RECIPE UNLIMITED CORPORATION
(formerly Cara Operations Limited)
Management's Discussion and Analysis
For the 13 weeks ended March 31, 2019

The following Management's Discussion and Analysis ("MD&A") for Recipe Unlimited Corporation ("Recipe" or the "Company") provides information concerning the Company's financial condition and results of operations for the 13 weeks ended March 31, 2019 ("first quarter", "Q1", "the quarter" or "the period"). This MD&A should be read in conjunction with the Company's unaudited Condensed Consolidated Interim Financial Statements ("interim financial statements") and accompanying notes as at March 31, 2019. The consolidated results from operations for the 13 weeks ended March 31, 2019 are compared to the 13 weeks ended April 1, 2018. Recipe's fiscal year ends on the last Sunday in December.

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

This MD&A was prepared as at May 9, 2019. Additional information relating to the Company can be found on SEDAR at www.sedar.com.

Basis of Presentation

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

Highlights for the 13 weeks ended March 31, 2019:

- The Company generates significant Free Cash Flow[1] which provides the Company the ability to fund growth and enhance shareholder returns. Free Cash Flow before growth capex, dividends, and share repurchases under the Company's normal course issuer bid ("NCIB") for the 13 weeks ended March 31, 2019 was $35.1 million compared to $33.2 million for the 13 weeks ended April 1, 2018, an increase of $1.9 million or 5.7%.

  Free Cash Flow per share before growth capex, dividends, and NCIB on a diluted basis was $0.55 for the 13 weeks ended March 31, 2019 compared to $0.53 for 2018, an increase of $0.02 per share or 3.8%.

- Subsequent to the quarter, the Company completed the refinancing of its $550.0 million credit facilities on more favorable borrowing terms and raised $250.0 million of 10 year 4.72% Private Notes (see page 4 – "Subsequent events"). This increase in borrowing capacity coupled with the Company strong Free Cash Flow will enable the Company to fund growth and pursue strategic opportunities to further enhance shareholder value.

- System Sales[1] grew $94.8 million to $850.7 million for the 13 weeks ended March 31, 2019 compared to 2018, representing an increase of 12.5%. The increase in System Sales is primarily related to the addition The Keg in February 2018 and increases in the retail and catering segment from the Swiss Chalet branded products at grocery, increases in frozen pot pie sales from the addition of the new pie production line, and the addition of Marigolds and Onions in December 2018.

- Same Restaurant Sales ("SRS") Growth[1] for the 13 weeks ended March 31, 2019 was a decrease of 1.6% compared to the same 13 weeks in 2018. Contributing factors to our SRS results include mixed performance between our brands; early progress on our new 4-pillar operating model, with much work still to be done; and challenging winter weather conditions across the country.

- Operating EBITDA[1][2] increased to $50.1 million for the 13 weeks ended March 31, 2019 compared to $46.2 million in 2018, an improvement of $3.9 million or 8.4% for the quarter. The increases were driven by the improved contribution from the corporate and franchise segments related to the addition of The Keg in February 2018, and increases in the retail and catering segment which offset full quarter net central expenses from The Keg.

- Operating EBITDA Margin on System Sales[1] before The Keg royalty expense, was 6.3% for the quarter compared to 6.3% in 2018. Operating EBITDA Margin on System Sales after The Keg royalty expense was 5.9% for the quarter as compared to 6.1% in 2018. While The Keg adds EBITDA dollars, because of higher net central overhead costs and the royalty payments to The Keg Royalty Income Fund, in the medium term, The Keg merger will reduce Recipe's Operating EBITDA margin on System Sales below the target 7% to 8% range. Management's focus will continue to be on improving the earnings efficiency of our assets and our increased sales base to grow Operating EBITDA as a percentage of System Sales back to within our 7% to 8% target range by 2020-2022.

- Contribution from retail and catering for the 13 weeks ended March 31, 2019 was $4.5 million compared to $3.3 million for the 13 weeks ended April 1, 2018, an increase of $1.2 million or 36.4% for the quarter. The increases are primarily driven by sales increases of Swiss Chalet branded products at grocery, increases in frozen pot pie sales from the addition of the new pie production line, the addition of The Keg retail business in February and the addition of Marigolds and Onions in December 2018.

- Earnings before income taxes for the 13 weeks ended March 31, 2019 was $31.3 million compared to $29.3 million in 2018, an increase of $2.0 million or 6.8%. The increase was driven by the improved contribution from the corporate and franchise segments related to the addition of The Keg in February 2018, increases in the corporate, franchise, retail and catering segments, increase in non-cash fair value adjustment related to the Exchangeable Keg Partnership units, partially offset by a net $0.3 million decrease in earnings related to the new IFRS Lease Standard[2] (see page 3 – IFRS 16 – New Lease Standard).

- Adjusted Net Earnings for the 13 weeks ended March 31, 2019 was $17.7 million compared to $20.6 million in 2018, a decrease of $2.9 million for the quarter. The decrease is primarily related to higher stock based compensation expense of $1.4 million, higher income tax expense of $0.8 million; and the adoption of the new IFRS 16 Lease Standard[2] which caused a decrease in net earnings of $0.3 million. The decrease was partially offset by improved contribution dollars from the corporate, franchise, retail and catering segments.

- Basic Earnings per Share ("EPS") for the 13 weeks ended March 31, 2019 was $0.36 compared to $0.36 in 2018, while Diluted EPS for the 13 weeks ended March 31, 2019 was $0.35 compared to $0.35 in 2018.

- Under the Company's NCIB, the Company purchased and cancelled 266,197 Subordinate Voting Shares for $7.1 million during the 13 weeks ended March 31, 2019. Subsequent to March 31, 2019 until May 9, 2019 , the Company has repurchased 120,650 Recipe subordinate voting shares for $3.2 million under the NCIB and has purchased 983,160 subordinate voting shares for $25.5 million since June 22, 2018.

(1) See "Non-IFRS Measures" on page 32 for definitions of System Sales, SRS Growth, Adjusted Net Earnings, Operating EBITDA, Operating EBITDA Margin on System Sales, and Adjusted EPS. See "Reconciliation of Net Earnings to EBITDA" and "Reconciliation of Net Earnings to Adjusted Net Earnings" for a reconciliation of Operating EBITDA and Adjusted Net Earnings.

(2) Effective December 31, 2018, the Company implemented IFRS 16, Leases. Comparative Operating EBITDA figures provided for each quarter have been restated to reflect the adoption of this accounting standard. See "IFRS 16 – New Lease Standard" on pages 3, 7 and 35 for a reconciliation of the changes to Operating EBITDA, and Note 3 "Changes in accounting policies" in the Interim Financial Statements of the Company for further details.

IFRS 16 – New Lease Standard

Effective December 31, 2018, the Company implemented IFRS 16, Leases. Comparative figures provided for each quarter have been restated to reflect the adoption of this accounting standard. Please refer to pages 7 and 35 for a reconciliation of the changes to Operating EBITDA. Further details on the accounting change are included in Note 3 "Changes in accounting policies" in the Interim Financial Statements of the Company.

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

		As at December 30, 2018	IFRS 16 Net Impact		As at December 31, 2018
Assets					
Accounts receivable	$	104,939	76,652	$	181,591
Long-term receivables		33,544	427,789		461,333
Property, plant and equipment		399,990	256,250		656,240
Impact to Total Assets			$ 760,691		
Liabilities					
Provisions	$	9,679	(5,765)	$	3,914
Current portion of lease liability		-	120,510		120,510
Long-term debt		258,390	(26,016)		232,374
Lease liability		-	688,363		688,363
Provisions		13,796	(9,577)		4,219
Other long-term liabilities		87,667	(3,853)		83,814
Deferred tax liability		92,831	(864)		91,967
Impact to Total Liabilities			$ 762,798		
Impact to Total Shareholders' Equity	$	485,812	$ (2,107)	$	483,705
Impact to Total Liabilities and Equity			$ 760,691		

The impact to net earnings for the 13 weeks ended March 31, 2019 compared to 2018 was a net reduction to earnings before income tax of $0.3 million. Operating income increased $2.1 million consisting of a $12.7 million decrease in rent expense offset by an increase in depreciation expense of $10.5 million related to the right-of-use assets. The increase in Operating income is reduced by an increase in interest expense of $2.4 million related to the new lease standard.

		For the 13 weeks ended March 31, 2019				For the 13 weeks ended April 1, 2018 [(1)]		
		Pre IFRS 16 adoption	IFRS 16 adoption impact	Consolidated		Pre Finance Lease	Finance lease impact	Consolidated
Total gross revenue	$	304,647	-	304,647	$	244,149	-	244,149
Cost of inventories sold		(108,475)	-	(108,475)		(84,756)	-	(84,756)
Selling, general and administrative expenses		(167,049)		(167,049)		(127,838)		(127,838)
Operating lease costs		-	13,937	13,937		-	1,206	1,206
Depreciation expense		-	(11,769)	(11,769)		-	(1,167)	(1,167)
Impairment of assets, net of reversals		-	-	-		(578)	-	(578)
Restructuring		225	-	225		(229)	-	(229)
Operating income		29,348	2,168	31,516		30,748	39	30,787
Finance costs								
Net interest expense and other financing charges		(1,573)	(2,887)	(4,460)		(2,851)	(466)	(3,317)
Share of gain from investment in associates and joint ventures		(577)	-	(577)		(398)	-	(398)
Earnings before change in fair value and income taxes		27,198	(719)	26,479		27,499	(427)	27,072
Change in fair value of exchangeable partnership units		4,828	-	4,828		2,256	-	2,256
Earnings before income taxes		32,026	(719)	31,307		29,755	(427)	29,328

(1) Impact of finance leases for the 13 weeks ended April 1, 2018 reported under IAS 17 and IFRIC 4.

Subsequent Events

Credit Facility Refinancing

On May 1, 2019, the Company amended and extended the terms of its existing syndicated bank credit facility. The new credit facility, the fifth amended and restated credit agreement, is comprised of a revolving credit facility in the amount of $550.0 million with an accordion feature of up to $250.0 million. The $550.0 million revolving facility includes a $400.0 million tranche that matures on May 1, 2024 (5 years) and a $150.0 million tranche that matures on May 1, 2022 (3 years). The $250.0 million accordion feature is applicable to either tranche and it has been upsized from $50.0 million under the Company's existing facility.

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

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

Private Placement Financing

On April 29, 2019, the Company announced that it priced $250.0 million First Lien Senior Secured Notes by way of a private placement (the "Notes"). The Notes rank pari passu in right of payment with the lenders under the Company's amended and restated credit agreement ("New Credit Facility"), is secured on a first lien basis on the assets that secure the Company's New Credit Facility, and is guaranteed by all material subsidiaries and holding companies of the Company on the same basis as the New Credit Facility. The Notes bear interest from their date of issue at a rate of 4.72% per annum, payable semi-annually and maturing on May 1, 2029.

Dividend

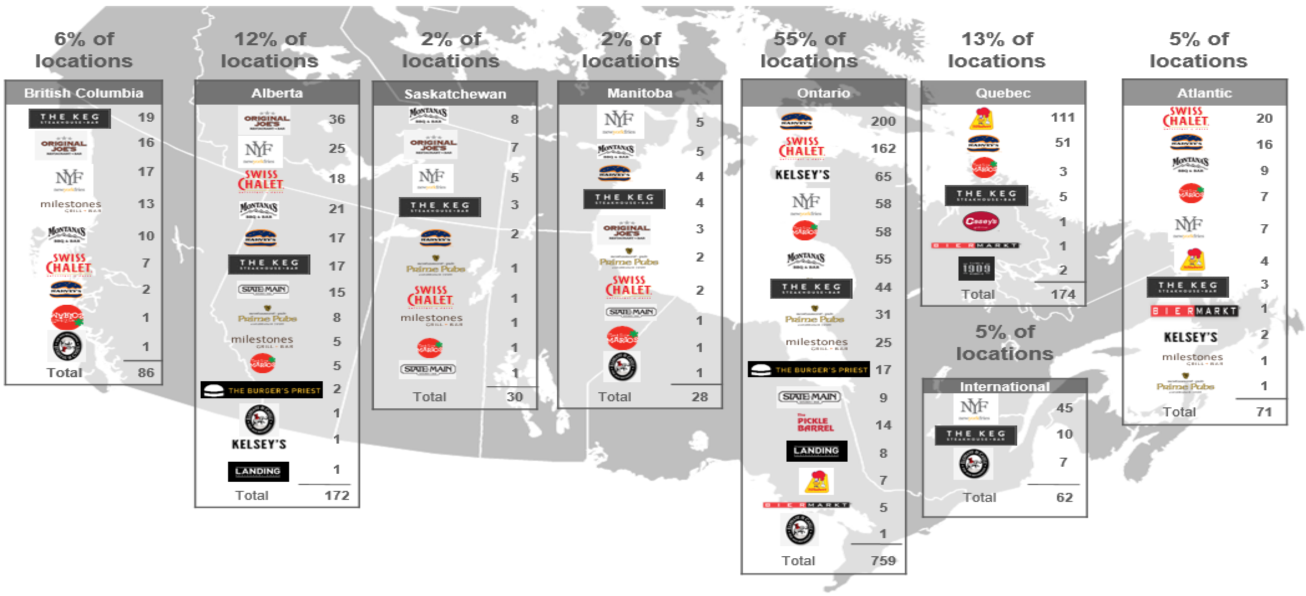
On May 9, 2019, the Company's Board of Directors declared a dividend of $0.1121 per share of subordinate and multiple voting common stock, a 5% increase over the 2018 quarterly dividend rate. Payment of the dividend will be made on June 14, 2019 to shareholders of record at the close of business on May 31, 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.

Share re-purchases

Subsequent to March 31, 2019 until May 9, 2019, the Company has repurchased 120,650 Recipe subordinate voting shares for $3.2 million under the NCIB and has purchased 983,160 subordinate voting shares for $25.5 million since June 22, 2018.

Overview

Recipe is a full service restaurant company that franchises and operates iconic restaurant brands. As at March 31, 2019, 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 March 31, 2019 Corporate	Franchise	Joint Venture	Total	As at December 30, 2018 Corporate	Franchise	Joint Venture	Total
Swiss Chalet	15	195	0	210	15	197	0	212
Harvey's	10	282	0	292	10	282	0	292
Montana's	7	101	0	108	8	99	0	107
Kelsey's..................................	4	64	0	68	4	64	0	68
East Side Mario's [1].................	2	74	0	76	2	74	0	76
Prime Pubs................................	5	38	0	43	4	40	0	44
Bier Markt.................................	7	0	0	7	7	0	0	7
Milestones................................	26	17	2	45	22	22	2	46
Landing......................................	9	0	0	9	9	0	0	9
New York Fries	16	146	0	162	16	143	0	159
St-Hubert..................................	12	110	0	122	12	111	0	123
Original Joe's............................	17	28	17	62	19	27	18	64
State & Main..............................	8	11	7	26	8	11	7	26
Elephant & Castle......................	10	1	0	11	10	1	0	11
Burger's Priest..........................	0	0	19	19	0	0	17	17
1909 Taverne Moderne..........	0	0	2	2	0	0	2	2
Pickle Barrel..................................	14	0	0	14	13	0	0	13
The Keg......................	49	56	0	105	49	56	0	105
Fresh..	0	0	0	0	0	0	0	0
Casey's......................................	0	1	0	1	0	1	0	1
Total restaurants [2]......................	211	1,124	47	1,382	208	1,128	46	1,382
	15%	82%	3%	100%	15%	83%	3%	100%

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

[2] Figures may not total due to rounding.

Selected Financial Information

The following table summarizes select results of Recipe's operations for the 13 weeks ended March 31, 2019 and April 1, 2018:

(C$ millions unless otherwise stated)	For the 13 weeks ended March 31, 2019		For the 13 weeks ended April 1, 2018	
		(unaudited)		(unaudited)
System Sales [(2)(4)]	**$**	**850.7**	**$**	**755.9**
Sales	$	259.5	$	202.1
Franchise revenues [(3)]		45.2		42.0
Total gross revenue [(1)]	**$**	**304.6**	**$**	**244.1**
Cost of inventories sold		(108.5)		(84.8)
Selling, general and administrative expenses [(3)]		(164.9)		(127.8)
Impairment of assets, net of reversals		-		(0.6)
Restructuring and other		0.2		(0.2)
Operating income [(1)]	**$**	**31.5**	**$**	**30.8**
Net interest expense and other financing charges		(4.5)		(3.3)
Share of loss from investment in associates and joint ventures		(0.6)		(0.4)
Earnings before change in fair value and income taxes [(1)]	**$**	**26.5**	**$**	**27.1**
Change in fair value of exchangeable partnership units		4.8		2.3
Earnings before income taxes [(1)]	**$**	**31.3**	**$**	**29.3**
Income taxes - current		(7.1)		(2.7)
Income taxes - deferred		(1.5)		(5.1)
Net earnings [(1)]	**$**	**22.7**	**$**	**21.5**
Adjusted Net Earnings [(2)]	**$**	**17.7**	**$**	**20.6**
Total assets	$	2,286.9	$	1,609.4
Non-current financial liabilities	$	1,275.8	$	900.5
Earnings per share attributable to common shareholders (in dollars)				
Basic EPS	$	0.36	$	0.36
Diluted EPS	$	0.35	$	0.35
Adjusted Basic EPS[(2)]	$	0.29	$	0.34
Adjusted Diluted EPS[(2)]	$	0.28	$	0.33
Dividends Declared (in dollars per share) [(1)]				
Subordinate Voting Shares and Multiple Voting Shares	$	0.11	$	0.11

(1) Figures may not total due to rounding.
(2) See "Non-IFRS Measures" on page 32 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) Effective December 31, 2018, the Company implemented IFRS 16, Leases. Comparative Operating EBITDA figures provided for each quarter have been restated to reflect the adoption of this accounting standard. See "IFRS 16 – New Lease Standard" on pages 3,7 and 35 for a reconciliation of the changes to Operating EBITDA, and Note 3 "Changes in accounting policies" in the Interim Financial Statements of the Company for further details.
(4) Results from East Side Mario restaurants in the United States are excluded from System Sales totals. See "Non-IFRS Measures" on page 32 for definition of System Sales.

(C$ millions unless otherwise stated)	For the 13 weeks ended March 31, 2019	April 1, 2018
	(unaudited)	(unaudited)
Reconciliation of Net Earnings to Adjusted Net Earnings [(2)]		
Net earnings	$ 22.7	$ 21.5
Restructuring and other	(0.2)	0.2
Transaction costs	0.1	0.5
Change in fair value of exchangeable partnership units	(4.8)	(2.3)
Impairment charges	-	0.6
Adjusted Net Earnings [(1)(2)]	**$ 17.7**	**$ 20.6**
Reconciliation of Net Earnings to EBITDA [(2)]		
Net earnings	$ 22.7	$ 21.5
Net interest expense and other financing charges	4.5	3.3
Income taxes	8.6	7.8
Depreciation and amortization	27.9	14.6
EBITDA[(2)]	**$ 63.7**	**$ 47.2**
Reconciliation of EBITDA [(2)] to Operating EBITDA [(2)]:		
Rent impact from IFRS 16 Leases	(13.9)	(1.2)
Income on Partnership units	2.8	1.0
Fair value adjustments	(4.8)	(2.3)
Losses on early buyout/cancellation of equipment rental contracts	-	0.2
Restructuring and other	(0.2)	0.2
Transaction costs	0.1	0.5
Conversion fees	(0.1)	(0.3)
Net (gain) loss on disposal of property, plant and equipment and other assets	0.6	(0.2)
Impairment of assets	-	0.6
Stock based compensation	1.9	0.5
Change in onerous contract provision	(0.2)	(0.3)
Proportionate share of joint venture results	0.2	0.4
Operating EBITDA [(1)(2)(3)]	**$ 50.1**	**$ 46.2**
Reconciliation of Operating EBITDA [(2)] to Free Cash Flow [(2)]:		
Maintenance capex	(5.5)	(4.4)
Interest on long-term debt	(4.7)	(4.1)
Cash taxes	(4.8)	(4.5)
Free Cash Flow [(2)] before Growth capex, divdends, NCIB	**$ 35.1**	**$ 33.2**
Growth capex	(4.5)	(2.3)
Proceeds on sale of assets	-	0.1
Dividends declared	(6.9)	(6.7)
NCIB	(7.1)	(0.7)
Free Cash Flow [(2)] after Growth capex, divdends, NCIB	**$ 16.6**	**$ 23.6**

(1) Figures may not total due to rounding.
(2) See "Non-IFRS Measures" on page 32 for definitions of Adjusted Net Earnings, EBITDA and Operating EBITDA.
(3) Effective December 31, 2018, the Company implemented IFRS 16, Leases. Comparative Operating EBITDA figures provided for each quarter have been restated to reflect the adoption of this accounting standard. See "IFRS 16 – New Lease Standard" on pages 3,7 and 35 for a reconciliation of the changes to Operating EBITDA, and Note 3 "Changes in accounting policies" in the Interim Financial Statements of the Company for further details.

The 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.

	For the 13 weeks ended	
(C$ millions unless otherwise stated)	**March 31, 2019**	**April 1, 2018**
	(unaudited)	(unaudited)
System Sales [(1)(3)]	$ 850.7	$ 755.9
System Sales Growth [(1)(3)]	12.5%	14.7%
SRS Growth [(2)(3)]	(1.6%)	2.1%
Number of corporate restaurants (at period end)	211	213
Number of joint venture restaurants (at period end)	47	55
Number of franchised restaurants (at period end)	1,124	1,114
Total number of restaurants (at period end)	**1,382**	**1,382**
Total gross revenue	$ 304.6	$ 244.1
Operating EBITDA [(3)(4)]	$ 50.1	$ 46.2
Operating EBITDA Margin [(3)]	16.4%	18.9%
Operating EBITDA on System Sales [(3)]	5.9%	6.1%
Net Keg royalty expense	$ 3.9	$ 1.5
Operating EBITDA [(3)], excluding The Keg royalty	$ 53.9	$ 47.6
Operating EBITDA Margin [(3)] excluding The Keg royalty	17.7%	19.5%
Operating EBITDA on System Sales [(3)] excluding The Keg royalty	6.3%	6.3%
Free cash flow [(3)], before growth capex, dividends and NCIB	$ 35.1	$ 33.2
Free cash flow (3), Per Share - Basic (in dollars)	$ 0.57	$ 0.55
Free cash flow (3) Per Share - Diluted (in dollars)	$ 0.55	$ 0.53
Free cash flow [(3)], after growth capex, dividends and NCIB	$ 16.6	$ 23.6
Free cash flow (3) Per Share - Basic (in dollars)	$ 0.27	$ 0.39
Free cash flow (3) Per Share - Diluted (in dollars)	$ 0.26	$ 0.38
Net earnings	$ 22.7	$ 21.5
Basic EPS (in dollars)	$ 0.36	$ 0.36
Diluted EPS (in dollars)	$ 0.35	$ 0.35
Adjusted Net Earnings [(3)]	$ 17.7	$ 20.6
Adjusted Basic EPS[(3)] (in dollars)	$ 0.29	$ 0.34
Adjusted Diluted EPS[(3)] (in dollars)	$ 0.28	$ 0.33

(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 32 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 32 for definition of SRS Growth.
(3) See "Non-IFRS Measures" on page 32 for definitions of System Sales, System Sales Growth, SRS Growth, Operating EBITDA, Operating EBITDA Margin, and Operating EBITDA on System Sales.
(4) Effective December 31, 2018, the Company implemented IFRS 16, Leases. Comparative Operating EBITDA figures provided for each quarter have been restated to reflect the adoption of this accounting standard. See "IFRS 16 – New Lease Standard" on pages 3, 7, and 35 for a reconciliation of the changes to Operating EBITDA, and Note 3 "Changes in accounting policies" in the Interim Financial Statements of the Company for further details.

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

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

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

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

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

SRS growth for the 13 weeks ended March 31, 2019 was a decrease of 1.6% compared to 2018. Contributing factors to our SRS results include mixed performance between our brands; early progress on our new 4-pillar operating model, with much work still to be done; and challenging winter weather conditions across the country.

Management continues to focus on both short-term and long-term strategies to improve SRS through restaurant renovations, greater emphasis on menu innovation, enhanced guest experiences, expanded off-premise sales through new and improved e-commerce applications, operational excellence initiatives including using technology to improve the timeliness and transparency of data, and brand specific digital-social media marketing as described in the Highlights and Outlook sections of this MD&A.

See "Non-IFRS Measures" on page 32 for a description of how Recipe calculates SRS growth. SRS Growth for individual brands may be higher or lower than SRS Growth for all restaurants combined, and in some cases, SRS Growth, for individual brands, may be negative.

Competition

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

Restaurant Portfolio Management and Continuous Network Improvement

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

Restaurant renovations also contribute to network improvement. However, the timing of renovations is dependent on having sufficient term remaining on both the particular franchise agreement and lease agreement. Franchisees are responsible for financing franchise restaurant renovations. We have found that renovations are most successful when they include changes to the exterior and interior coupled with a fresh approach to guest service and experience. During the 13 weeks ended March 31, 2019, the Company completed 15 renovations.

Recipe's restaurant network consists of company-owned corporate locations and franchised locations. As at the end of March 31, 2019, there were 1,382 restaurants. The following table presents the changes in Recipe's restaurant unit count:

	For the 13 weeks ended							
	March 31, 2019				April 1, 2018			
Unit count (unaudited)	Corporate	Franchised	Joint Venture	Total	Corporate	Franchised	Joint Venture	Total
Beginning of year[1]	208	1,128	46	**1,382**	169	1,049	54	**1,272**
Acquisitions [2]	-	-	-	-	49	57	-	**106**
New openings	1	12	2	**15**	1	15	1	**17**
Closures	(5)	(10)	-	**(15)**	(3)	(10)	-	**(13)**
Casey's closures	-	-	-	-	-	-	-	-
Corporate buy backs [3]	8	(8)	-	-	1	(1)	-	-
Restaurants re-franchised [4]	(1)	2	(1)	-	(1)	1	-	-
End of period	211	1,124	47	**1,382**	216	1,111	55	**1,382**

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

[2] The Keg was acquired on February 22, 2018.

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

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

In the 13 weeks ended March 31, 2019, excluding the acquisitions, the Company opened 15 new restaurant locations and closed 15 locations. Included in the closures were underperforming locations where the closure will benefit the overall system performance and the Company's profitability going forward. Management will continue to review its portfolio of restaurants and will opportunistically close underperforming or non-strategic locations that will benefit the Company long term. Management expects to achieve positive net new restaurants openings for the full year ended 2019.

Financial results

System Sales

System Sales for the 13 weeks ended March 31, 2019 were $850.7 million compared to $755.9 million in 2018, representing an increase of $94.8 million or 12.5% for the quarter. This increase was primarily from the addition of The Keg in February 2018.

Total gross revenue

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

Total gross revenue was $304.6 million for the 13 weeks ended March 31, 2019 compared to $244.1 million in 2018, representing an increase of $60.5 million or 24.8% for the quarter. The increase in gross revenues was primarily related to the addition of The Keg in February 2018 and increases in retail and catering sales, partially offset by SRS decreases.

Selling, general and administrative expenses

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

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

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

(C$ millions unless otherwise stated)	For the 13 weeks ended March 31, 2019		For the 13 weeks ended April 1, 2018
	(unaudited)		(unaudited)
Corporate restaurant expenses	$	111,239	$ 86,125
Advertising fund transfers		15,212	14,377
The Keg royalty expense		6,686	2,414
Franchise assistance and bad debt		1,151	1,992
Depreciation and amortization [(2)]		27,409	13,755
Other		3,184	9,136
Total selling, general and administrative expenses [(1)]	**$**	**164,881**	**$ 127,799**

(1) Figures may not total due to rounding.
(2) Included in depreciation and amortization of $11.8 million related to depreciation of Right-of-use assets as a result of the new lease standard IFRS 16, see page 2 "IFRS 16 – New Lease Standard" compared to $1.2 million in 2018.

SG&A expenses for the 13 weeks ended March 31, 2019 were $164.9 million compared to $127.8 million in 2018, representing an increase of $37.1 million or 29.0% for the quarter. The increases are largely related to higher corporate restaurant expenses of $25.1 million primarily from the addition of The Keg in February 2018. While corporate restaurant expenses have increased, corporate restaurant contribution as a percentage of corporate restaurant sales and contribution dollars from the corporate segment has increased from the improved mix of corporate restaurants after adding The Keg and refranchising certain restaurants in franchise banners. SG&A expenses also increased $4.3 million as a result of The Keg royalty expense, and increased $13.7 million related to an increase in depreciation and amortization as a result of the increase in corporate restaurants and the impact from the IFRS 16 new lease standard. The increase in depreciation and amortization of $10.6 million related to the new lease standard is offset by rent reduction of approximately $12.7 million included in Other expenses, also related to the new lease standard (see "IFRS 16 – New Lease Standard" on page 3).

Net interest expense and other financing charges

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

(C$ millions unless otherwise stated)	For the 13 weeks ended March 31, 2019		For the 13 weeks ended April 1, 2018
	(unaudited)		(unaudited)
Interest expense on long-term debt	$	4,675	$ 4,087
Financing costs		170	175
Interest expense - other		87	73
Interest income on Partnership units		(2,834)	(965)
Interest income		(525)	(519)
Interest expense on lease liability		7,621	466
Interest income on lease receivable		(4,734)	-
Total net interest expense and other financing charges	**$**	**4,460**	**$ 3,317**

Excluding the net interest related to the adoption of IFRS 16 of $2.9 million, interest expense and other financing charges were $1.6 million as compared to $2.9 million, an increase of $0.2 million. The decrease is due to a full quarter of interest income from Keg Partnership units partially offset by a full quarter of The Keg interest on long-term debt expense.

Income taxes

The Company recorded a current income tax expense of $7.1 million for the 13 weeks ended March 31, 2019, compared to $2.7 million in 2018, representing an income tax expense increase of $4.4 million. The current income tax expense is primarily related to the Company now being fully taxable as prior year losses have been utilized for tax purposes.

The Company recorded a net deferred income tax expense of $1.5 million for the 13 weeks ended March 31, 2019, compared to an expense of $5.1 million 2018, representing a deferred income tax expense change of $3.4 million. The deferred income tax expense change is primarily related to the 2018 utilization of prior years' loss carry forward balances and the reversal of the related deferred tax asset in 2018.

Net earnings

Net earnings were $22.7 million for the 13 weeks ended March 31, 2019 compared to $21.5 million in 2018, representing an increase of $1.2 million for the quarter. The increase is primarily related to the a full quarter of The Keg, increased contribution from the corporate, franchise, retail and catering segments, an increase in non-cash fair value change in Exchangeable Keg Partnership units, offset by an increase in income tax expense of $0.8 million, and a $0.3 million net impact related to the adoption of the new IFRS 16 Lease Standard(2).

Free Cash Flow

	13 weeks ended		rolling 12 months	
(C$ millions unless otherwise stated)	**Mar 31, 2019**	**Apr 1, 2018**	**Mar 31, 2019**	**Apr 1, 2018**
Free cash flow (1)(2), before growth capex, dividends and NCIB……	**$ 35.1**	**$ 33.2**	**$ 160.6**	**$ 138.0**
Free cash flow per share - Basic (in dollars)……………………	$ 0.57	$ 0.55	$ 2.59	$ 2.31
Free cash flow per share - Diluted (in dollars)…………………	$ 0.55	$ 0.53	$ 2.50	$ 2.22
Dividends declared……………………………………………………	**$ 6.9**	**$ 6.7**	**$ 27.0**	**$ 24.7**
Dividends per share - Basic (in dollars)……………………….	$ 0.11	$ 0.10	$ 0.44	$ 0.41
Dividends per share - Diluted (in dollars)………………………	$ 0.11	$ 0.10	$ 0.42	$ 0.40
Shares repurchased………………………………………………	**$ 7.1**	**$ 0.7**	**$ 22.6**	**$ 34.5**
Number of shares repurchased……………………………………	266,197	27,437	873,610	1,495,443
Growth capex……………………………………………………….	**$ 4.5**	**$ 2.3**	**$ 19.2**	**$ 26.6**
Debt reduction………………………………………………………	**$ 1.0**	**$ 15.0**	**$ 102.0**	**$ 55.0**

(1) See "Non-IFRS Measures" on page 32 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.
(2) Effective December 31, 2018, the Company implemented IFRS 16, Leases. Comparative Operating EBITDA figures provided for each quarter have been restated to reflect the adoption of this accounting standard. See "IFRS 16 – New Lease Standard" on pages 3, 7 and 35 for a reconciliation of the changes to Operating EBITDA, and Note 3 "Changes in accounting policies" in the Interim Financial Statements of the Company for further details.

The Company generates significant Free Cash Flow(1) which provides the Company the ability to fund growth and enhance shareholder returns. Free Cash Flow before growth capex, dividends, and share repurchases under the Company's NCIB for the 13 weeks ended March 31, 2019 was $35.1 million compared to $33.2 million for the 13 weeks ended April 1, 2018, an increase of $1.9 million or 5.7%.

On a rolling 12 month basis, Free Cash Flow before growth capex, dividends, and share repurchases under the Company's NCIB 12 month period ending March 31, 2019 was $160.6 million compared to $138.0 million in 2018, an increase of $22.6 million or 16.4%. During this 12 month period, the Company repaid $102.0 million on its credit facilities, a reduction equal to the amounts drawn on the Company's credit facilities to complete The Keg merger in February 2018.

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

Free Cash Flow before growth capex, dividends, and NCIB per share on a diluted basis was $0.55 for the 13 weeks ended March 31, 2019 compared to $0.53 for 2018, an increase of $0.02 per share or 3.8%. On a rolling 12 month basis, Free Cash Flow before growth capex, dividends, and NCIB per share on a diluted basis was $2.50 for 12 month period ended March 31, 2019 compared to $2.22 for 2018, an increase of $0.28 per share or 12.6%.

During the 13 weeks ended March 31, 2019, the Company declared dividends of $6.9 million or $0.11 per share, repurchased 266,197 shares at $7.1 million and reduced debt by $1.0 million, compared to $6.7 million or $0.10 per share, repurchases of 27,437 shares costing $0.7 million in 2018, and debt repayments of $15.0 million.

On a rolling 12 month basis, the Company declared dividends of $26.9 million or $0.44 per share, repurchased 873,610 shares at $22.6 million and reduced debt by $102.0 million, compared to $24.7 million or $0.41 per share, repurchases of 1,495,443 shares costing $33.6 million in 2018, and debt repayment of $55.0 million.

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

Segment Performance

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

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

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

Retail and catering represent sales of St-Hubert, Swiss Chalet, 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.

For purposes of measuring Segment Performance, the Company will report Segment Operating EBITDA contribution and related components following pre-IFRS 16 accounting policies similar to 2018 and prior reporting periods.

Operating EBITDA

Operating EBITDA[(1)(2)] before The Keg royalty expense was $53.9 million, representing 6.3% contribution as a percentage of Total System Sales for the 13 weeks ended March 31, 2019 compared to $47.6 million representing 6.3% in 2018.

Operating EBITDA[(1)(2)] after The Keg royalty expense was $50.1 million for the 13 weeks ended March 31, 2019 compared to $46.2 million in 2018, representing an increase of $3.9 million or 8.4% for the quarter. The increases were driven by higher contribution in the corporate and franchise segments from the addition The Keg in February 2018 and increases in the retail and catering segment.

(1) See "Non-IFRS Measures" on page 32 for definition of Operating EBITDA.

(2) Effective December 31, 2018, the Company implemented IFRS 16, Leases. Comparative Operating EBITDA figures provided for each quarter have been restated to reflect the adoption of this accounting standard. See "IFRS 16 – New Lease Standard" on pages 3, 7 and 35 for a reconciliation of the changes to Operating EBITDA, and Note 3 "Changes in accounting policies" in the Interim Financial Statements of the Company for further details.

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

(unaudited)	13 weeks ended March 31, 2019				
(C$ thousands unless otherwise stated)	**Corporate**	**Franchised**	**Retail & Catering**	**Central**	**Total**
System Sales	**$ 196,974**	**$ 581,318**	**$ 72,453**	**$ -**	**$ 850,745**
Corporate Results					
Sales	$ 192,610	$ -	$ -	$ 2,889	$ 195,499
Cost of inventories sold and cost of labour	(122,914)	-	-	-	(122,914)
Restaurant contribution before other costs	69,696	-	-	2,889	72,585
Restaurant contribution before other costs %	36.2%				
Other operating costs	(51,232)	-	-	-	(51,232)
Total Contribution	**$ 18,464**	**-**	**-**	**2,889**	**21,353**
Franchise Results					
Franchise royalty income	-	26,579	-	-	26,579
Franchise royalty income as a % of franchise sales	-	4.6%	-	-	-
New franchise fees, property and equipment rent	-	-	-	4,620	4,620
Franchise rent assistance and bad debt	-	(1,089)	-	-	(1,089)
Contribution from franchise restaurants	**-**	**$ 25,490**	**-**	**4,620**	**30,110**
Contribution from Retail and Catering	**-**	**-**	**$ 4,545**	**-**	**4,545**
Net Central contribution	**-**	**-**	**-**	**(2,095)**	**(2,095)**
Operating EBITDA (1) before royalty expense	**$ 18,464**	**$ 25,490**	**$ 4,545**	**$ 5,414**	**$ 53,913**
Net royalty expense	$ -	$ -	$ -	$ (3,852)	$ (3,852)
Operating EBITDA (1)	**$ 18,464**	**$ 25,490**	**$ 4,545**	**$ 1,562**	**$ 50,061**
Contribution as a % of corporate sales	9.6%	-	-	-	-
Contribution as a % of franchise sales	-	4.4%	-	-	-
Contribution as a % of total System Sales	-	-	6.3%	0.2%	5.9%
Contribution (excluding net royalty expense) as a % of total System Sales	9.6%	4.4%	6.3%	0.6%	6.3%

(unaudited)	13 weeks ended April 1, 2018				
(C$ thousands unless otherwise stated)	**Corporate**	**Franchised**	**Retail & Catering**	**Central**	**Total**
System Sales	**$ 149,971**	**$ 543,064**	**$ 62,878**	**$ -**	**$ 755,913**
Corporate Results					
Sales	$ 146,138	$ -	$ -	$ 3,085	$ 149,223
Cost of inventories sold and cost of labour	(94,317)	-	-	-	(94,317)
Restaurant contribution before other costs	51,821	-	-	3,085	54,906
Restaurant contribution before other costs %	35.5%				
Other operating costs	(38,738)	-	-	-	(38,738)
Total Contribution	**$ 13,083**	**-**	**-**	**3,085**	**16,168**
Franchise Results					
Franchise royalty income	-	24,360	-	-	24,360
Franchise royalty income as a % of franchise sales	-	4.5%	-	-	-
New franchise fees, property and equipment rent	-	-	-	3,012	3,012
Franchise rent assistance and bad debt	-	(1,992)	-	-	(1,992)
Contribution from franchise restaurants	**-**	**$ 22,368**	**-**	**3,012**	**25,380**
Contribution from Retail and Catering	**-**	**-**	**$ 3,250**	**-**	**3,250**
Net Central contribution	**-**	**-**	**-**	**2,804**	**2,804**
Operating EBITDA (1)(2) before royalty expense	**$ 13,083**	**$ 22,368**	**$ 3,250**	**$ 8,901**	**$ 47,602**
Net royalty expense	$ -	$ -	$ -	$ (1,450)	$ (1,450)
Operating EBITDA (1)(2)	**$ 13,083**	**$ 22,368**	**$ 3,250**	**$ 7,451**	**$ 46,152**
Contribution as a % of corporate sales	9.0%	-	-	-	-
Contribution as a % of franchise sales	-	4.1%	-	-	-
Contribution as a % of total System Sales	-	-	5.2%	1.0%	6.1%
Contribution (excluding net royalty expense) as a % of total System Sales	9.0%	4.1%	5.2%	1.2%	6.3%

(1) See "Non-IFRS Measures" on page 32 for definitions of Operating EBITDA and page 7 for a reconciliation of Net Earnings to Operating EBITDA.
(2) Effective December 31, 2018, the Company implemented IFRS 16, Leases. Comparative Operating EBITDA figures provided for each quarter have been restated to reflect the adoption of this accounting standard. See "IFRS 16 – New Lease Standard" on pages 3, 7, and 35 for a reconciliation of the changes to Operating EBITDA, and Note 3 "Changes in accounting policies" in the Interim Financial Statements of the Company for further details.

Corporate

As at March 31, 2019, the corporate segment restaurant count consisted of 211 restaurants compared to 208 at December 30, 2018, an increase of 3 locations. During the quarter, the Company opened 1 new restaurant, completed 8 corporate buybacks, closed 5 restaurants and re-franchised 1 restaurant. The corporate restaurant segment includes the proportionate results from the Company's 47 joint venture restaurants from the Original Joe's investment, the Burger's Priest investment, and 1909 Taverne Moderne joint venture.

Sales

Sales represent food and beverage sales from Recipe's corporate restaurants. Corporate restaurant sales are impacted by SRS Growth and the change in number of corporate restaurants. Sales were $192.6 million for the 13 weeks ended March 31, 2019 compared to $146.1 million in 2018, an increase of $46.5 million or 31.8% for the quarter. The increase was primarily related to the full quarter impact from the addition of The Keg in February 2018 partially offset by closures and restaurants re-franchised during 2018.

Cost of inventories sold and cost of labour

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

Cost of inventories sold and cost of labour was $122.9 million for the 13 weeks ended March 31, 2019 compared to $94.3 million in 2018, an increase of $28.6 million or 30.3% for the quarter. The increase was primarily due to the full quarter impact from the addition of The Keg in February 2018 partially offset by closures and restaurants re-franchised during 2018. Cost of inventories sold and cost of labour as a percentage of sales decreased from 64.5% to 63.8% for the 13 weeks ended March 31, 2019, a decrease of 0.7 percentage points. The decrease is related to The Keg which operates at a higher profit margin and improvements in Original Joe's.

Contribution from Corporate segment

Total contribution from corporate restaurants was $18.5 million for the 13 weeks ended March 31, 2019 compared to $13.1 million in 2018, an improvement of $5.4 million or 41.2% for the quarter. The increase is primarily driven by the increase in number of corporate restaurants, including the full quarter impact from the additions of The Keg in February 2018.

For the 13 weeks ended March 31, 2019, total contribution from corporate restaurants as a percentage of corporate sales was 9.6% compared to 9.0% in 2018. The improvements were primarily related to the addition of The Keg which operates corporate restaurants within our target range and improvements at Original Joe's offset by lower percentage contribution rates from Pickle Barrel that operates at lower contribution levels.

Franchise

As at March 31, 2019, the franchise restaurant segment consisted of 1,124 restaurants compared to 1,128 at December 30, 2018, a decrease of 4 locations. During the quarter Company completed 12 new restaurant openings, 1 corporate and 1 joint venture restaurant was re-franchised, partially offset by 10 closures, and 8 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 $581.3 million during the 13 weeks ended March 31, 2019 compared to $543.1 million in 2018, an increase of $38.2 million or 7.0% for the quarter. The increase was primarily attributed to the new restaurant openings in 2018 and 2019, the addition of The Keg in February 2018, partially offset by restaurant closures, and corporate buybacks.

Franchise revenues

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

The primary factors impacting franchise revenues are SRS Growth and net new restaurant activity, as well as the rate of royalty fees (net of contractual subsidies and temporary assistance) paid to Recipe by its franchisees. In certain circumstances, the royalty rate paid to Recipe can be less than Recipe's standard 5% royalty rate due to different contractual rates charged for certain brands (e.g. St-Hubert's standard royalty rate is 4%) and contractual subsidies primarily associated with prior year's conversion transactions or agreements to temporarily assist certain franchisees. With the majority of contractual subsidies scheduled to end at prescribed dates and the reduction in the number of restaurants requiring temporary assistance, management believes the effective royalty recovery rate will gradually increase over time closer to 5% (excluding St-Hubert at 4%). The addition of The Keg will also increase Recipe's overall net royalty rate as new and renewed Keg franchisees pay 6% royalty while others pay 5% until their franchise agreement is renewed.

Franchise revenues were $26.6 million for the 13 weeks ended March 31, 2019 compared to $24.4 million in 2018, an increase of $2.2 million or 9.0% for the quarter. The increase was primarily attributed to the addition of The Keg and new restaurants opened in 2018 and 2019.

Contribution from franchise segment

Total contribution from franchise restaurants was $25.5 million for the 13 weeks ended March 31, 2019 compared to $22.4 million in 2018, an increase of $3.1 million or 13.8% for the quarter. The increase was related to increased royalty income as a result of the franchise sales increases and the addition of The Keg.

The effective net royalty rate for the 13 weeks ended March 31, 2019 was 4.4% compared to 4.1% in 2018. The increase is primarily from the addition of The Keg and new franchisees added in 2018 and 2019 that pay full royalties. There are brands acquired since 2014 which charge different standard royalty rates, in particular St-Hubert which charges 4% as its standard royalty and The Keg which charges over 5% when considering its total franchise portfolio.

Retail and Catering

Sales

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

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

Contribution from retail and catering

Contribution from retail and catering for the 13 weeks ended March 31, 2019 was $4.5 million compared to $3.3 million for the 13 weeks ended April 1, 2018, an increase of $1.2 million or 36.4% for the quarter. The increases are primarily driven by sales increases from the Swiss Chalet branded products at grocery, increases in frozen pot pie sales from the addition of the new pie production line, and the additions of The Keg retail business in February 2018, and Marigolds and Onions catering business in December 2018.

Central

Sales

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

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

Total central segment sales were $2.9 million for the 13 weeks ended March 31, 2019 compared to $3.1 million for the 13 weeks ended April 1, 2018, representing a decrease of $0.2 million or 6.5% for the quarter. The decrease is related to the Company reducing mobile and web order 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 and equipment rent revenues from franchisees were $4.6 million for the 13 weeks ended March 31, 2019 compared to $3.0 million for the 13 weeks ended April 1, 2018. The increases primarily relate to increases in franchise fees partially offset by reductions in equipment rental revenue related to the expiry of equipment rental agreements, a line of revenue the Company no longer pursues as management prefers franchisees to finance restaurant purchases with a third party.

Contribution from central segment

Central segment contribution before the net royalty expense for the 13 weeks ended March 31, 2019 was $5.4 million compared to $8.9 million for the 13 weeks ended April 1, 2018, representing a decrease of $3.5 million or 39.3% for the quarter. Total central segment contribution, before the net royalty expense, as a percentage of total System Sales for the 13 weeks ended March 31, 2019 was 0.6% compared to 1.2% in 2018, a decrease of 0.6 percentage points for the quarter. The decreases are primarily related to the addition of The Keg which operates with higher net overhead costs which are more than offset by The Keg corporate and franchise contributions.

Selected Quarterly Information

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

(C$ millions unless otherwise stated) [1]	Q1 – 2019 Mar 31, 2019 (unaudited)	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)
System Sales [1]	$ 850.7	$ 905.4	$ 879.8	$ 874.2	$ 755.9	$ 774.9	$ 684.7	$ 660.8	$ 659.1
Total System Sales Growth [1]	12.5%	16.8%	28.5%	32.3%	14.7%	20.9%	36.9%	46.7%	46.4%
SRS Growth [1]	(1.6%)	(0.2%)	1.8%	1.9%	2.1%	2.5%	0.9%	(0.3%)	(0.6%)
Number of restaurants (at period end)	1,382	1,382	1,370	1,379	1,382	1,272	1,249	1,255	1,238
Operating EBITDA before Keg royalty[1][2]	**$ 53.9**	**$ 67.1**	**$ 54.9**	**$ 57.5**	**$ 47.6**	**$ 57.4**	**$ 46.9**	**$ 40.5**	**$ 41.8**
Operating EBITDA Margin on System Sales before Keg royalty [1]	**6.3%**	**7.4%**	**6.2%**	**6.6%**	**6.3%**	**7.4%**	**6.8%**	**6.1%**	**6.3%**
Operating EBITDA [1][2]	**$ 50.1**	**$ 63.3**	**$ 51.2**	**$ 54.0**	**$ 46.2**	**$ 57.4**	**$ 46.9**	**$ 40.5**	**$ 41.8**
Operating EBITDA Margin on System Sales [1][2]	**5.9%**	**7.0%**	**5.8%**	**6.2%**	**6.1%**	**7.4%**	**6.8%**	**6.1%**	**6.3%**
Corporate restaurant sales	$ 197.0	$ 205.0	$ 199.0	$ 203.6	$ 146.1	$ 125.8	$ 111.2	$ 103.4	$ 98.7
Number of corporate restaurants	211	208	207	212	213	169	161	162	166
Contribution from Corporate segment	$ 18.5	$ 21.5	$ 21.6	$ 24.3	$ 13.1	$ 12.3	$ 11.8	$ 10.4	$ 8.0
Contribution as a % of corporate sales	9.6%	10.7%	10.8%	12.0%	9.0%	9.8%	10.6%	10.1%	8.1%
Number of joint venture restaurants	47	46	46	54	55	54	50	52	38
Franchise restaurant sales	$ 581.3	$ 615.3	$ 607.2	$ 596.8	$ 543.1	$ 571.0	$ 515.7	$ 504.7	$ 500.8
Number of franchised restaurants	1,124	1,128	1,117	1,113	1,114	1,049	1,038	1,041	1,034
Contribution from Franchise segment	$ 25.5	$ 26.6	$ 25.7	$ 24.7	$ 22.4	$ 24.1	$ 20.0	$ 19.9	$ 20.4
Contribution as a % of Franchise sales	4.4%	4.3%	4.2%	4.1%	4.1%	4.2%	3.9%	3.9%	4.1%
Contribution from retail and catering	$ 4.5	$ 8.9	$ 4.6	$ 2.8	$ 3.3	$ 6.6	$ 3.4	$ 0.6	$ 4.7
Contribution from Central segment before Keg royalty	$ 5.4	$ 10.1	$ 3.0	$ 5.7	$ 8.9	$ 14.4	$ 11.7	$ 9.6	$ 8.7
Contribution as a % of total System Sales	0.6%	1.1%	0.3%	0.7%	1.2%	1.9%	1.7%	1.5%	1.3%
Total gross revenue	$ 304.6	$ 328.2	$ 312.4	$ 312.3	$ 246.5	$ 240.0	$ 203.8	$ 194.4	$ 198.6
Operating EBITDA Margin [1][2]	16.4%	19.3%	16.4%	17.3%	18.7%	23.9%	23.0%	20.8%	21.0%
Earnings before income taxes	**$ 31.3**	**$ 15.4**	**$ 31.4**	**$ 28.5**	**$ 29.3**	**$ 37.0**	**$ 30.4**	**$ 21.6**	**$ 27.5**
Net earnings	$ 22.7	$ 9.0	$ 23.8	$ 19.5	$ 21.5	$ 27.3	$ 21.2	$ 17.4	$ 43.8
Adjusted Net Earnings [1]	**$ 17.7**	**$ 34.3**	**$ 27.6**	**$ 24.4**	**$ 20.6**	**$ 31.1**	**$ 22.7**	**$ 22.6**	**$ 25.8**
Net earnings operations attributable to common shareholders of the Company	$ 22.5	$ 9.0	$ 23.6	$ 19.5	$ 21.7	$ 27.4	$ 21.0	$ 17.4	$ 44.0
EPS attributable to common shareholders of the Company (in dollars)									
Basic EPS	$ 0.36	$ 0.15	$ 0.38	$ 0.31	$ 0.36	$ 0.47	$ 0.35	$ 0.29	$ 0.73
Diluted EPS	$ 0.35	$ 0.14	$ 0.37	$ 0.30	$ 0.35	$ 0.45	$ 0.34	$ 0.28	$ 0.71
Adjusted Basic EPS [1]	**$ 0.29**	**$ 0.55**	**$ 0.44**	**$ 0.39**	**$ 0.34**	**$ 0.53**	**$ 0.38**	**$ 0.38**	**$ 0.43**
Adjusted Diluted EPS [1]	**$ 0.28**	**$ 0.53**	**$ 0.43**	**$ 0.38**	**$ 0.33**	**$ 0.51**	**$ 0.37**	**$ 0.36**	**$ 0.41**
Free Cash Flow before growth capex, dividends, and NCIB [1]	$ 35.1	$ 47.2	$ 37.3	$ 41.0	$ 33.2	$ 37.0	$ 37.7	$ 30.0	$ 33.7
Free Cash Flow per share - basic (in dollars)	$ 0.57	$ 0.76	$ 0.60	$ 0.66	$ 0.55	$ 0.63	$ 0.63	$ 0.50	$ 0.56
Free Cash Flow per share - diluted (in dollars)	$ 0.55	$ 0.74	$ 0.58	$ 0.63	$ 0.53	$ 0.60	$ 0.61	$ 0.48	$ 0.54

(1) See "Non-IFRS Measures" on page 32 for definitions of System Sales, System Sales Growth, SRS Growth, Operating EBITDA, Operating EBITDA Margin, Operating EBITDA Margin on System Sales, Adjusted Net Earnings, Adjusted Basic EPS, Adjusted Diluted EPS and Free Cash Flow.

(2) Effective December 31, 2018, the Company implemented IFRS 16, Leases. Comparative Operating EBITDA figures provided for each quarter have been restated to reflect the adoption of this accounting standard. See "IFRS 16 – New Lease Standard" on pages 3, 7 and 35 for a reconciliation of the changes to Operating EBITDA, and Note 3 "Changes in accounting policies" in the Interim Financial Statements of the Company for further details.

The Company'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.

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 2017 from $659.1 million in Q1 2017 to $755.9 million in Q1 2018 and $850.7 million in Q1 2019. 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, The Keg in February 2018, and Marigolds and Onions in December 2018, and increases in retail and catering sales.

Operating EBITDA has improved significantly from $41.8 million in Q1 2017 to $46.2 million in Q1 of 2018 and to $50.1 million in Q1 2019. Excluding The Keg royalty, Operating EBITDA in Q1 2018 was $47.6 million and $53.9 million in Q1 2019. 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, The Keg, and Marigolds and Onions.

Operating EBITDA Margin on System Sales before The Keg royalty was 6.3% in Q1 2017, 6.3% in Q1 2018 and 6.3% in Q1 2019. Operating EBITDA has been impacted with the acquisition of brands that operate at lower profit margins. Management's focus will continue to be on improving the earnings efficiency of our assets and our increased sales base to grow Operating EBITDA as a percentage of System Sales back to within our 7% to 8% target range by 2020-2022. However, Q1 remains our lowest season for restaurant sales and contribution but is being offset by growth in the retail and catering segment.

Contribution dollars from the corporate restaurant segment have increased (year over year) each quarter as a result of the addition of corporate restaurants. Quarterly contribution from the corporate segment has improved each quarter (year over year) from $8.0 million in Q1 2017 to $13.1 million in Q1 2018 and to $18.5 million in Q1 2019. 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 4.4% in Q1 2019 compared to 4.1% in 2018 and 4.1% in 2017. Quarterly contribution from the franchise segment has improved each quarter (year over year) from $20.4 million in Q1 2017 to $22.4 million in Q1 2018 and to $25.5 million in Q1 2019. The franchise contribution dollar 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 fluctuated from $4.7 million in Q1 2017 to $3.3 million in Q1 2018 and to $4.5 million in Q1 2019. The decrease in Q1 2018 contribution was primarily related to a change in sales mix at lower gross margins compared to 2017, due to inventory shortages after record sales in December 2017, and one-time listing fees with grocery providers for new products added for sale.

Contribution from the central segment before The Keg royalty expense has changed from $8.7 million Q1 2017 to $8.9 million in Q1 2018, and to $5.4 million in Q1 2019. The decreases are primarily related to increased overhead costs of $4.5 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, and a shift from phone ordering to web and mobile-based meal orders at lower fees.

Total gross revenue has increased significantly each quarter (year over year) from $198.6 million in Q1 2017 to $244.1 million in Q1 2018 and $304.6 million in Q1 2019. 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 increased from $27.5 million in Q1 2017 to $29.3 million in Q1 2018 and $31.3 million in Q1 2019. The increases have been driven by increases in System Sales, increased contribution from the corporate, franchise, retail and catering segments, and from the additions of Pickle Barrel in December 2017, The Keg in February 2018, and Marigolds and Onions in December 2018.

Free Cash Flow before growth capex, dividends, and NCIB has increased from $33.7 million in Q1 2017 to $33.2 million in Q1 2018 and to $35.1 million in Q1 2019. On a diluted per share basis, Free Cash Flow before growth capex, dividends, and NCIB has increased from $0.54 in Q1 2017 to $0.53 in Q1 2018 and to $0.55 in Q1 2019. The strong Free Cash Flows have been used to pay and increase dividends to shareholders, to reduce the Company's borrowings from various acquisitions, to invest in the Company's core brands, and to repurchase the Company's subordinate voting shares.

Liquidity and Capital Resources

Recipe's principal uses of funds are for operating expenses (including net lease payments), capital expenditures, finance costs, debt service, dividends and the repurchase of its subordinate voting shares through its NCIB. Management believes that cash generated from operations, together with amounts available under its credit facility (refer to page 4 and 26), 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 37). 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. Please refer to page 4 – "Subsequent Events" for new financing effective May 1, 2019.

(C$ millions unless otherwise stated)	13 weeks ended Mar 31, 2019	52 weeks ended Dec 30, 2018	13 weeks ended Apr 1, 2018	53 weeks ended Dec 31, 2017
Revolving credit facility	$ 400.0	$ 400.0	$ 400.0	$ 400.0
Add: Accordion feature	50.0	50.0	50.0	50.0
Add: Term credit facility	150.0	150.0	150.0	150.0
Add: The Keg credit facilities	47.0	47.0	47.0	-
Subtotal - credit availability	**$ 647.0**	**$ 647.0**	**$ 647.0**	**$ 600.0**
Less: Draw on revolving credit facility	(220.0)	(220.0)	(318.0)	(229.0)
Less: Draw on term credit facility	(150.0)	(150.0)	(150.0)	(150.0)
Less: Draw on The Keg credit facilities	(20.0)	(21.0)	(24.0)	-
Subtotal - total debt	**$ (390.0)**	**$ (391.0)**	**$ (492.0)**	**$ (379.0)**
Liquidity	**$ 257.0**	**$ 256.0**	**$ 155.0**	**$ 221.0**
Operating EBITDA[(1)(2)]	$ 50.1	$ 214.7	$ 46.2	$ 186.6
Net debt to Operating EBITDA[(1)(2)]	1.7x	1.7x	2.2x	2.2x
Free cash flow [(1)(2),] before growth capex, dividends and NCIB	$ 35.1	$ 158.7	$ 33.2	$ 138.4
Free cash flow [(1)(2),] after growth capex, dividends and NCIB	$ 16.6	$ 112.3	$ 23.6	$ 52.4

(1) See "Non-IFRS Measures" on page 32 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.
(2) Effective December 31, 2018, the Company implemented IFRS 16, Leases. Comparative Operating EBITDA figures provided for each quarter have been restated to reflect the adoption of this accounting standard. See "IFRS 16 – New Lease Standard" on pages 3, 7 and 35 for a reconciliation of the changes to Operating EBITDA, and Note 3 "Changes in accounting policies" in the Interim Financial Statements of the Company for further details. .

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 March 31, 2019 was $111.6 million compared to $153.8 million at December 30, 2018, a decrease of $42.2 million due to higher redemptions in the first quarter following the gift card sales during the holiday season in Q4.

The following table presents Recipe's working capital as at March 31, 2019 compared to December 30, 2018:

(C$ millions unless otherwise stated)		March 31, 2019		December 30, 2018		change in working capital
		(unaudited)				
Cash	$	41.3	$	49.3	$	8.0
Accounts receivable		71.2		103.5		32.3
Inventories		33.4		36.6		3.2
Prepaid expenses and other assets		6.7		9.4		2.7
Current portion of long-term receivables		78.0		1.4		(76.6)
Total Current Assets [1]	$	**230.5**	$	**200.2**	$	**(30.3)**
Accounts payable and accrued liabilities		120.1		134.9		(14.8)
Provisions		3.9		9.7		(5.8)
Gift card liability		111.6		153.8		(42.2)
Income taxes payable		5.7		5.7		-
Current portion of long-term debt		154.0		154.0		-
Current portion of lease liability		120.5		3.2		117.3
Total Current Liabilities	$	**515.8**	$	**461.3**	$	**54.5**
Change in working capital	$	**(285.3)**	$	**(261.1)**	$	**24.2**

[1] Figures may not total due to rounding.

At March 31, 2019, Recipe had a working capital deficit of ($285.3) million compared to ($261.1) million at December 30, 2018. The increase in working capital deficit of $24.2 million was primarily related to the increase in current portion of thelease liability of $117.3 million related to the adoption of IFRS 16 new lease standard and from a decrease in accounts receivable of $32.3 million. This increase in working capital deficit was partially offset by an increase in current portion of long-term receivables of $76.6 million related to franchise sublease receivables setup as a result of the new lease standard; changes in inventory, prepaid expenses and accounts payable of ($14.8) million; and a decrease in working capital from the decrease in gift card liability of ($42.2) million related to higher gift card redemptions following the holiday period.

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

Cash Flows

The following table presents Recipe's cash flows for the 13 weeks ended March 31, 2019 compared to the 13 weeks ended April 1, 2018:

(C$ millions unless otherwise stated)		13 weeks March 31, 2019		13 weeks April 1, 2018
		(unaudited)		(unaudited)
Cash flows from (used in) operating activities	$	14.3	$	(0.8)
Cash flows from (used in) investing activities	$	12.3	$	(78.9)
Cash flows (used in) from financing activities	$	(35.1)	$	85.3
Change in cash during the period [1]	$	(8.5)	$	5.6

[1] Figures may not total due to rounding.

Cash flows from operating activities of continuing operations

Cash flows from operating activities were $14.3 million for the 13 weeks ended March 31, 2019 compared to a decrease of $0.8 million in 2018, an increase of $15.1 million. The increase was primarily related to the reduction in gift card liability due to higher redemptions following the Q4 2018 holiday period, a reduction in accounts receivable, partially offset by increases from the addition in current portion of long-term receivables related to the new lease standard.

Cash flows used in investing activities of continuing operations

The following table presents Recipe's capital expenditures for the 13 weeks ended March 31, 2019 as compared to the 13 weeks ended April 1, 2018:

(C$ millions unless otherwise stated)	For the 13 weeks ended March 31, 2019	April 1, 2018
	(unaudited)	(unaudited)
Purchase of property, plant and equipment:		
Maintenance:		
Corporate restaurants	(1.8)	(2.0)
Central / IT expenditures / Other	(3.3)	(2.4)
Total maintenance	$ (5.1)	$ (4.4)
Growth initiatives:		
Major renovations	(1.0)	(0.2)
New builds	(3.5)	(2.1)
Total growth	$ (4.5)	$ (2.3)
Total purchase of property, plant and equipment	**$ (9.6)**	**$ (6.7)**
Common control transactions, net of cash assumed:		
Acquisitions	-	(71.8)
Buy backs [1]	(3.8)	-
Total common control transactions, net of cash assumed	**$ (3.8)**	**$ (71.8)**
Total purchase of property, plant and equipment	(9.6)	(6.7)
Total common control transactions, net of cash assumed	(3.8)	(71.8)
Proceeds on early buyout of equipment and rental contracts	-	0.1
Additions to other assets	-	(0.1)
Share of loss from investment in associates in joint ventures	0.2	0.4
Change in long term receivables	25.5	(0.7)
Total cash flows provided by (used in) investing activities [2]	**$ 12.3**	**$ (78.9)**

[1] There were 8 buy backs in the first quarter of 2018 (2018 – 1)

[2] Figures may not total due to rounding.

Cash flows provided by used in investing activities were $12.3 million during the 13 weeks ended March 31, 2019 compared to cash used in investing activities of $78.9 million in 2018, a change in use of $91.2 million. The change is primarily related to The Keg merger partially offset by the change in long-term receivables resulting from the adoption of the new lease standard.

Commitments for Capital Expenditures

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

Cash flows (used in) from financing activities

The following table presents Recipe's cash used in financing activities for the 13 weeks ended March 31, 2019 compared to the 13 weeks ended April 1, 2018:

	For the 13 weeks ended	
(C$ millions unless otherwise stated)	**March 31, 2019**	**April 1, 2018**
	(unaudited)	(unaudited)
Increases in debt	$ -	$ 104.0
Debt repayments	(1.0)	(15.0)
Issuance of subordinated voting common shares	1.3	0.1
Share repurchase	(7.1)	(0.7)
Change in lease liability	(26.9)	(0.7)
Interest paid net of interest income received	(1.4)	(2.5)
Cash flows (used in) from financing activities [1]	$ (35.1)	$ 85.3

[1] Figures may not total due to rounding.

Cash flows used in financing activities were $35.1 million for the 13 weeks ended March 31, 2019 compared to cash provided by financing activities of $85.3 million in 2018. Cash used in financing activities primarily consist of the shares repurchased under the Company's NCIB of $7.1 million and change in the lease liability of $26.9 million resulting from the change in the new lease standard.

Cash flows from financing activities were $85.3 million for the 13 weeks ended April 1, 2018. Cash from financing activities primarily consist of a net increase in the Company's credit facility of $89.0 million related to The Keg merger, less interest paid in the amount of $2.5 million.

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. On May 1, 2019, the Company amended and extended the terms of its existing syndicated bank credit facility (See page 4 – "Subsequent Events").

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 March 31, 2019, $370.0 million (December 30, 2018 - $370.0 million; April 1, 2018 - $468.0 million) was drawn under the amended and extended credit facilities with an effective interest rate of 3.98% representing bankers acceptance rate of 1.50% plus 2.15 % borrowing spread, standby fees and the amortization of deferred financing fees of 0.33%.

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 March 31, 2019, the standby fee rate was 0.35%.

As at March 31, 2019, the Company was in compliance with all covenants and has not exceeded any covenant levels requiring early repayments. Subsequent to March 31, 2019, the Company completed refinancing of its credit facilities. See Subsequent Events Note 29 for further details.

At the end of March 31, 2019, the Company had a Net Debt to EBITDA ratio of 1.7x, positioning the Company for more growth and enhanced shareholder returns.

The Keg Facility

In connection with The Keg merger, the Company assumed a multi-option credit agreement with a Canadian banking syndicate for the expansion of restaurant operations. The revolving credit and term loan facilities, with a syndicate of two Canadian banks, are available to finance the construction of certain new corporate restaurants and major renovations in Canada. These facilities are comprised of a $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 March 31, 2019, $20.0 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 March 31, 2019, the Company meets the criteria for interest at bank prime plus 0.25%.

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

As at March 31, 2019, the Company was in compliance with all covenants and has not exceeded any covenant levels requiring early repayments.

Off Balance Sheet Arrangements

Letters of credit

Recipe has outstanding letters of credit amounting to $0.6 million as at March 31, 2019 (December 30, 2018 - $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 May 9, 2019, there were 61,504,539 subordinate and multiple voting shares (December 30, 2018 – 61,755,594) 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 May 9, 2019 is 7,228,419.

Related Parties

Shareholders

As at March 31, 2019, the Principal Shareholders hold 67.5% of the total issued and outstanding shares and have 97.7% of the voting control attached to all shares. Cara Holdings holds 23.5% of the total issued and outstanding shares, representing 40.8% voting control. Fairfax holds 44.0% of the total issued and outstanding shares, representing 56.9% voting control.

During the 13 weeks ended March 29, 2019, the Company declared a dividend of $0.1121 per share (April 1, 2018 - $0.1068) of Subordinate and Multiple Voting Shares of which Fairfax received $3.0 million (April 1, 2018 - $2.9 million) and Cara Holdings received $1.6 million (April 1, 2018 - $1.5 million), respectively on April 15, 2019.

Fairfax and the Company are parties to a Shared Services and Purchasing Agreement. Under this agreement, Fairfax is authorized to enter into negotiations on behalf of the Company (and Fairfax associated restaurant companies) to source shared services and purchasing arrangements for any aspect of Recipe's operations, including food and beverages, information technology, payment processing, marketing and advertising or other logistics. There were no transactions under this agreement for the 13 weeks ended March 31, 2019 and April 1, 2018.

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

Insurance Provider

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

The Keg

On February 22, 2018 (the "Keg Acquisition Date"), the Company completed the merger with the Keg Restaurants Limited (the "The Keg") for approximately $200.0 million comprised of $105.0 million in cash and 3,801,284 Recipe subordinate voting shares at the exchange amount. In addition, Recipe may be required to pay up to an additional $30.0 million of cash consideration upon the achievement of certain financial milestones. The cash portion of the purchase price was settled by drawing on its existing credit facility. A merger reserve equal to total consideration of $216.7 million has been recorded on the balance sheet. The results from The Keg are included in the statement of earnings from The Keg acquisition date.

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

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 will be 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 March 31, 2019 there was due from related party a balance of $10.5 million (December 30, 2018 - $9.9 million; April 1, 2018 - $12.6 million) which consists of term loans and demand loans secured by restaurant assets of the joint venture company which has been recorded at fair value and will be accreted up to the recoverable value over the remaining term of the loans. The term loans bear interest at rates ranging from 7.75% to 9.76% and all mature September 21, 2019. The term loans are reviewed and renewed on an annual basis. The expected current portion of these loans is $1.0 million (December 30, 2018 - $1.0 million; April 1, 2018 - $2.2 million). The demand loans bear interest at 5% and have no specific terms of repayment. Pooling arrangements between the joint venture companies to share costs and repay the loans exist such that restaurants within a certain restaurant pool of common ownership agree that available cash from restaurants can be used to apply against balances outstanding among the group. For the 13 weeks ended March 31, 2019, the Company charged interest in the amount of $0.1 million (13 weeks ended April 1, 2018 - $0.2 million) on the term loans and demand loans.

The Company charges Original Joe's joint venture franchises a royalty and marketing fee of 5% and 2%, respectively, on net sales. As at March 31, 2019 the accounts receivable balance included $0.1 million (December 30, 2018 - $0.3 million; April 1, 2018 - $0.2 million) due from related parties in relation to these royalty and marketing payments. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties in accordance with the franchise agreement.

The Company's investment in joint ventures and associates are increased by the proportionate share of income earned. For the 13 weeks ended March 31, 2019, a decrease of $38 thousand (13 weeks ended April 1, 2018 - $0.1 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

The Company has a 79.4% ownership interest in New & Old Kings and Priests Restaurants Inc. ("Burger's Priest") with the remaining 20.6% owned by a third party who has an earn-out agreement that can grow their ownership interest to 50% if certain earnings targets are met. Both parties have joint control and all relevant activities require the unanimous consent from both parties. The Company has accounted for the investment by using the equity method.

The Company's investment is increased by the proportionate share of income earned. For the 13 weeks ended March 31, 2019, a $0.2 million decrease to the investment balance (13 weeks ended April 1, 2018 - $0.1 million) was recorded in relation to the Company's proportionate share of income for the period and included in share of loss from investment in joint ventures on the statement of earnings.

Investment in 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 March 31, 2019, the Company has invested $4.2 million, recorded in long-term receivables (December 30, 2018 - $4.5 million, April 1, 2018 - $5.2 million). 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. 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 weeks ended March 31, 2019, a $0.3 million decrease to the long term receivable balance (13 weeks ended April 1, 2018 - $0.5 million decrease) was recorded in relation to the Company's proportionate share of loss for the period and included in share of loss from investment in joint ventures on the statement of earnings.

Investment in Rose Reisman Catering joint venture

In connection with the acquisition of Pickle Barrel on December 1, 2017, the Company has a 50% ownership interest in Rose Reisman Catering. The investment is considered a joint venture arrangement as both parties have joint control and all relevant activities require the unanimous consent from both parties. 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 weeks ended March 31, 2019, the Company recorded a $0.1 million decrease to the investment balance (13 weeks ended April 1, 2018 - $0.1 increase) in relation to the Company's proportionate share of income for the period and included in share of loss from investment in joint ventures on the statement of earnings.

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

Outlook

Despite negative SRS, the Company saw improvements with Operating EBITDA and Operating EBITDA Margin for the quarter. System Sales grew $94.8 million or 12.5% to $850.7 million, Operating EBITDA before the net royalty expense increased $6.3 million or 13.2% to $53.9 million with a contribution margin of 6.3% as a percentage of Total System Sales.

Management provides the following comments regarding its strategies and initiatives:

- *Free Cash Flow* — The Company generates significant Free Cash Flow(1) which provides the Company the ability to fund growth and enhance shareholder returns. Free Cash Flow before growth capex, dividends, and share repurchases under the Company's normal course issuer bid ("NCIB") for the 13 weeks ended March 31, 2019 was $35.1 million compared to $33.2 million for the 13 weeks ended April 1, 2018, an increase of $1.9 million or 5.7%.

  Free Cash Flow per share before growth capex, dividends, and NCIB on a diluted basis was $0.55 for the 13 weeks ended March 31, 2019 compared to $0.53 for 2018, an increase of $0.02 per share or 3.8%.

  At Q1 2019, the Company's Debt to EBITDA ratio was 1.7x compared to 2.2x at the end of Q1 2018, illustrating how quickly the Company's leverage has reduced from Free Cash Flow being used to reduce debt on the Company's revolving credit facility.

  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 12.5%, Management is not satisfied with negative SRS of 1.6%. Contributing factors to our SRS results include mixed performance between our brands; early progress on our new 4-pillar operating model, with much work still to be done; and challenging winter weather conditions across the country.

  Our ongoing goal is to increase guest counts by improving the overall experience. Our operational focus in achieving this goal is through a disciplined approach to our 4 Pillar plan – Quality of Food, Quality of Service, Value for Experience and Ambience. And while our metrics that we use to measure our progress demonstrate improvement on all 4 pillars, there is still much work to be done. In Q2, most brands will launch new menus that will be optimized to ensure we are improving overall guest satisfaction while reducing complexity for our operations teams. Reducing this complexity will further enhance guest satisfaction and speed of service for both dining room and our growing off premise business. We are using data insights and scorecards to highlight specific areas of opportunity. We can identify specific challenges down to an individual restaurant, day of week and hour of day. This information allows us to work with our operations team on solutions to individual needs. New training programs at both brand and leadership levels are being initiated this year so that we become a better restaurant operating company for both today and the future. Our new renovation incentive program announced last year to assist franchisees with the cost of major renovations, should greatly enhance guest experience and consequently generate positive SRS. This program has been enthusiastically received by franchisees and as a result, we expect to have a significant increase in renovations completed in fiscal 2019.

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 6.3% for the quarter compared to 6.3% in 2018. The combined contributions from Corporate, Franchise, Food Processing and Distribution, and Central segments resulted in Total Operating EBITDA margin of 5.9% for the quarter compared to 6.1% in 2018. While The Keg adds 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.

- *Corporate restaurant profitability* — Corporate restaurant profitability for the 13 weeks ended March 31, 2019 was 9.6% compared to 9.0% in 2018. The improvement during the quarter was mostly from the full quarter impact of The Keg which operates within our target range and improvements at Original Joe's. 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.

- *Franchise segment* —Franchise contribution as a percentage of franchise sales has improved to 4.4% compared to 4.1% in 2018. The increase is primarily related to the addition of The Keg which collects average royalties over 5% and from new franchisees that pay full royalties. Management believes the effective royalty recovery rate will gradually increase over time closer to 5% as the Company adds new franchisees and renews existing locations at the full royalty rate. In addition, The Keg will also increase Recipe's overall net royalty rate as new and renewed Keg franchisees pay 6% royalty while others pay 5% until their franchise agreement is renewed.

- *Retail and catering* — Contribution dollars from retail and catering was $4.5 million compared to $3.3 million in 2018. A new pie production line was added in the third quarter 2018 which has increased production capacity and enabled the Company to meet the increased demand for its St-Hubert and Swiss Chalet frozen pie products with less reliance on higher cost third party producers. 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 Marigolds 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 13 weeks ended March 31, 2019, the Company opened 15 new restaurant locations as compared to 17 in the first quarter of 2018 and closed 15 locations as compared to 13 in 2018. 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 net debt to EBITDA ratio of approximately 1.7x compared to 1.7x at the end of 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 weeks ended March 31, 2019, the Company purchased and cancelled 266,197 Subordinate Voting Shares for $7.1 million under the Company’s NCIB program and has purchased 983,160subordinate voting shares for $25.5 million since June 22, 2018. In addition, the Company’s new financing structure positions Recipe for strategic and opportunistic growth at long-term favourable borrowing rates and credit terms. Management believes that locking in long-term fixed rate capital before interest rates increase is prudent and will enable future accretive growth.

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

Future Accounting Changes

New standards and amendments to existing standards have been issued and are applicable to the Company for its annual periods beginning on or after December 31, 2018. See note 3 of the Company’s condensed consolidated interim financial statements for the 13 weeks ended March 31, 2019 for a summary of new accounting standards adopted during 2019 and note 4 for a summary of future accounting standards not yet adopted.

Controls and Procedures

There were no changes in the Company's internal controls over financial reporting during the 13 weeks ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Critical Accounting Judgments and Estimates

The preparation of the condensed consolidated interim financial statements requires significant judgements made by management in applying the Company’s accounting policies except those adopted using the judgements from the first quarter of 2019 and the key sources of estimation of uncertainty were the same as those that applied to the Company’s audited annual consolidated financial statements as at and for the year ended December 30, 2018.

Non-IFRS Measures

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

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

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

“SRS Growth” is a metric used in the restaurant industry to compare sales earned in established locations over a certain period of time, such as a fiscal quarter, for the current period against sales in the same period in the previous year. SRS Growth helps explain what portion of sales growth can be attributed to growth in established locations and what portion can be attributed to the opening of net new restaurants. Recipe defines SRS Growth as the percentage increase or decrease in sales during a period of restaurants open for at least 24 complete fiscal months relative to the sales of those restaurants during the same period in the prior year. Recipe’s SRS Growth results excludes Casey’s restaurants as the Company is in the process of winding down its operations; and sales from international operations from 45 New York Fries and 3 US East Side Mario’s.

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

“Operating EBITDA” is defined as net earnings before: (i) net interest expense and other financing charges; (ii) income taxes; (iii) depreciation of property, plant and equipment; (iv) amortization of other assets and deferred gain; (v) impairment of assets, net of reversals; (vi) losses on early buyout / cancellation of equipment rental contracts; (vii) restructuring and other; (viii) conversion fees; (ix) net (gain) / loss on disposal of property, plant and equipment; (x) stock based compensation 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; (xvii) interest income from the Partnership units; and the rent expense impact related to the implementation of IFRS 16, “Leases”.

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

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

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

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

“Adjusted Net Earnings” is defined as net earnings plus (i) change in fair value of non-controlling interest liability; (ii) change in fair value of Exchangeable Partnership units; (iii) one-time transaction costs; (iv) non-cash impairment charges; and (v) 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:

(C$ millions unless otherwise stated)	Q1 – 2019 March 31, 2019	Q4 – 2018 Dec 30, 2018	Q3 – 2018 Sept 30, 2018	Q2 – 2018 July 1, 2018
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reconciliation of net earnings to Adjusted Net Earnings				
Net earnings	$ 22.7	$ 9.0	$ 23.8	$ 19.5
Change in fair value of non-controlling interest liability	-	1.5	1.0	1.0
Change in fair value of exchangable Partnership units	(4.8)	6.4	(0.3)	2.6
Transaction costs	0.1	1.7	0.5	0.1
Restructuring and other	(0.2)	8.9	2.6	0.5
Impairment charges	-	6.8	-	0.7
Adjusted Net Earnings [(1)]	**$ 17.7**	**$ 34.3**	**$ 27.6**	**$ 24.4**

(C$ millions unless otherwise stated)	Q1 – 2018 Apr 1, 2018	Q4 – 2017 Dec 31, 2017	Q3 - 2017 Sept 24, 2017	Q2 - 2017 June 25, 2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reconciliation of net earnings to Adjusted Net Earnings				
Net earnings	$ 21.5	$ 27.3	$ 21.2	$ 17.4
Change in fair value of non-controlling interest liability	-	-	-	-
Change in fair value of exchangable Partnership units	(2.3)	-	-	-
Transaction costs	0.5	0.1	0.1	0.1
Restructuring and other	0.2	1.0	0.7	2.7
Impairment charges	0.6	2.5	0.7	2.4
Adjusted Net Earnings [(1)]	**$ 20.6**	**$ 31.1**	**$ 22.7**	**$ 22.6**

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

The following table provides reconciliations of EBITDA and Operating EBITDA:

(C$ millions unless otherwise stated)	Q1 – 2019 March 31, 2019	Q4 – 2018 Dec 30, 2018	Q3 - 2018 Sept 30, 2018	Q2 - 2018 July 1, 2018
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reconciliation of net earnings from continuing operations to EBITDA:				
Net earnings	$ 22.7	$ 9.0	$ 23.8	$ 19.5
Net interest expense and other financing charges	4.5	2.8	2.8	3.0
Income taxes	8.6	6.4	7.6	9.0
Depreciation and amortization	27.9	16.2	12.1	15.3
EBITDA[(1)]	**$ 63.7**	**$ 34.4**	**$ 46.3**	**$ 46.8**
Reconciliation of EBITDA to Operating EBITDA:				
Rent impact from adoption of IFRS 16 "Leases" [(2)]	(13.9)	(1.2)	(1.2)	(1.2)
Income on Partnership units	2.8	2.7	2.7	2.6
Fair value adjustments	(4.8)	7.9	0.6	3.6
(Gains) Losses on early buyout/cancellation of equipment rental contracts	-	0.5	0.3	0.3
Restructuring	(0.2)	8.9	2.7	0.5
Transaction costs	0.1	1.7	0.4	0.1
Conversion fees	(0.1)	0.5	(0.7)	0.1
Net gain on disposal of property, plant and equipment and other assets	0.6	(0.3)	(1.9)	(0.3)
Impairment of assets, net of reversals	-	6.8	-	0.7
Stock based compensation	1.9	2.1	2.3	1.0
Change in onerous contract provision	(0.2)	0.9	(1.4)	(1.0)
Proportionate share of equity accounted joint venture	0.2	(1.4)	1.1	0.8
Operating EBITDA [(1)]	**$ 50.1**	**$ 63.3**	**$ 51.2**	**$ 54.0**

(C$ millions unless otherwise stated)	Q1 – 2018 Apr 1, 2018	Q4 – 2017 Dec 31, 2017	Q3 - 2017 Sept 24, 2017	Q2 - 2017 Jun 25, 2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reconciliation of net earnings from continuing operations to EBITDA:				
Net earnings	$ 21.5	$ 27.3	$ 21.2	$ 17.4
Net interest expense and other financing charges	3.3	3.5	3.2	2.7
Income taxes	7.8	9.7	9.2	4.2
Depreciation and amortization	14.6	14.3	12.9	12.4
EBITDA[(1)]	**$ 47.2**	**$ 54.8**	**$ 46.4**	**$ 36.7**
Reconciliation of EBITDA to Operating EBITDA:				
Rent impact from adoption of IFRS 16 "Leases" [(2)]	(1.2)	(1.1)	(1.1)	(1.1)
Income on Partnership units	1.0	-	-	-
Fair value adjustments	(2.3)	-	-	-
Losses on early buyout/cancellation of equipment rental contracts	0.2	(0.1)	0.6	0.1
Restructuring	0.2	1.0	0.7	2.7
Transaction costs	0.5	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	(0.2)	(0.3)	(0.4)	(1.1)
Impairment of assets, net of reversals	0.6	2.5	0.7	2.4
Stock based compensation	0.5	0.5	0.5	0.8
Change in onerous contract provision	(0.3)	0.3	(0.4)	(0.2)
Proportionate share of equity accounted joint venture	0.4	0.2	(0.1)	0.4
Operating EBITDA [(1)]	**$ 46.2**	**$ 57.4**	**$ 46.9**	**$ 40.5**

(1) Figures may not total due to rounding.
(2) Note that effective December 31, 2018, the Company implemented IFRS 16, Leases. Comparative Operating EBITDA figures provided for each quarter have been restated to reflect the adoption of this accounting standard. Please refer to page 3 - "IFRS 16 New Lease Standard" for further details.

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

(C$ millions unless otherwise stated)	Q1 – 2019 March 31, 2019	Q4 – 2018 Dec 30, 2018	Q3 – 2018 Sept 30, 2018	Q2 – 2018 July 1, 2018
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Operating EBITDA	$ 50.1	$ 63.3	$ 51.2	$ 54.0
Maintenance capex	(5.5)	(9.1)	(7.0)	(4.8)
Cash taxes	(4.8)	(1.7)	(1.7)	(2.9)
Interest on long-term debt	(4.7)	(5.3)	(5.2)	(5.3)
Free Cash Flow before growth capex, dividends, NCIB [1]	**$ 35.1**	**$ 47.2**	**$ 37.3**	**$ 41.0**
Growth capex	(4.5)	(4.2)	(3.8)	(6.7)
Proceeds on sale of assets	-	5.3	7.6	0.4
Dividends declared	(6.9)	(6.7)	(6.7)	(6.7)
Shares repurchased	(7.1)	(14.5)	(0.7)	(0.3)
Free Cash Flow before growth capex, dividends, NCIB [1]	**$ 16.6**	**$ 27.2**	**$ 33.7**	**$ 27.8**

(C$ millions unless otherwise stated)	Q1 – 2018 Apr 1, 2018	Q4 – 2017 Dec 31, 2017	Q3 - 2017 Sept 24, 2017	Q2 - 2017 June 25, 2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Operating EBITDA	$ 46.2	$ 57.4	$ 46.9	$ 40.5
Maintenance capex	(4.4)	(12.9)	(3.2)	(6.9)
Cash taxes	(4.5)	(4.1)	(3.3)	(1.1)
Interest on long-term debt	(4.1)	(3.4)	(2.7)	(2.5)
Free Cash Flow before growth capex, dividends, NCIB [1]	**$ 33.2**	**$ 37.0**	**$ 37.7**	**$ 30.0**
Growth capex	(2.3)	(2.3)	(12.1)	(9.9)
Proceeds on sale of assets	0.1	0.9	0.7	0.9
Dividends declared	(6.7)	(6.0)	(6.0)	(6.0)
Share repurchased	(0.7)	(5.3)	(28.0)	(0.5)
Free Cash Flow before growth capex, dividends, NCIB [1]	**$ 23.6**	**$ 24.3**	**$ (7.7)**	**$ 14.5**

[1] Figures may not total due to rounding.

Forward-Looking Information

Certain statements in this MD&A may constitute "forward-looking" statements within the meaning of applicable Canadian securities legislation which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company or the industry in which they operate, to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this MD&A, such statements use words such as "may", "will", "expect", "believe", "plan" and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this MD&A. These forward-looking statements involve a number of risks and uncertainties, including those related to: (a) the Company's ability to maintain profitability and manage its growth including SRS Growth, System Sales Growth, increases in net income, Operating EBITDA, Operating EBITDA Margin on System Sales, Free Cash Flow, and Adjusted net earnings; (b) competition in the industry in which the Company operates; (c) the general state of the economy; (d) integration of acquisitions by the Company; (e) risk of future legal proceedings against the Company. These risk factors and others are discussed in detail under the heading "Risk Factors" in the Company's Annual Information Form dated March 29, 2019. New risk factors may arise from time to time and it is not possible for management of the Company to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance or achievements of the Company to be materially different from those contained in forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this MD&A.

Risks and Uncertainties

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

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

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