBITDA before Keg royalty ⁽¹⁾	\$ 68.3	\$ 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⁾	7.5%	6.4%	6.7%	6.5%	7.6%	7.0%	6.3%	6.5%	7.3%
Operating EBITDA ⁽¹⁾	\$ 64.5	\$ 52.4	\$ 55.2	\$ 47.4	\$ 58.5	\$ 48.0	\$ 41.6	\$ 42.9	\$ 46.7
Operating EBITDA Margin on System Sales ⁽¹⁾	7.1%	6.0%	6.3%	6.3%	7.6%	7.0%	6.3%	6.5%	7.3%
Corporate restaurant sales.....	\$ 205.0	\$ 199.0	\$ 203.6	\$ 146.1	\$ 125.8	\$ 111.2	\$ 103.4	\$ 98.7	\$ 82.1
Number of corporate restaurants.....	208	207	212	213	169	161	162	166	169
Contribution from Corporate segment.....	\$ 21.5	\$ 21.6	\$ 24.3	\$ 13.1	\$ 12.3	\$ 11.8	\$ 10.4	\$ 8.0	\$ 6.8
Contribution as a % of corporate sales.....	10.7%	10.8%	12.0%	9.0%	9.8%	10.6%	10.1%	8.1%	8.3%
Number of joint venture restaurants.....	46	46	54	55	54	50	52	38	38
Franchise restaurant sales.....	\$ 615.3	\$ 607.2	\$ 596.8	\$ 543.1	\$ 571.0	\$ 515.7	\$ 504.7	\$ 500.8	\$ 492.5
Number of franchised restaurants.....	1,128	1,117	1,113	1,114	1,049	1,038	1,041	1,034	1,030
Contribution from Franchise segment.....	\$ 26.6	\$ 25.7	\$ 24.7	\$ 22.4	\$ 24.1	\$ 20.0	\$ 19.9	\$ 20.4	\$ 20.1
Contribution as a % of Franchise sales.....	4.3%	4.2%	4.1%	4.1%	4.2%	3.9%	3.9%	4.1%	4.1%
Contribution from retail and catering	\$ 8.9	\$ 4.6	\$ 2.8	\$ 3.2	\$ 6.6	\$ 3.4	\$ 0.6	\$ 4.7	\$ 5.9
Contribution from Central segment before Keg royalty. \$	11.3	\$ 4.2	\$ 6.9	\$ 10.1	\$ 15.5	\$ 12.8	\$ 10.7	\$ 9.8	\$ 13.9
Contribution as a % of total System Sales.....	1.2%	0.5%	0.8%	1.3%	2.0%	1.9%	1.6%	1.5%	2.2%
Total gross revenue	\$ 328.2	\$ 312.4	\$ 312.3	\$ 246.5	\$ 240.0	\$ 203.8	\$ 194.4	\$ 198.6	\$ 191.1
Operating EBITDA Margin ⁽¹⁾	19.7%	16.8%	17.7%	19.2%	24.4%	23.6%	21.4%	21.6%	24.4%
Earnings before income taxes.....	\$ 15.4	\$ 31.4	\$ 28.5	\$ 29.3	\$ 37.0	\$ 30.4	\$ 21.6	\$ 27.5	\$ 30.3
Net earnings	\$ 9.0	\$ 23.8	\$ 19.5	\$ 21.5	\$ 27.3	\$ 21.2	\$ 17.4	\$ 43.8	\$ 19.7
Adjusted Net Earnings ⁽¹⁾	\$ 34.9	\$ 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.....	\$ 9.0	\$ 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.....	\$ 0.15	\$ 0.38	\$ 0.31	\$ 0.36	\$ 0.47	\$ 0.35	\$ 0.29	\$ 0.73	\$ 0.33
Diluted EPS.....	\$ 0.14	\$ 0.37	\$ 0.30	\$ 0.35	\$ 0.45	\$ 0.34	\$ 0.28	\$ 0.71	\$ 0.32
Adjusted Basic EPS ⁽¹⁾	\$ 0.56	\$ 0.51	\$ 0.49	\$ 0.43	\$ 0.62	\$ 0.48	\$ 0.44	\$ 0.43	\$ 0.44
Adjusted Diluted EPS ⁽¹⁾	\$ 0.54	\$ 0.50	\$ 0.47	\$ 0.41	\$ 0.59	\$ 0.46	\$ 0.42	\$ 0.41	\$ 0.42

⁽¹⁾ See “Non-IFRS Measures” on page 44 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;
- atypical weather as it relates to restaurant sales, for example the impact of snow storms on customer traffic, and patio sales are impacted by weather during the summer months;
- royalty recovery rates and the extent to which Recipe provides financial assistance or incurs bad debts with franchisees;
- restaurant operating costs for corporate-owned restaurants;
- labour availability and costs for hourly and management personnel at corporate-owned restaurants and at its manufacturing and distribution facilities;
- profitability of the corporate-owned restaurants, especially in new markets;
- fluctuations in sales to retail grocery chains, including seasonality;
- changes in interest rates;
- impairment of long-lived assets and any loss on restaurant closures for corporate-owned restaurants;
- macroeconomic conditions, both nationally and locally;
- changes in consumer preferences and competitive conditions;
- expansion in new markets;
- increases in fixed costs; and
- fluctuations in commodity prices.

Calendar Shift

The Company's 2018 fiscal year ended on December 30, 2018 and 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 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 \$774.9 million in Q4 2017 and \$905.4 million in Q4 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 retail and catering sales.

Operating EBITDA has improved significantly from \$46.7 million in Q4 2016 to \$58.5 million in Q4 of 2017 and to \$64.5 million in Q4 2018. Excluding The Keg royalty, Operating EBITDA in Q4 2018 was \$68.3 million. Operating EBITDA has improved each quarter (year over year) as a result of growth in the corporate, franchise, retail and catering segments, the addition of new restaurants, and from the acquisitions of St-Hubert, Original Joe's, Burger's Priest, Pickle Barrel, and The Keg.

Operating EBITDA Margin on System Sales before The Keg royalty was 7.3% in Q4 2016, 7.6% in Q4 2017 and 7.5% in Q4 2018. Operating EBITDA has been impacted with the acquisition of brands that operate at lower profit margins. Management's focus will continue to be on improving the earnings efficiency of our assets and our increased sales base to grow Operating EBITDA as a percentage of System Sales back to within our 7% to 8% target range by 2020-2022.

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 contribution as a percentage of System Sales was 4.3% in Q4 2018 compared to 4.2% in 2017 and 4.1% in 2016. Quarterly contribution from the franchise segment has improved each quarter (year over year) from \$20.1 million in Q4 2016 to \$24.1 million in Q4 2017 and to \$26.6 million in Q4 2018. The increases are the result of 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 retail and catering has increased from \$5.9 million in Q4 2016 to \$6.6 million in Q4 2017 and to \$8.9 million in Q4 2018. The increase is primarily related increased sales and contribution from St-Hubert, including the addition of Swiss Chalet and other Recipe branded products to retail grocery, increases in frozen pot pie sales from the addition of the pie production line, the acquisition of Pickle Barrel catering and Rose Reisman in December 2017, the addition of The Keg in February 2018, and the acquisition of Marigolds and Onions in December 2018.

Contribution from the central segment before The Keg royalty expense has changed from \$13.9 million Q4 2016 to \$15.5 million in Q4 2017, and to \$11.3 million in Q4 2018. The increase in 2017 compared to 2016 was primarily related to overhead cost reductions and increased sales from growing the Company's off-premise call centre business representing fees generated from delivery, call-ahead, web and mobile-based meal orders. The decrease in 2018 compared to 2017 is primarily related to increased overhead costs of \$4.6 million related to the addition of The Keg in February 2018 and lowering the rates charged on off-premise call centre fees to its franchisees, a shift from phone ordering to web and mobile-based meal orders at lower fees.

Total gross revenue has increased significantly each quarter (year over year) from \$191.1 million in Q4 2016 to \$240.0 million in Q4 2017 and \$328.2 million in Q4 2018. The increases are a result of the increase in the number corporate restaurants, the addition of corporate restaurants from the St-Hubert, Original Joe's, Pickle Barrel, and The Keg transactions; increases in the retail and catering segment at St-Hubert and from the addition of Pickle Barrel catering, Rose Reisman, and Marigolds and Onions.

Quarterly earnings before income taxes has changed from \$30.3 million in Q4 2016 to \$37.0 million in Q4 2017 and \$15.4 million in Q4 2018. The decrease in 2018 is related to \$7.9 million increase in non-recurring restructuring expense, \$4.3 million increase in impairment 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, dividends and the repurchase of its subordinate voting shares through its NCIB. Management believes that cash generated from operations, together with amounts available under its credit facility (refer to page 27), will be sufficient to meet its future operating expenses, capital expenditures, future debt service costs, discretionary dividends, and discretionary share repurchases. However, Recipe's ability to fund future debt service costs, operating expenses, capital expenditures and dividends will depend on its future operating performance which will be affected by general economic, financial and other factors including factors beyond its control. See "Risk and Uncertainties" (refer to page 36). Recipe's management reviews acquisition and investment opportunities in the normal course of its business and, if suitable opportunities arise, may make selected acquisitions and investments to implement Recipe's business strategy. Historically, the funding for any such acquisitions or investments have come from cash flow from operating activities, additional debt, or the issuance of equity. Similarly, from time to time, Recipe's management reviews opportunities to dispose of non-core assets and may, if suitable opportunities arise, sell certain non-core assets.

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

(C\$ millions unless otherwise stated)	Dec 30, 2018	Dec 31, 2017	Dec 25, 2016	Dec 27, 2015
Revolving credit facility.....	\$ 400.0	\$ 400.0	\$ 400.0	\$ 150.0
Add: Accordion feature.....	50.0	50.0	50.0	50.0
Add: Term credit facility.....	150.0	150.0	150.0	-
Add: The Keg credit facilities.....	47.0	-	-	-
Subtotal - credit availability.....	\$ 647.0	\$ 600.0	\$ 600.0	\$ 200.0
Less: Draw on revolving credit facility.....	(220.0)	(229.0)	(242.0)	(65.0)
Less: Draw on term credit facility.....	(150.0)	(150.0)	(150.0)	-
Less: Draw on The Keg credit facilities.....	(21.0)	-	-	-
Liquidity.....	\$ 256.0	\$ 221.0	\$ 208.0	\$ 135.0
Operating EBITDA ⁽¹⁾	\$ 219.6	\$ 191.0	\$ 144.0	\$ 112.2
Net debt to Operating EBITDA.....	1.7x	2.2x	2.1x	0.6x
Free cash flow ⁽¹⁾ before growth capex, dividends and NCIB.....	\$ 164.1	\$ 144.3	\$ 116.5	\$ 81.4
Free cash flow ⁽¹⁾ after growth capex, dividends and NCIB.....	\$ 117.7	\$ 57.4	\$ 80.9	\$ 62.6

⁽¹⁾ See "Non-IFRS Measures" on page 44 for definitions of Operating EBITDA and Free Cash Flow. See page 7 for a reconciliation of Net Earnings to Operating EBITDA and to Free Cash Flow.

Working Capital

A working capital deficit is typical of restaurant operations, where the majority of sales are for cash and there are rapid turnover of inventories. In general, the turnover of accounts receivable and inventories is faster than accounts payable, resulting in negative working capital. Sales of Recipe's Ultimate Gift Card and the 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 December 30, 2018 was \$153.8 million compared to \$57.5 million at December 31, 2017, an increase of \$96.3 million due to higher sales in 2018 and the addition of The Keg gift card liability.

At December 30, 2018, Recipe had a working capital deficit of (\$261.1) million compared to (\$19.8) million at December 31, 2017. The change of (\$241.3) million was primarily related to the increase in current portion of long-term debt of \$150.3 million related to the Company's non-revolving term credit facility maturing September 2019 and to the addition of The Keg in Q1 2018 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 \$31.2 million was primarily related to a net decrease in cash of \$20.3 million, increase in accounts receivable (\$34.2 million), increase in inventory (\$4.0 million), decrease in prepaid expenses of \$2.6 million, offset by an increase in working capital from the increases in accounts payable, income taxes payable and provisions of \$22.9 million; and from the increase in gift card liability of \$23.6 million related to higher Recipe and Keg gift card sales than redemptions during 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 52 weeks ended December 30, 2018 compared to the 14 and 53 weeks ended December 31, 2017:

(C\$ millions unless otherwise stated)	13 weeks	14 weeks	52 weeks	53 weeks
	Dec 30, 2018	Dec 31, 2017	Dec 30, 2018	Dec 31, 2017
	(unaudited)	(unaudited)		
Cash flows from operating activities	\$ 110.3	\$ 83.2	\$ 197.0	\$ 179.9
Cash flows used in investing activities	\$ (17.5)	\$ (26.8)	\$ (109.5)	\$ (88.1)
Cash flows from (used in) financing activities	\$ (78.6)	\$ (26.3)	\$ (79.5)	\$ (76.6)
Change in cash during the period ⁽¹⁾	\$ 14.2	\$ 30.1	\$ 8.1	\$ 15.2

⁽¹⁾ Figures may not total due to rounding.

Cash flows from operating activities of continuing operations

Cash flows from operating activities were \$110.3 million and \$197.0 million for the 13 and 52 weeks ended December 30, 2018 compared to \$83.2 million and \$179.9 million for the 14 and 53 weeks ended December 31, 2017, an increase of \$27.1 million and \$17.1 million, respectively. The increase year to date was primarily related to the increases in working capital from the increases in accounts payable, income taxes payable, provisions, and increases in the gift card liability due to higher sales during holiday period, partially offset by increases in accounts receivable.

Cash flows used in investing activities of continuing operations

The following table presents Recipe's capital expenditures for the 13 and 52 weeks ended December 30, 2018 as compared to the 14 and 53 weeks ended December 31, 2017:

(C\$ millions unless otherwise stated)	13 weeks Dec 30, 2018 (unaudited)	14 weeks Dec 31, 2017 (unaudited)	52 weeks Dec 30, 2018	53 weeks Dec 31, 2017
Purchase of property, plant and equipment:				
Maintenance:				
Corporate restaurants.....	(3.2)	(3.5)	(9.6)	(8.8)
Central / IT expenditures / Other.....	(5.9)	(9.4)	(15.8)	(17.4)
Total maintenance.....	\$ (9.1)	\$ (12.9)	\$ (25.4)	\$ (26.2)
Growth initiatives:				
Major renovations.....	(1.5)	1.7	(7.8)	(9.9)
New builds.....	(2.7)	(4.0)	(9.2)	(21.4)
Total growth.....	\$ (4.2)	\$ (2.3)	\$ (17.0)	\$ (31.3)
Total purchase of property, plant and equipment ⁽³⁾.....	\$ (13.3)	\$ (15.2)	\$ (42.4)	\$ (57.5)
Common control transactions, net of cash assumed:				
Acquisitions.....	(3.7)	(20.1)	(75.5)	(18.5)
Buy backs ⁽¹⁾	(0.1)	-	(5.0)	(0.2)
Total common control transactions, net of cash assumed.....	\$ (3.8)	\$ (20.1)	\$ (80.6)	\$ (18.8)
Total purchase of property, plant and equipment.....	\$ (13.3)	\$ (15.2)	\$ (42.4)	\$ (57.5)
Total common control transactions, net of cash assumed.....	(3.8)	(20.1)	(80.6)	(18.8)
Proceeds on disposal of property, plant and equipment ⁽²⁾	4.5	0.9	10.6	2.5
Proceeds on sale of JV restaurants ⁽²⁾	0.8	-	2.2	-
Proceeds on early buyout of equipment and rental contracts.....	-	0.1	0.5	0.7
Investment in joint ventures and associates.....	-	0.8	-	(13.8)
Additions to other assets.....	0.3	0.3	(0.1)	-
Share of (gain) loss from investment in associates in joint ventures.....	0.1	(0.2)	0.6	(0.3)
Change in long term receivables.....	(6.2)	6.5	(0.3)	(0.8)
Total cash flows used in investing activities ⁽³⁾.....	\$ (17.6)	\$ (26.8)	\$ (109.5)	\$ (88.1)

⁽¹⁾ There was 15 buy backs for the year-ended 2018 (2017 – 5) and increased ownership in 4 JVs (2017-nil)

⁽²⁾ There were 12 corporate restaurants re-franchised (2017 - 14) and 10 joint ventures sold to franchisees (2017 - nil)

⁽³⁾ Figures may not total due to rounding.

Cash flows used in investing activities were \$17.6 million and \$109.5 million during the 13 and 52 weeks ended December 30, 2018 compared to \$26.8 million and \$88.1 million for the 14 and 53 weeks ended December 31, 2017, a decrease in use of \$9.2 million for the quarter and an increase in use of \$21.4 million for the year. The 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 52 weeks ended December 30, 2018 compared to the 14 and 53 weeks ended December 31, 2017:

(C\$ millions unless otherwise stated)	13 weeks	14 weeks	52 weeks	53 weeks
	Dec 30, 2018	Dec 31, 2017	Dec 30, 2018	Dec 31, 2017
	(unaudited)	(unaudited)		
Increases in debt.....	\$ -	\$ 23.0	\$ 104.0	\$ 59.0
Debt repayments	(51.0)	(40.0)	(116.0)	(72.0)
Issuance of subordinated voting common shares.....	-	0.1	(4.2)	0.2
Share re-purchase.....	(14.5)	(5.3)	(16.2)	(33.9)
Change in finance leases	(0.8)	4.6	(1.5)	3.8
Interest paid net of interest income received	(5.7)	(2.8)	(19.0)	(9.7)
Dividends paid	(6.6)	(6.0)	(26.6)	(24.2)
Cash flows from (used in) financing activities ⁽¹⁾	<u>\$ (78.6)</u>	<u>\$ (26.3)</u>	<u>\$ (79.5)</u>	<u>\$ (76.6)</u>

⁽¹⁾ Figures may not total due to rounding.

Cash flows from financing activities were (\$78.6) million and (\$79.5) million for the 13 and 52 weeks ended December 30, 2018. Cash from financing activities primarily consist of an increase in the Company's credit facility of \$104.0 million related to The Keg merger, debt repayments of \$116.0 million for net decrease in credit facility of \$12.0 million, the issuance of \$4.2 million in subordinated voting shares related to The Keg merger, \$16.2 million related to share re-purchases under the NCIB, less interest paid in the amount of \$19.0 million and dividends of \$26.6 million.

Cash flows used in financing activities were \$26.3 million and \$76.6 million for the 14 and 53 weeks ended December 31, 2017. Cash flows used in financing activities were used to complete the investment in Burger's Priest, acquisition of Pickle Barrel, share repurchases under the NCIB and interest and dividends paid.

Contractual Obligations

Recipe's significant contractual obligations and commitments as of December 30, 2018 (except as noted below), are shown in the following table:

(C\$ millions unless otherwise stated) ⁽¹⁾	2019	2020	2021	2022	2023	Thereafter
Gross operating lease payments	142.6	134.4	122.1	105.5	84.2	285.0
Expected sub-lease income	90.6	84.8	76.7	66.5	52.9	163.5
Net operating lease obligation ⁽²⁾	52.0	49.6	45.4	39.0	31.3	121.5
Finance leases ⁽³⁾	3.2	3.1	3.1	2.9	2.4	11.3
Revolving term credit facility	-	-	220.0	-	-	-
Non-revolving term credit facility	150.0	-	-	-	-	-
Keg credit facilities.....	4.0	17.0	-	-	-	-
Other obligations ⁽⁴⁾	144.6	27.0	4.7	4.3	4.2	61.3
Total contractual obligations	353.8	96.7	273.2	46.2	37.9	194.1

- (1) All figures include obligations that are in the normal course of business and pension fund obligations. Recipe does not have any purchase obligations or other obligations as of December 30, 2018.
- (2) Recipe has obligations for leases for corporate locations and for certain leases related to franchisees (in the event of default by franchisees, Recipe retains ultimate responsibility to the landlord for payment of amounts under those leases). For franchise operating leases, the above figures represent Recipe's net exposure (i.e. after giving consideration to the portion of rent recovered from franchisees).
- (3) Recipe has financing lease obligations for land and buildings.
- (4) Other obligations represent total accounts payable & accrued liabilities, provisions and other long term liabilities.

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 December 30, 2018, \$370.0 million (December 31, 2017 - \$379.0 million) was drawn under the amended and extended credit facilities with an effective interest rate of 3.74% representing bankers acceptance rate of 1.50 % plus 2.09% borrowing spread, standby fees and the amortization of deferred financing fees of 0.15%

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 December 30, 2018, the standby fee rate was 0.35%.

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

The Keg Credit Facilities

In connection with The Keg merger (note 26), the Company assumed a multi-option credit agreement with a Canadian banking syndicate for the expansion of restaurant operations. The revolving credit and term loan facilities, with a syndicate of two Canadian banks, are available to finance the construction of certain new corporate restaurants and major renovations in Canada. These facilities are comprised of a \$9.0 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 December 30, 2018, \$21.0 million of the revolving facility has been drawn and is due on the July 2, 2020 maturity date, and less than \$0.1 million of the revolving demand operating facility has been used to issue letters of credit.

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

The above credit facilities are secured by a general security agreement and hypothecation over KRL's Canadian and US assets and a pledge of all equity interests in the Partnership.

Pension deficit

The Company supports a number of pension plans, including a registered funded defined benefit pension plan, a multi-employer pension plan, a defined contribution plan and other supplemental unfunded unsecured arrangements providing

pension benefits in excess of statutory limits. The defined benefit plans are non-contributory and these benefits are, in general, based on career average earnings subject to limits.

Defined benefit plan assets are held in trust and at December 30, 2018, were invested 100% in a balanced fund. The accrued benefit plan obligations are determined using actuarial valuations calculated by the Company's actuary. The Company's pension funding policy is to contribute amounts sufficient, at a minimum, to meet local statutory funding requirements as recommended by the Company's actuary plus make annual required repayments of participant benefits for the Supplementary Retirement Plans. During 2019, the Company expects to contribute approximately \$0.6 million (2018 - \$1.3 million) to its registered funded defined benefit plan, defined contributions plans and multi-employer plans.

A summary of the \$22.1 million deficit in the plans is summarized below. Recipe meets its pension obligations by settling its obligations as they come due with cash-on-hand. As required by actuarial funding valuations Recipe paid \$2.3 million and \$2.3 million in 2018 and 2017 respectively.

(C\$ millions unless otherwise stated)	Defined Benefit Pension Plans	Supplementary Retirement Plans (unfunded)	Total
Fair value of plan assets	\$ 30.9	\$ -	\$ 30.9
Present value of obligations	(36.0)	(17.0)	(53.0)
Total	\$ (5.1)	\$ (17.0)	\$ (22.1)

Off Balance Sheet Arrangements

Letters of credit

Recipe has outstanding letters of credit amounting to \$0.6 million as at December 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 March 6, 2019, there were 61,890,479 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 March 6, 2019 is 7,361,080, of which 2,203,708 would have a dilutive effect on EPS using the treasury method.

The Company has granted restricted share units ("RSU") to certain key employees which can be converted on a 1 for 1 basis to subordinate voting shares when certain performance and vesting conditions are met. The total number of RSUs earned as at March 6, 2019 is 291,307.

Related Parties

Shareholders

As at December 30, 2018, the Principal Shareholders hold 67.4% of the total issued and outstanding shares and have 97.7% of the voting control attached to all the shares. Cara Holdings holds 23.5% of the total issued and outstanding shares, representing 40.8% voting control. Fairfax holds 43.9% 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 52 weeks ended December 30, 2018, the Company paid a dividend of \$0.1068 and \$0.4272 per share of Subordinate and Multiple Voting Shares of which Fairfax received \$11.6 million during the year, and Cara Holdings received \$6.2 million during the year.

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 Company completed the merger with 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. 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 December 30, 2018 there was a due from related party balance of \$9.9 million (December 31, 2017 - \$12.2 million) which consists of term loans and demand loans secured by restaurant assets of the joint venture company which has been recorded at fair value and will be accreted up to the recoverable value over the remaining term of the loans. The term loans bear interest at rates ranging from 7.75% to 9.76% and all mature September 21, 2019. The term loans are reviewed and renewed on an annual basis. The expected current portion of these loans is \$1.0 million (December 31, 2017 - \$2.2 million). The demand loans bear interest at 5% and have no specific terms of repayment. During the year ended December 30, 2018, the Company sold its ownership interest in 10 joint venture restaurants to a third party franchisee 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. For the year ended December 30, 2018, the Company charged interest in the amount of \$1.0 million (53 weeks ended December 31, 2017 - \$0.8 million) on the term loans and demand loans.

The Company charges Original Joe's joint venture franchises a royalty and marketing fee of 5% and 2%, respectively, on net sales. At December 30, 2018 the accounts receivable balance included \$0.3 million (December 31, 2017 - \$0.4 million) due from related parties in relation to these royalty and marketing payments. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties in accordance with the franchise agreement.

The Company's investment in joint ventures and associates are increased by the proportionate share of income earned. For the 52 weeks ended December 30, 2018, a \$0.6 million increase (53 weeks ended December 31, 2017 - \$0.4 million decrease) to the investment balance was recorded in relation to the Company's proportionate share of income or loss for the period and included in share of income from investment in associates and joint ventures on the statement of earnings.

Investment in Burger's Priest joint venture

On June 1, 2017, the Company completed the investment in a joint venture in New & Old Kings and Priests Restaurants Inc. ("Burger's Priest") for cash consideration of \$14.7 million. Burger's Priest owns and operates 14 fast casual restaurants in Ontario and Alberta. The Company has a 79.4% ownership interest in the joint venture with the remaining 20.6% owned by a third party who has an earn-out agreement that can grow their ownership interest to 50% if certain earnings targets are met. The transaction is considered a joint venture arrangement as both parties have joint control and all relevant activities require the unanimous consent from both parties. The Company has accounted for the investment by using the equity method.

The Company's investment is increased by the proportionate share of income earned. For the 13 and 52 weeks ended December 30, 2018, a \$0.1 and \$0.3 million increase to the investment balance (14 and 53 weeks ended December 31, 2017 - \$0.3 million and \$0.4 million increase) was recorded in relation to the Company's proportionate share of income for the period and included in share of income from investment in associates and joint ventures on the statement of earnings.

Investment in 1909 Taverne Moderne restaurant joint venture

The Company has an investment in a joint venture to operate two 1909 Taverne Moderne restaurants with a third party. As at December 30, 2018, the Company has invested \$4.5 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 (loss). For the 13 and 52 weeks ended December 30, 2018, a \$0.2 million and \$1.5 million decrease (14 and 53 weeks ended December 31, 2017 - \$0.4 million and \$0.5 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 consolidated 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 52 weeks ended December 30, 2018, a \$nil increase (14 and 53 weeks ended December 31, 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.

Transactions with key management personnel

Key management personnel

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

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

(C\$ thousands unless otherwise stated)	52 weeks ended December 30, 2018	53 weeks ended December 31, 2017
Short-term employee benefits	\$ 5,432	\$ 4,437
Long-term incentive plans	2,871	1,478
Termination benefits	164	-
Total compensation	\$ 8,467	\$ 5,915

Post-employment benefit plans

The Company sponsors a number of defined benefit plans as described in note 20 of the 2018 consolidated annual financial statements. In 2018, the Company's contributions to these plans were \$2.3 million (December 31, 2017 - \$2.3 million). The Company does not receive any reimbursement of expenses incurred by the Company to provide services to these plans.

Outlook

Management is satisfied with 2018 results despite some Q4 SRS challenges. Management is pleased with the continued growth in all segments, Operating EBITDA and Operating EBITDA Margin. Total Systems Sales grew \$635.8 million or 22.9% to \$3,415.3 million, Operating EBITDA before the net royalty expense increased \$40.9 million or 21.4% to \$231.9 million with a contribution margin of 6.8% as a percentage of Total System Sales, and Adjusted Net Earnings increased \$6.1 million or 5.2% to \$123.2 million.

With the full year impact of The Keg merger, the Company's System Sales will be approximately \$3.5 billion 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. The Keg merger will add approximately \$23.5 million of Operating EBITDA resulting in combined full year Operating EBITDA of approximately \$220.0 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 Royalties 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:

- **Free Cash Flow** —The Company generates significant Free Cash Flow before growth capex, dividends, and NCIB which has increased to \$164.1 million compared to \$144.3 million in 2017, an increase of \$19.8 million or 13.7%. During the 52 weeks ended December 30, 2018, the Company repaid \$116.0 million in debt, more than the \$104.0 million that the Company drew on its credit facilities to fund the merger with The Keg in February 2018. At the end of 2018, the Company's Debt to EBITDA ratio was 1.68x compared to the end of Q1 2018 at 2.2x, illustrating how quickly the Company's leverage can reduce from Free Cash Flow.

Management and the Board of Directors will continue to evaluate alternatives for capital deployment including growth investments, strategic acquisitions and enhanced shareholder returns through dividends and share buybacks.

- *System Sales and SRS Growth* — Management is satisfied with total System Sales growth of 22.9% and with SRS of 1.3% for the full year. Management continues to focus on long-term profitable SRS growth with both short and long term strategies to improve SRS with a focus on 4 Pillars of Operational Excellence - Quality of Food, Quality of Service, Value for Experience, and Ambience. Sales growth initiatives under the 4 Pillar strategy include growing off-premise sales with third party Aggregators (i.e. UberEats, Skip the Dishes), optimizing and reducing menu size to improve quality and service operating standards, launching new and improved e-commerce applications including mobile applications and other digital platforms to reach our customers, and utilizing technology to provide brand specific digital-social media marketing and to drive operations, customer feedback and customer preference insights that will enable management to enhance Guest experiences and realize operational efficiencies. The Company is also launching renovation incentive programs to assist franchisees with the cost of major renovations that should generate significant SRS increases from enhanced guest experiences across all 4 Pillars of Operational Excellence.

Management continues to review its portfolio of restaurants to maximize site potential and profitability to the Company. Management's focus will continue to be on the quality of sales from its portfolio of restaurants as we improve site selection, close weaker locations and renovate to improve guest experience. For restaurant locations that no longer fit the longer strategic plan of the Company, Management will take steps to exit these underperforming sites.

- *Total Operating EBITDA* — Before the impact from the net royalty to The Keg Royalties Income Fund, Total Operating EBITDA margin was 7.5% for the quarter and 6.8% for the year, as compared to 7.6% and 6.9% for the 14 and 53 weeks ended December 31, 2017. While The Keg will add EBITDA dollars, because of net central overhead costs and royalty payments to The Keg Royalties 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.

The combined contributions from Corporate, Franchise, Retail and Catering, and Central segments for the 13 and 52 weeks ended December 30, 2018 after the impact of The Keg royalty resulted in Total Operating EBITDA margin of 7.1% and 6.4%, respectively, as compared to 7.6% and 6.9% for the 14 and 53 weeks ended December 31, 2017.

- *Corporate restaurant profitability* — Corporate restaurant profitability for the 13 and 52 weeks ended December 30, 2018 was 10.7% and 10.7%, respectively, compared to 9.8% and 9.7% 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 52 weeks ended December 30, 2018, 12 corporate restaurants were franchised and 10 joint venture restaurants were franchised.

- *Franchise segment* — Franchise contribution as a percentage of franchise sales has improved to 4.3% and 4.2% for the 13 and 52 weeks ended December 30, 2018, compared to 4.2% and 4.0% in 2017. The increase is primarily related to the addition of The Keg which collects average royalties over 5%.
- *Retail and catering* — Contribution dollars from retail and catering was \$8.9 million and \$19.5 million for the 13 and 52 weeks ended December 30, 2018, respectively, compared to \$6.6 million and \$15.3 million for the 14 and 53 weeks ended December 31, 2017. A new pie production line was added in the third quarter which has increased production capacity and enabled the Company to meet the increased demand for its St-Hubert and Swiss Chalet

frozen pie products with less reliance on higher cost third party producers. 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. The Company will be adding a new rib line in Q4 2019 to increase its rib production capacity to meet the increased demand. Management is also pursuing the launch of several more Recipe branded retail products to expand its retail presence in national grocery chains. The Company has also added catering sales and contribution as a significant opportunity for growth with the acquisitions of Pickle Barrel catering in December 2017, Rose Reisman catering in December 2017, and Marigold and Onions in December 2018.

- *Central segment* — The addition of The Keg has added net central overhead costs, including the royalty payments to The Keg Royalties Income Fund, thus reducing central contribution as a percentage of System Sales. Management will work towards realizing synergy opportunities with the companies acquired as we 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 52 weeks ended December 30, 2018, excluding the acquisitions, the Company opened 61 new restaurant locations as compared to 56 in 2017. During 2018 the Company closed 56 restaurants (excluding Casey's closures) compared to 44 closures in 2017. Included in the closures were under-performing 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.
- *Growth and acquisitions* — The Company currently has a debt to EBITDA ratio of approximately 1.68x compared to 2.2x at the end of Q1 2018. 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 52 weeks ended December 30, 2018, the Company purchased and cancelled 568,613 and 634,850 Subordinate Voting Shares for \$14.5 million and \$16.2 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 may be applicable to the Company for its annual periods beginning on or after December 31, 2018. See note 3 of the Company's consolidated financial statements for the year ended December 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.

Disclosure Controls and Procedures

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

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 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.

As of December 30, 2018, an evaluation of the design of the Company's disclosure controls and procedures, as defined under National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, was carried out under the supervision of the CEO and CFO and with the participation of the Company's management. Based on that evaluation, there were no material changes in controls during the year and the CEO and CFO concluded that as of December 30, 2018, the Company's disclosure controls were appropriately designed and procedures were effective.

Internal Controls Over Financial Reporting

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

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.

An evaluation of the effectiveness of the design and operation of the Company's internal control over financial reporting was conducted as of December 30, 2018. Based on the evaluation, the CEO and the CFO concluded that the internal control over financial reporting, as defined by National Instrument 52-109, was appropriately designed and was operating effectively. The evaluations were conducted in accordance with the framework and criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), a recognized control model, and the requirements of National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings.

Critical Accounting Judgments and Estimates

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

These judgements and estimates are based on management's historical experience, knowledge of current events and conditions and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Within the context of these consolidated financial statements, a judgement is a decision made by management in respect of the application of an accounting policy, a recognized or unrecognized financial statement amount, and/or note disclosure, following an analysis of relevant information that may include estimates and assumptions.

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

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

Business combinations

Accounting for business combinations requires judgments and estimates to be made in order to determine the fair

values of the consideration transferred, assets acquired and the liabilities assumed. The Company uses all available information, including external valuations and appraisals where appropriate, to determine these fair values. Changes in estimates of fair value due to additional information related to facts and circumstances that existed at the acquisition date would impact the amount of goodwill recognized. If necessary, the Company has up to one year from the acquisition date to finalize the determinations of fair value for business combinations.

Accounting for joint ventures and associates

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

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

Management reviews accounts receivables, long-term franchise receivables and amounts due from related party joint ventures at each balance sheet date, utilizing judgements to determine whether a triggering event has occurred requiring an impairment test to be completed.

If an impairment test is required, management determines the net realizable value of its accounts receivables and long-term franchise receivables by updating and reviewing expected future cash flows and discounting their cash flows at their original discount rate. The process of determining the net realizable value requires management to make estimates regarding projected future cash flows.

Depreciation and amortization

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

Valuation of investments

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

Impairment of non-financial assets

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

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

Leases

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

allocation of value between land and building, and discount rates.

Income and other taxes

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

Employee future benefits

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

Gift cards

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

Provisions

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

Stock-based compensation

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

Risks and Uncertainties

Restaurant Industry

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

The Canadian restaurant industry business is also affected by changes in demographic trends, traffic patterns, and the type, number and locations of competing restaurants. In addition, factors such as inflation, increased food, labour and benefit costs, and the availability of experienced management and hourly employees may adversely affect the restaurant industry in general and the Company in particular. Changing consumer preferences and discretionary spending patterns and factors affecting the availability of certain foodstuffs could force the Company to modify its restaurant content and menu and could result in a reduction of revenue. Even if the Company is able to successfully compete with other restaurant companies, it may

be forced to make changes in one or more of its concepts in order to respond to changes in consumer tastes or dining patterns. If the Company changes a restaurant concept, it may lose additional customers who do not prefer the new concept and menu, and it may not be able to attract a sufficient new customer base to produce the revenue needed to make the restaurant profitable. Similarly, the Company may have different or additional competitors for its intended customers as a result of such a concept change and may not be able to successfully compete against such competitors. The Company's success also depends on numerous other factors affecting discretionary consumer spending, including general economic conditions, disposable consumer income, consumer confidence and consumer concerns over food safety, the genetic origin of food products, public health issues and related matters. Adverse changes in these factors could reduce guest traffic or impose practical limits on pricing, either of which could reduce revenue and operating income, which would adversely affect the financial condition and results of operations of the Company.

Competition with Other Franchisors

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

Quality Control and Health Concerns

The Company's business can be materially and adversely affected by publicity resulting from illness, injury, cleanliness, poor food quality or safety or any other health concerns or operating issues relating to a single restaurant or a limited number of restaurants. Such publicity or concerns could reduce guest traffic at one or more restaurants, reducing gross revenues of the restaurant. The Company has a number of procedures in place for managing food safety and quality. Nevertheless, the risk of food borne illness or contamination cannot be completely eliminated. The risk of illnesses associated with our food might also increase in connection with the expansion of our catering business following the acquisitions of The Pickle Barrel and M&O. Any outbreak of such illness or contamination at a restaurant or within the food service industry more generally (even if it does not affect any of the restaurants in the Recipe network), or the perception of such an outbreak, could have a material adverse effect on the financial condition and results of operations of the Company.

Security Breaches of Confidential Guest Information

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

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

Public Safety Issues

Adverse conditions, such as the threat of terrorist attacks, acts of war, pandemics or other outbreaks or perceived outbreaks of disease (including avian flu, H2N1, SARS or mad cow disease), may have a negative impact on the restaurant industry and the economy in general. These incidents can adversely affect restaurant traffic, discretionary consumer spending and consumer confidence, which may result in decreased patronage in the Company's restaurants or force the Company to reduce or cap prices. The occurrence, re-occurrence, continuation or escalation of such local, regional, national or international

events or circumstances could reduce revenue for the Company which could have an adverse effect on its financial condition and results of operations.

Damage to the Company's Reputation

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

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

Availability and Quality of Raw Materials; Reliance on Suppliers

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

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

Growth of the Company; Franchisees

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

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

Franchise Fees and Other Revenue

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

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

Franchisee Relations

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

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

Revenue Reporting Risks

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

Opening New Restaurants

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

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

Potential Inability to Consummate Acquisitions

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

Integration of Acquisitions and Brand Expansion

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

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

Retail Licensing Opportunities

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

Fully-Integrated Supply Chain

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

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

Seasonality and Weather

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

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

Regulations Governing Alcoholic Beverages

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

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

The Company or a restaurant may be subject in certain provinces to "dram-shop" statutes, which generally provide a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person. The Company carries liquor liability coverage as part of its existing comprehensive general liability insurance.

Product Safety and Public Health

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

Regulatory Compliance

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

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

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

Laws Concerning Employees

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

Dependence on Key Personnel

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

Attracting and Retaining Quality Employees

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

The Company's ability to meet its labour needs while controlling the costs associated with hiring and training new employees is subject to external factors such as unemployment levels, prevailing wage rates, minimum wage legislation and changing demographics. Changes that adversely impact the Company's ability to attract and retain quality employees could adversely affect its business.

Unionization Activities May Disrupt Company Operations

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

Reliance on Information Technology

The Company relies heavily on information systems, including point-of-sale processing in its restaurants, for management of its supply chain, accounting, payment of obligations, collection of cash, credit and debit card transactions, upkeep of Recipe's in-house call center and other processes and procedures. The Company's ability to efficiently and effectively manage its business depends significantly on the reliability and capacity of these systems. The Company's operations depend upon its ability to protect its computer equipment and systems against damage from physical theft, fire, power loss, telecommunications failure or other catastrophic events, as well as from internal and external security breaches, viruses and other disruptive problems. The failure of these systems to operate effectively, maintenance problems, upgrading or

transitioning to new platforms, expanding the Company's systems as it grows or a breach in security of these systems could result in interruptions to or delays in the Company's business and guest service and reduce efficiency in its operations. If the Company's information technology systems fail and its redundant systems or disaster recovery plans are not adequate to address such failures, or if the Company's business interruption insurance does not sufficiently compensate the Company for any losses that it may incur, the Company's revenues and profits could be reduced and the reputation of its brands and its business could be materially adversely affected. In addition, remediation of such problems could result in significant, unplanned capital investments.

Intellectual Property

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

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

Lawsuits

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

Regulation

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

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

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

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

Foreign Currency Exchange Rates

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

Non-IFRS Measures

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

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

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

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

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

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

"Adjusted Net Earnings" is defined as net earnings plus (i) 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 RSUs.

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

	Q4 – 2018 Dec 30, 2018	Q3 – 2018 Sept 30, 2018	Q2 – 2018 July 1, 2018	Q1 – 2018 Apr 1, 2018
(C\$ millions unless otherwise stated)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reconciliation of net earnings to Adjusted Net Earnings				
Net earnings attributable to the common shareholders.....	\$ 9.0	\$ 23.8	\$ 19.5	\$ 21.7
Deferred income taxes.....	0.6	4.5	6.1	5.1
Change in fair value of non-controlling interest liability.....	1.5	1.0	1.0	-
Change in fair value of exchangeable Partnership units.....	6.4	(0.3)	2.6	(2.3)
Transaction costs.....	1.7	0.5	0.1	0.5
Restructuring and other.....	8.9	2.6	0.5	0.2
Impairment charges.....	6.8	-	0.7	0.6
Adjusted Net Earnings ⁽¹⁾	\$ 34.9	\$ 32.1	\$ 30.5	\$ 25.9
	Q4 – 2017 Dec 31, 2017	Q3 - 2017 Sept 24, 2017	Q2 - 2017 June 25, 2017	Q1 - 2017 Mar 26, 2017
(C\$ millions unless otherwise stated)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reconciliation of net earnings to Adjusted Net Earnings				
Net earnings attributable to the common shareholders.....	\$ 27.3	\$ 21.2	\$ 17.4	\$ 44.0
Deferred income taxes.....	5.2	6.0	3.8	(19.5)
Transaction costs.....	0.1	0.1	0.1	0.1
Restructuring and other.....	1.0	0.7	2.7	-
Impairment charges.....	2.5	0.7	2.4	1.2
Adjusted Net Earnings ⁽¹⁾	\$ 36.3	\$ 28.7	\$ 26.4	\$ 25.8

⁽¹⁾ Figures may not total due to rounding.

The following table provides reconciliations of EBITDA and Operating EBITDA:

	Q4 - 2018	Q3 - 2018	Q2 - 2018	Q1 - 2018
	Dec 30,	Sept 30,	July 1,	Apr 1,
(C\$ millions unless otherwise stated)	2018	2018	2018	2018
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reconciliation of net earnings from continuing operations to				
EBITDA:				
Net earnings	\$ 9.0	\$ 23.8	\$ 19.5	\$ 21.5
Net interest expense and other financing charges	2.8	2.8	3.0	3.3
Income taxes	6.4	7.6	9.0	7.8
Depreciation of property, plant and equipment	15.2	11.3	14.6	13.1
Amortization of other assets and deferred gain	1.0	0.8	0.7	1.5
EBITDA ⁽¹⁾	\$ 34.4	\$ 46.3	\$ 46.8	\$ 47.2
Reconciliation of EBITDA to Operating EBITDA:				
Income on Partnership units	2.7	2.7	2.6	1.0
Fair value adjustments	7.9	0.6	3.6	(2.3)
(Gains) Losses on early buyout/cancellation of equipment rental contracts	0.5	0.3	0.3	0.2
Restructuring	8.9	2.7	0.5	0.2
Transaction costs	1.7	0.4	0.1	0.5
Conversion fees	0.5	(0.7)	0.1	(0.3)
Net gain on disposal of property, plant and equipment and other assets	(0.3)	(1.9)	(0.3)	(0.2)
Impairment of assets, net of reversals	6.8	-	0.7	0.6
Stock based compensation	2.1	2.3	1.0	0.5
Change in onerous contract provision	0.9	(1.4)	(1.0)	(0.3)
Proportionate share of equity accounted joint venture	(1.4)	1.1	0.8	0.4
Operating EBITDA ⁽¹⁾	\$ 64.5	\$ 52.4	\$ 55.2	\$ 47.4
Net royalty expense	3.8	3.6	3.5	1.5
Operating EBITDA ⁽¹⁾ excluding net royalty expense	\$ 68.3	\$ 56.0	\$ 58.7	\$ 48.8

	Q4 - 2017	Q3 - 2017	Q2 - 2017	Q1 - 2017
	Dec 31,	Sept 24,	Jun 25,	Mar 26,
(C\$ millions unless otherwise stated)	2017	2017	2017	2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reconciliation of net earnings from continuing operations to				
EBITDA:				
Net earnings	\$ 27.3	\$ 21.2	\$ 17.4	\$ 43.8
Net interest expense and other financing charges	3.5	3.2	2.7	3.0
Income taxes	9.7	9.2	4.2	(16.3)
Depreciation of property, plant and equipment	12.0	11.2	10.8	10.0
Amortization of other assets	2.3	1.7	1.6	1.5
EBITDA ⁽¹⁾	\$ 54.8	\$ 46.4	\$ 36.7	\$ 42.0
Reconciliation of EBITDA to Operating EBITDA:				
Losses on early buyout/cancellation of equipment rental contracts	(0.1)	0.6	0.1	-
Restructuring	1.0	0.7	2.7	-
Transaction costs	0.1	0.1	0.1	0.1
Conversion fees	(0.3)	(0.3)	(0.3)	(0.3)
Net (gain) on disposal of property, plant and equipment	(0.3)	(0.4)	(1.1)	(0.4)
Impairment of assets, net of reversals	2.5	0.7	2.4	1.2
Inventory fair value adjustment resulting from acquisition	-	-	-	0.1
Stock based compensation	0.5	0.5	0.8	0.5
Change in onerous contract provision	0.3	(0.4)	(0.2)	(0.3)
Proportionate share of equity accounted joint venture	0.2	(0.1)	0.4	(0.1)
Operating EBITDA ⁽¹⁾	\$ 58.5	\$ 48.0	\$ 41.6	\$ 42.9

⁽¹⁾ Figures may not total due to rounding.

Forward-Looking Information

Certain statements in this MD&A may constitute “forward-looking” statements within the meaning of applicable Canadian securities legislation which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company or the industry in which they operate, to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this MD&A, such statements use words such as “may”, “will”, “expect”, “believe”, “plan” and other similar terminology. These statements reflect management’s current expectations regarding future events and operating performance and speak only as of the date of this MD&A. These forward-looking statements involve a number of risks and uncertainties, including those related to: (a) the Company’s ability to maintain profitability and manage its growth including SRS Growth, System Sales Growth, increases in net income, Operating EBITDA, Operating EBITDA Margin on System Sales, Free Cash Flow, and Adjusted net earnings; (b) competition in the industry in which the Company operates; (c) the general state of the economy; (d) integration of acquisitions by the Company; (e) risk of future legal proceedings against the Company. These risk factors and others are discussed in detail under the heading “Risk Factors” in the Company’s Annual Information Form dated March 6, 2019. New risk factors may arise from time to time and it is not possible for management of the Company to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance or achievements of the Company to be materially different from those contained in forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this MD&A.

Risks and Uncertainties

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

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

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