

Recipe Unlimited Corporation

Condensed Consolidated Interim Financial Statements (unaudited)
For the 13 and 39 weeks ended September 29, 2019 and September 30, 2018

Note to Reader:

The Condensed Consolidated Interim Financial Statements have been refiled as of November 18, 2019 to reflect a title change on page 2 from "Condensed Consolidated Interim Statements of Earnings and Comprehensive Income" to "Condensed Consolidated Interim Statements of Total Equity".

Recipe Unlimited Corporation
Condensed Consolidated Interim Statements of Earnings and Comprehensive Income
For the 13 and 39 weeks ended September 29, 2019 and September 30, 2018

(in thousands of Canadian dollars, except where otherwise indicated)	For the 13 weeks ended		For the 39 weeks ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Sales (note 6)	\$ 262,703	\$ 260,933	\$ 786,739	\$ 726,603
Franchise revenues (note 7)	46,256	49,128	138,724	137,116
Total gross revenue	\$ 308,959	\$ 310,061	\$ 925,463	\$ 863,719
Cost of inventories sold	(111,829)	(111,022)	(331,763)	(301,958)
Selling, general and administrative expenses (note 8)	(168,474)	(160,634)	(497,016)	(456,348)
Impairment, net of reversals, of restaurant assets and lease receivable (notes 13, 14 and 15)	(5,695)	—	(9,656)	(1,267)
Restructuring and other (note 9)	(2,595)	(2,616)	(3,070)	(3,361)
Operating income	\$ 20,366	\$ 35,789	\$ 83,958	\$ 100,785
Net interest expense and other financing charges (note 10)	(4,886)	(2,819)	(16,857)	(9,122)
Share of loss from investment in joint ventures	(527)	(921)	(1,218)	(482)
Earnings before change in fair value and income taxes	\$ 14,953	\$ 32,049	\$ 65,883	\$ 91,181
Change in fair value of non-controlling interest liability	—	(1,000)	—	(2,000)
Change in fair value of Exchangeable Keg Partnership units	(3,066)	363	855	—
Earnings before income taxes	\$ 11,887	\$ 31,412	\$ 66,738	\$ 89,181
Current income tax expense (note 11)	(5,465)	(3,069)	(18,887)	(8,617)
Deferred income tax recovery (expense) (note 11)	308	(4,535)	(2,067)	(15,753)
Net earnings	\$ 6,730	\$ 23,808	\$ 45,784	\$ 64,811
Net earnings attributable to Shareholders of the Company	6,844	23,617	46,162	64,766
Non-controlling interest	(114)	191	(378)	45
	\$ 6,730	\$ 23,808	\$ 45,784	\$ 64,811
Statement of comprehensive income				
Net earnings	6,730	23,808	45,784	64,811
Other comprehensive income (loss)	200	(272)	(443)	339
Total comprehensive income	\$ 6,930	\$ 23,536	\$ 45,341	\$ 65,150
Net earnings per share attributable to the Common Shareholders of the Company (note 23) (in dollars)				
Basic earnings per share	\$ 0.11	\$ 0.38	\$ 0.75	\$ 1.05
Diluted earnings per share	\$ 0.11	\$ 0.37	\$ 0.73	\$ 1.01

Recipe Unlimited Corporation
Condensed Consolidated Interim Statements of Total Equity
For the 13 and 39 weeks ended September 29, 2019 and September 30, 2018

(in thousands of Canadian dollars, except where otherwise indicated)	Attributable to the Common Shareholders of the Company						Total equity
	Number of shares (in thousands)	Share capital (note 22)	Merger reserve	Contributed surplus	Accumulated other comprehensive loss	Deficit	
Balance at December 30, 2018	61,755	\$769,662	\$(216,728)	\$ 13,546	\$ (2,556)	\$ (78,112)	\$ 485,812
Net earnings	—	—	—	—	—	46,162	46,162
Other comprehensive income	—	—	—	—	(443)	—	(443)
IFRS 16 transition adjustment (note 3)	—	—	—	—	—	(2,107)	(2,107)
Dividends	—	—	—	—	—	(20,609)	(20,609)
Share re-purchase (note 22)	(5,952)	(160,707)	—	—	—	—	(160,707)
Stock options exercised (note 22)	535	7,421	—	(2,636)	—	—	4,785
Stock-based compensation (note 21)	—	—	—	5,132	—	—	5,132
	<u>(5,417)</u>	<u>(153,286)</u>	<u>—</u>	<u>2,496</u>	<u>(443)</u>	<u>23,446</u>	<u>(127,787)</u>
Balance at September 29, 2019	<u>56,338</u>	<u>\$616,376</u>	<u>\$(216,728)</u>	<u>\$ 16,042</u>	<u>\$ (2,999)</u>	<u>\$ (54,666)</u>	<u>\$ 358,025</u>

(in thousands of Canadian dollars, except where otherwise indicated)	Attributable to the Common Shareholders of the Company						Total equity
	Number of shares (in thousands)	Share capital (note 22)	Merger reserve	Contributed surplus	Accumulated other comprehensive loss	Deficit	
Balance at December 31, 2017	58,572	\$690,968	\$ —	\$ 11,957	\$ (5,326)	\$ (90,179)	\$ 607,420
Net earnings and comprehensive income	—	—	—	—	—	64,766	64,766
Other comprehensive income	—	—	—	—	339	—	339
The Keg merger (note 27)	—	—	(216,728)	—	1,793	(35,117)	(250,052)
Dividends	—	—	—	—	—	(19,978)	(19,978)
Share re-purchase	(66)	(1,700)	—	—	—	—	(1,700)
Issuance of common stock (note 22)	3,801	94,728	—	—	—	—	94,728
Stock options exercised (note 22)	17	173	—	(4,341)	—	—	(4,168)
Stock-based compensation (note 21)	—	—	—	3,837	—	—	3,837
	<u>3,752</u>	<u>93,201</u>	<u>(216,728)</u>	<u>(504)</u>	<u>2,132</u>	<u>9,671</u>	<u>(112,228)</u>
Balance at September 30, 2018	<u>62,324</u>	<u>\$784,169</u>	<u>\$(216,728)</u>	<u>\$ 11,453</u>	<u>\$ (3,194)</u>	<u>\$ (80,508)</u>	<u>\$ 495,192</u>

Recipe Unlimited Corporation
Condensed Consolidated Interim Balance Sheets
As at September 29, 2019, December 30, 2018 and September 30, 2018

(in thousands of Canadian dollars)

	As at September 29, 2019	As at December 30, 2018	As at September 30, 2018
Assets			
Current Assets			
Cash	\$ 33,920	\$ 49,272	\$ 35,709
Accounts receivable (note 26)	71,260	103,514	67,903
Inventories (note 12)	42,338	36,586	39,556
Prepaid expenses and other assets	6,179	9,395	8,858
Current portion of long-term receivables (note 13)	80,987	4,900	2,625
Total Current Assets	\$ 234,684	\$ 203,667	\$ 154,651
Long-term receivables (notes 3 and 13)	433,022	30,069	29,127
Property, plant and equipment (notes 3 and 14)	622,504	399,990	413,023
Investment in the Keg Limited Partnership (note 27)	128,175	122,125	128,493
Brands and other assets (note 15)	612,735	616,183	615,942
Goodwill (note 16)	202,697	196,638	192,011
Deferred tax asset (note 11)	26,183	22,411	29,666
Total Assets	\$ 2,260,000	\$ 1,591,083	\$ 1,562,913
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	\$ 125,361	\$ 134,930	\$ 107,603
Provisions (note 17)	3,439	9,679	7,362
Gift card liability	94,299	153,832	94,155
Income taxes payable	10,646	5,697	3,364
Current portion of long-term debt (note 18)	4,000	154,000	154,000
Current portion of lease liability (notes 3 and 19)	121,090	3,192	3,144
Total Current Liabilities	\$ 358,835	\$ 461,330	\$ 369,628
Long-term debt (note 18)	513,639	235,566	286,379
Note payable to The Keg Royalties Income Fund	57,000	57,000	57,000
Provisions (note 17)	4,643	13,796	7,203
Lease liability (notes 3 and 19)	652,598	22,824	23,623
Other long-term liabilities (note 20)	79,207	87,667	90,348
Deferred gain on sale of The Keg Rights (note 27)	138,182	134,257	134,664
Deferred tax liability (note 11)	97,871	92,831	98,876
Total Liabilities	\$ 1,901,975	\$ 1,105,271	\$ 1,067,721
Shareholders' Equity			
Common share capital (note 22)	\$ 616,376	\$ 769,662	\$ 784,169
Contributed surplus	16,042	13,546	11,453
Merger reserve (note 27)	(216,728)	(216,728)	(216,728)
Accumulated other comprehensive loss	(2,999)	(2,556)	(3,194)
Deficit	(54,666)	(78,112)	(80,508)
Total Shareholders' Equity	\$ 358,025	\$ 485,812	\$ 495,192
Total Liabilities and Equity	\$ 2,260,000	\$ 1,591,083	\$ 1,562,913
Commitments, contingencies and guarantees (note 25)			
Subsequent events (note 29)			

Recipe Unlimited Corporation
Condensed Consolidated Interim Statements of Cash Flows
For the 13 and 39 weeks ended September 29, 2019 and September 30, 2018

(in thousands of Canadian dollars)	<u>For the 13 weeks ended</u>		<u>For the 39 weeks ended</u>	
	<u>September 29, 2019</u>	<u>September 30, 2018</u>	<u>September 29, 2019</u>	<u>September 30, 2018</u>
Cash from (used in)				
Operating Activities				
Net earnings	\$ 6,730	\$ 23,808	\$ 45,784	\$ 64,811
Depreciation and amortization	28,798	12,639	86,536	43,077
Amortization of deferred gain	(423)	—	(1,269)	—
Change in fair value of exchangeable Keg Partnership units	3,066	(363)	(855)	—
Net loss (gain) on disposal of property, plant and equipment and other assets	463	(1,829)	923	(2,295)
Loss on early buyout/cancellation of equipment rental contracts	1,582	344	1,692	819
Impairment of assets, net of reversals	5,696	—	9,656	1,267
Net interest expense on long-term debt (note 10)	5,609	5,197	15,497	14,608
Interest expense on lease liability (note 10)	3,227	487	10,147	1,419
Stock based compensation	1,418	2,249	5,132	3,837
Income taxes paid	(4,008)	(1,732)	(14,009)	(9,077)
Change in right-of-use asset (note 14)	(6,719)	—	(24,408)	—
Change in restructuring provision	1,433	2,417	(536)	1,454
Change in deferred tax (note 11)	(334)	4,629	2,132	16,441
Change in franchise onerous contracts	(623)	(1,389)	(802)	(2,657)
Other non-cash items	672	(3,796)	(168)	(5,522)
Net change in non-cash operating working capital (note 24)	(7,850)	3,480	(24,471)	(41,475)
Cash flows from operating activities	\$ 38,737	\$ 46,141	\$ 110,981	\$ 86,707
Investing Activities				
Business acquisitions, net of cash assumed (notes 5 and 27)	\$ (28)	\$ (4,948)	\$ (8,446)	\$ (76,701)
Purchase of property, plant and equipment	(12,024)	(10,861)	(35,157)	(29,141)
Proceeds on disposal of property, plant and equipment	(300)	5,877	630	6,106
Proceeds on early buyout of equipment rental contracts	105	232	175	493
Proceeds on sale of joint ventures	—	1,369	—	1,369
Share of loss from investment in joint ventures	22	238	166	482
Additions to other assets	(124)	(348)	(124)	(475)
Change in long-term receivables	2,588	5,111	31,078	5,915
Cash flows (used in) investing activities	\$ (9,761)	\$ (3,330)	\$ (11,678)	\$ (91,952)
Financing Activities				
Issuance of long-term credit facility (note 18)	\$ 125,000	\$ —	\$ 390,000	\$ 104,000
Repayment of long-term credit facility (note 18)	(1,000)	(31,000)	(259,700)	(65,000)
Deferred financing costs	(78)	—	(2,963)	—
Issuance of subordinated voting common shares (note 22)	2,920	(4,306)	4,785	(4,168)
Share re-purchase (note 22)	(141,954)	(746)	(160,707)	(1,700)
Payment on lease liability (note 19)	(37,983)	—	(114,159)	—
Change in lease liability (note 19)	25,253	(750)	58,674	(729)
Interest paid on long-term debt and note payable (note 10)	(3,003)	(7,876)	(10,206)	(13,265)
Dividends paid on subordinate and multiple voting common shares	(6,827)	(6,655)	(20,609)	(19,978)
Cash flows (used in) from financing activities	\$ (37,672)	\$ (51,333)	\$ (114,885)	\$ (840)
Change in cash during the period	\$ (8,696)	\$ (8,522)	\$ (15,582)	\$ (6,085)
Foreign currency translation adjustment	(91)	156	230	(177)
Cash - Beginning of period	42,707	44,075	49,272	41,971
Cash - End of period	\$ 33,920	\$ 35,709	\$ 33,920	\$ 35,709

1 Nature and description of the reporting entity

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

The Company's subordinate voting shares are listed on the Toronto Stock Exchange under the stock symbol "RECP". As part of the Company's initial public offering ("IPO") during fiscal 2015, the Company issued multiple voting shares to Fairfax Financial Holdings Limited and its affiliates ("Fairfax") and to the Phelan family through Cara Holdings Limited and its affiliates ("Cara Holdings", and together with Fairfax, the "Principal Shareholders"). As at September 29, 2019, the Principal Shareholders hold 70.8% of the total issued and outstanding shares and have 98.2% of the voting control attached to all the shares.

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

2 Basis of Presentation

Statement of compliance

The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). The unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's 2018 audited annual consolidated financial statements and accompanying notes, except for new accounting standards that have been adopted in 2019, as described in note 3.

The unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors ("Board") on November 11, 2019.

Functional and presentation currency

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

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

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

Seasonality of interim operations

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

Critical accounting judgements and estimates

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

In preparing these unaudited condensed consolidated interim financial statements, the significant judgements made by management in applying the Company's accounting policies during the 13 and 39 weeks ended September 29, 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 except those adopted using the judgements noted in Note 3.

Comparative information

Certain of the Company's prior year information was reclassified to conform with the current year's presentation and changes in accounting standards.

3 Significant accounting policies

Accounting standards implemented in 2019

Leases

In 2016, the IASB issued IFRS 16, "Leases" ("IFRS 16"), replacing IAS 17, "Leases" ("IAS 17") and related interpretations. The standard introduces a single, on-balance sheet recognition and measurement model for lessees. Lessees recognize a right-of-use asset representing its control of and right to use the underlying asset and a lease liability representing its obligation to make future lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors.

The Company adopted IFRS 16 – *Leases* on December 31, 2018, which is effective for annual reporting periods beginning on or after January 1, 2019. Previously, the Company classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying assets to the Company and classified operating lease payments as rent or operating costs. The Company has applied IFRS 16 using the modified retrospective approach. The modified retrospective approach applies the requirements of the standard retrospectively with the cumulative effects of initial application recorded in opening retained earnings as at December 31, 2018, with no restatement of the comparative period.

On transition to IFRS 16, the Company identified and reviewed each contract that had a lease. The Company's lease contracts consist of real estate leases for use in the operation of its corporate restaurants, call centre, retail and catering business, and corporate head offices; leased IT equipment, and leased vehicles for use in its retail and catering business. These leased assets have been recorded as right-of-use assets on the balance sheet and will be depreciated over the term of the lease. The Company is also on the head lease of many of its franchised locations whereby a corresponding sublease contract is entered into between the Company and its franchisees. These subleases are all related to non-consolidated franchisees and have been recorded as long-term receivables.

Definition of a lease

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:
 - the Company has the right to operate the asset; or
 - the Company designed the asset in a way that predetermines how and for what purpose it will be used.

The Policy is applied to contracts in place, or changed, on or after December 31, 2018.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

IFRS 16 permits the use of exemptions and practical expedients. The Company has applied the following recognition exemptions and practical expedients to grandfather the assessment of which transactions are leases:

- The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed.
- The Company used portfolio application of leases with similar characteristics, such as vehicle and equipment leases.
- The Company applied a single discount rate to a portfolio of leases with reasonably similar characteristics at the date of initial application, December 31, 2018.

The Company now assesses whether a contract is or contains a lease based on the new definition of a lease. The Company did not exercise the practical expedient wherein a lease may rely on its assessment of whether leases are onerous applying IAS 37, “Provisions, Contingent Liabilities, and Contingent Assets”, immediately before the date of initial application as an alternative to performing an impairment review. On the date of initial application, the Company applied the requirements of IAS 36, “Impairment of Assets”, and recorded an impairment of \$14.3 million to the right-of-use assets in opening retained earnings.

As a lessee

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-use-asset or the end of the lease term. The estimated useful lives of the right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Recipe Unlimited Corporation
Condensed Consolidated Interim Financial Statements
For the 13 and 39 weeks ended September 29, 2019 and September 30, 2018

The following is the activity for the right-of-use asset for the 13 and 39 weeks ended September 29, 2019.

(in thousands of Canadian dollars)	For the 13 weeks ended September 29, 2019	For the 39 weeks ended September 29, 2019
Net asset, beginning of period	\$ 274,677	\$ —
Cost recognized		
IFRS 16 Adjustment to Opening Balance	—	265,423
Other IFRS 16 transition adjustments	—	(9,535)
Additions	6,719	24,408
Disposals and adjustments	288	1,975
Foreign exchange translation	171	(416)
	\$ 7,178	\$ 281,855
Accumulated depreciation and impairment losses		
Beginning balance	22,574	—
IFRS 16 Adjustment to Opening Balance	—	(971)
Other IFRS 16 transition adjustments	—	971
Depreciation expense	11,408	34,322
Impairment losses	1,779	1,779
Disposals and adjustments	(195)	(368)
Foreign exchange translation	58	(109)
	\$ 35,624	\$ 35,624
Net asset, end of period	\$ 246,231	\$ 246,231

The lease liability is initially measured at the present value of the lease payments that have not been paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

The Company used its incremental borrowing rates as at December 31, 2018, to measure lease liabilities. The weighted average borrowing rate was 3.88%. The weighted average lease term remaining as at December 31, 2018, was approximately 7.8 years.

When a lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short term leases and leases of low-value assets

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense in selling, general and administrative expenses on the most systematic basis over the lease term.

As a lessor

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying assets. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Company is an intermediate lessor, it accounts for its interest in the head lease and the sub-lease separately. It assess the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head-lease is a short-term lease to which the Company applies the exemption previously described, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, the Company applies IFRS 15 to allocate the consideration in the contract.

The Company recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of “other income”.

The accounting policies applicable to the Company as a lessor in the comparative period were not different from IFRS 16. However, when the Company was an intermediate lessor, the sub-leases were classified with reference to the underlying asset.

While the standard was adopted on December 31, 2018, the Company continues to assess the impact of the standards on the Company’s business processes, internal controls over financial reporting, data and IT systems. The Company has implemented a lease management system for the inputs and key assumptions used in its calculation of the cumulative effects of initial application to be recorded in opening retained earnings as at December 31, 2018.

IFRS 16 has a significant impact on leased and subleased assets and their related balance sheet accounts. This standard also increased operating income and decreased net earnings as at the date of application of IFRS 16. The transition adjustments affected by the application of IFRS 16 to the opening balance sheet as of December 31, 2018 are presented below:

Recipe Unlimited Corporation
Condensed Consolidated Interim Financial Statements
For the 13 and 39 weeks ended September 29, 2019 and September 30, 2018

	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 IFRS 16 impact on net earnings for the 13 and 39 weeks ended September 29, 2019 compared to the impact of IAS 17 and IFRIC 4 on net earnings for the 13 and 39 weeks ended September 30, 2018 are presented below:

	For the 13 weeks ended September 29, 2019			For the 13 weeks ended September 30, 2018		
	Earnings before IFRS 16 impact	IFRS 16 adoption impact	Consolidated	Earnings before IAS 17 and IFRIC 4 impact	Finance lease impact of IAS 17 and IFRIC 4	Consolidated
Total gross revenue	\$ 308,959	—	\$ 308,959	\$ 310,061	—	\$ 310,061
Cost of inventories sold	(111,829)	—	(111,829)	(111,022)	—	(111,022)
Selling, general and administrative expenses	(171,131)	—	(171,131)	(161,100)	—	(161,100)
Operating lease costs	—	14,065	14,065	—	1,238	1,238
Depreciation expense	—	(11,408)	(11,408)	—	(772)	(772)
Impairment of assets, net of reversals	(5,695)	—	(5,695)	—	—	—
Restructuring and other	(2,595)	—	(2,595)	(2,616)	—	(2,616)
Operating income	\$ 17,709	\$ 2,657	\$ 20,366	\$ 35,323	\$ 466	\$ 35,789
Finance costs						
Net interest expense and other financing charges	(1,657)	(3,229)	(4,886)	(2,332)	(487)	(2,819)
Share of (loss) gain from investment in joint ventures	(527)	—	(527)	(921)	—	(921)
Earnings before change in fair value and income taxes	\$ 15,525	\$ (572)	\$ 14,953	\$ 32,070	\$ (21)	\$ 32,049
Change in fair value of non-controlling interest	—	—	—	(1,000)	—	(1,000)
Change in fair value of Exchangeable Keg Partnership units	(3,066)	—	(3,066)	363	—	363
Earnings before income taxes	\$ 12,459	\$ (572)	\$ 11,887	\$ 31,433	\$ (21)	\$ 31,412

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	For the 39 weeks ended September 29, 2019			For the 39 weeks ended September 30, 2018		
	Earnings before IFRS 16 impact	IFRS 16 adoption impact	Consolidated	Earnings before IAS 17 and IFRIC 4 impact	Finance lease impact of IAS 17 and IFRIC 4	Consolidated
Total gross revenue	\$ 925,463	—	\$ 925,463	\$ 863,719	—	\$ 863,719
Cost of inventories sold	(331,763)	—	(331,763)	(301,958)	—	(301,958)
Selling, general and administrative expenses	(505,706)	—	(505,706)	(457,719)	—	(457,719)
Operating lease costs	—	43,012	43,012	—	3,638	3,638
Depreciation expense	—	(34,322)	(34,322)	—	(2,267)	(2,267)
Impairment of assets, net of reversals	(9,656)	—	(9,656)	(1,267)	—	(1,267)
Restructuring and other	(3,070)	—	(3,070)	(3,361)	—	(3,361)
Operating income	\$ 75,268	\$ 8,690	\$ 83,958	\$ 99,414	\$ 1,371	\$ 100,785
Finance costs						
Net interest expense and other financing charges ...	(6,710)	(10,147)	(16,857)	(7,703)	(1,419)	(9,122)
Share of gain (loss) from investment in joint ventures	(1,218)	—	(1,218)	(482)	—	(482)
Earnings before change in fair value and income taxes	\$ 67,340	\$ (1,457)	\$ 65,883	\$ 91,229	\$ (48)	\$ 91,181
Change in fair value of non-controlling interest	—	—	—	(2,000)	—	(2,000)
Change in fair value of Exchangeable Keg Partnership units	855	—	855	—	—	—
Earnings before income taxes	\$ 68,195	(1,457)	\$ 66,738	\$ 89,229	(48)	\$ 89,181

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation requires an entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution, reflect an uncertainty in the amount of income tax payable (recoverable) if it is probable that it will pay (or recover) an amount for the uncertainty, and measure a tax uncertainty based on the most likely amount or expected value depending on whichever method better predicts the amount payable (recoverable). There was no material impact on the consolidated financial statements.

Annual Improvements to IFRS Standards (2015-2017) Cycle

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

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

The Company has adopted these amendments in its financial statements for the annual period beginning on December 31, 2018. There was no material impact on the consolidated financial statements.

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

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

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

The Company has adopted the amendments to IAS 19 in its financial statements for the annual period beginning on December 31, 2018. There was no material impact on the consolidated financial statements.

Long-term interest in associates and joint ventures

In October 2017, the IASB issued narrow-scope amendments to IAS 28 Investments in Associates and Joint Ventures, clarifying that long-term interests in associates and joint ventures, to which the equity method is not applied, are in the scope of both IFRS 9 Financial Instruments (including its impairment requirements) and IAS 28. The amendments are effective for annual periods beginning on or after January 1, 2019. The Company has adopted the amendments to IAS 28 in its financial statements for the annual period beginning on December 31, 2018. There was no material impact on the consolidated financial statements.

4 Future accounting standards

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

On September 11, 2014 the IASB issued Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28). The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture (JV). Specifically, under the existing consolidation standard the parent recognizes the full gain on the loss of control, whereas under the existing guidance on associates and JVs the parent recognizes the gain only to the extent of unrelated investors' interests in the associate or JV. The main consequence of the amendments is that a full gain/loss is recognized when the assets transferred meet the definition of a 'business' under IFRS 3 Business Combinations. A partial gain/loss is recognized when the assets transferred do not meet the definition of a business, even if these assets are housed in a subsidiary. The Company did not adopt these amendments in its financial statements for the annual period beginning December 31, 2018, as the effective date for these amendments has been deferred indefinitely.

Definition of a Business (Amendment to IFRS 3)

On October 22, 2018, the IASB issued amendments to IFRS 3 Business Combinations, that seek to clarify whether a transaction results in an asset or a business acquisition. The amendments apply to businesses acquired in annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted.

Definition of Material (Amendments to IAS 1 and IAS 8)

On October 31, 2018, the IASB refined its definition of material and removed the definition of material omissions or misstatements from IAS 8. The amendments are effective for annual periods beginning on or after January 1, 2020. Early adoption is permitted.

5 Acquisitions and Buyouts

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

Anejo and Blanco Cantina

On May 24, 2019, the Company purchased the assets of Anejo and Blanco Cantina, 2 Mexican themed restaurants, and related brand intellectual property for \$5.0 million, which was settled by drawing on the Company's existing credit facility on the date of acquisition.

Below is an allocation summary in connection with the acquisition of Anejo and Blanco Cantina:

	<u>May 24, 2019</u>
Consideration	
Cash	\$ 5,030
Total Consideration	<u>\$ 5,030</u>
Net assets acquired	
Inventories	\$ 30
Property, plant and equipment	616
Total Assets	646
Goodwill	4,384
Total	<u>\$ 5,030</u>

Re-acquired franchise locations

In the normal course of business, the Company may acquire or re-acquire franchise restaurants and convert them into corporate restaurants. During the 13 and 39 weeks ended September 29, 2019, 2 and 11 franchise locations (September 30, 2018 – 10 and 13 locations) were re-acquired by the Company.

Below is an allocation summary of the re-acquired franchise locations for the 13 and 39 weeks ended September 29, 2019, compared to September 30, 2018:

(in thousands of Canadian dollars)

	For the 13 weeks ended		For the 39 weeks ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Consideration				
Cash	\$ 28	\$ 4,948	\$ 3,416	\$ 4,966
Total Consideration	\$ 28	\$ 4,948	\$ 3,416	\$ 4,966
Net assets acquired				
Inventories	\$ 28	\$ 239	\$ 223	\$ 257
Property, plant and equipment	—	1,329	187	1,329
Brands and other assets	—	2,480	1,971	2,480
Total Assets	28	4,048	2,381	4,066
Liabilities				
Accounts payable and accrued	—	—	256	—
Total liabilities	—	—	256	—
Goodwill	—	900	1,291	900
Total	\$ 28	\$ 4,948	\$ 3,416	\$ 4,966

Marigolds and Onions

On December 11, 2018, the Company completed the 100% equity interest acquisition of Marigolds and Onions Ltd., an event catering company based in Ontario, for approximately \$6.8 million, of which \$4.0 million was settled by drawing on the Company's existing credit facility on the date of acquisition. The remaining balance of \$2.8 million will be paid in December 2019 and December 2020 if certain targets and conditions are met. The Company has completed the fair value determination of the identifiable assets acquired and liabilities assumed in connection with the acquisition of Marigolds and Onions.

6 Sales

Sales are made up of the direct sales of prepared food and beverage to customers at company-owned restaurants and from its catering division, sales of St-Hubert and The Keg branded and other private label products produced and shipped from the Company's manufacturing plant and distribution centers to retail grocery customers and to its network of St-Hubert restaurants, and revenue from processing off-premise phone, web and mobile orders for franchised locations.

(in thousands of Canadian dollars)	<u>For the 13 weeks ended</u>		<u>For the 39 weeks ended</u>	
	<u>September 29, 2019</u>	<u>September 30, 2018</u>	<u>September 29, 2019</u>	<u>September 30, 2018</u>
Sales at corporate restaurants	\$ 184,510	\$ 189,703	\$ 557,918	\$ 519,734
Food processing and distribution sales	68,887	67,660	206,759	194,941
Catering sales	6,847	1,102	14,074	3,497
Call centre service charge revenues	2,459	2,468	7,988	8,431
	<u>\$ 262,703</u>	<u>\$ 260,933</u>	<u>\$ 786,739</u>	<u>\$ 726,603</u>

7 Franchise revenues

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

(in thousands of Canadian dollars)	<u>For the 13 weeks ended</u>		<u>For the 39 weeks ended</u>	
	<u>September 29, 2019</u>	<u>September 30, 2018</u>	<u>September 29, 2019</u>	<u>September 30, 2018</u>
Royalty revenue	\$ 27,406	\$ 28,613	\$ 81,699	\$ 80,046
Marketing fund contributions	16,156	16,108	47,451	46,117
Other rental income	2,234	2,351	6,667	6,959
Franchise fees on new and renewal licenses	450	934	1,981	1,862
Income on finance leases	337	393	1,093	1,227
Amortization of unearned conversion fees income	(327)	729	(167)	905
	<u>\$ 46,256</u>	<u>\$ 49,128</u>	<u>\$ 138,724</u>	<u>\$ 137,116</u>

8 Selling, general and administrative expenses

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

(in thousands of Canadian dollars)	For the 13 weeks ended		For the 39 weeks ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Corporate restaurant expenses	\$ 112,295	\$ 111,205	\$ 335,903	\$ 308,364
Advertising fund transfers	15,970	16,108	47,265	46,117
The Keg royalty expense	6,225	6,350	19,047	14,808
Franchise assistance and bad debt	1,151	1,991	2,776	6,397
Depreciation of property, plant and equipment (note 14)	26,347	10,294	78,845	36,449
Amortization of other assets (note 15)	1,498	1,394	4,822	4,134
Net (gain) loss on disposal of property, plant and equipment and other assets	463	(1,829)	923	(2,295)
Losses on early buyout/cancellation of equipment rental contracts	1,582	344	1,692	819
Other	2,943	14,777	5,743	41,555
	\$ 168,474	\$ 160,634	\$ 497,016	\$ 456,348

For the 13 and 39 weeks ended September 29, 2019, \$1.0 million and \$2.9 million (13 and 39 weeks ended September 30, 2018 - \$1.0 million and \$2.5 million) of depreciation related to property, plant and equipment has been included in cost of inventories sold as part of food processing and distribution.

As a result of adopting IFRS 16 (see note 3), included in depreciation of property, plant and equipment for the 13 and 39 weeks ended September 29, 2019 is \$11.4 million and \$34.3 million related to depreciation of the right-of-use assets (13 and 39 weeks ended September 30, 2018 - \$0.8 and \$2.3 million finance lease depreciation reported under IAS 17 and IFRIC 4). Offsetting the increase in depreciation of property, plant and equipment is the decreased operating lease costs which were \$14.1 million and \$43.0 million for the 13 and 39 weeks ended September 29, 2019 (13 and 39 weeks ended September 30, 2018 - \$1.2 million and \$3.6 million finance lease decrease in operating lease costs reported under IAS 17 and IFRIC 4), recorded as an expense reduction in the Other category.

9 Restructuring and other

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

The following table provides a summary of the costs recognized and cash payments made, as well as the corresponding net liability as at September 29, 2019:

(in thousands of Canadian dollars)	<u>For the 13 weeks ended</u>		<u>For the 39 weeks ended</u>	
	<u>September 29, 2019</u>	<u>September 30, 2018</u>	<u>September 29, 2019</u>	<u>September 30, 2018</u>
Net liability, beginning of period	\$ 9,467	\$ 1,094	\$ 11,524	\$ 2,057
Cost recognized				
Employee termination benefits	320	670	671	1,130
Site closing costs and other	<u>2,275</u>	<u>1,946</u>	<u>2,399</u>	<u>2,231</u>
	\$ 2,595	\$ 2,616	\$ 3,070	\$ 3,361
Cash payments				
Employee termination benefits	316	131	1,371	1,081
Site closing costs and other	<u>758</u>	<u>68</u>	<u>2,235</u>	<u>826</u>
	\$ 1,074	\$ 199	\$ 3,606	\$ 1,907
Net liability, end of period	<u>\$ 10,988</u>	<u>\$ 3,511</u>	<u>\$ 10,988</u>	<u>\$ 3,511</u>

Recorded in the consolidated balance sheets as follows:

(in thousands of Canadian dollars)	<u>September 29, 2019</u>	<u>December 30, 2018</u>	<u>September 30, 2018</u>
Employee termination benefits:			
Accounts payable and accrued liabilities	\$ 1,235	\$ 1,934	\$ 1,401
Site closing costs and other are recorded as a reduction			
Long-term receivable	2,695	2,538	—
Provisions (current)	—	—	1,101
Provisions (long-term)	—	—	1,009
Property, plant and equipment	7,058	7,051	—
	<u>\$ 10,988</u>	<u>\$ 11,523</u>	<u>\$ 3,511</u>

10 Net interest expense and other financing charges

(in thousands of Canadian dollars)	For the 13 weeks ended		For the 39 weeks ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Interest expense on long-term debt.....	\$ 4,540	\$ 4,128	\$ 12,291	\$ 12,060
Interest expense on note payable to The Keg Royalties Income Fund.....	1,069	1,069	3,206	2,548
Financing costs	(709)	200	736	558
Interest expense - other.....	31	83	153	272
Interest income on Partnership units	(2,807)	(2,734)	(8,322)	(6,280)
Interest income	(465)	(414)	(1,354)	(1,455)
Interest on lease obligations (note 19)...	8,020	487	24,460	1,419
Interest income on lease receivable	(4,793)	—	(14,313)	—
	\$ 4,886	\$ 2,819	\$ 16,857	\$ 9,122

11 Income taxes

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

(in thousands of Canadian dollars)	For the 13 weeks ended		For the 39 weeks ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Current income tax expense				
Current period	\$ 5,502	\$ 3,298	\$ 18,924	\$ 8,834
Adjustments for prior years	(37)	(229)	(37)	(217)
	<u>\$ 5,465</u>	<u>\$ 3,069</u>	<u>\$ 18,887</u>	<u>\$ 8,617</u>
Deferred income tax expense				
Origination and reversal of temporary differences	\$ (294)	\$ 4,320	\$ 1,136	\$ 15,368
Adjustments for prior years	—	497	931	623
Benefit from previously unrecognized tax asset	(14)	(282)	—	(238)
	<u>\$ (308)</u>	<u>\$ 4,535</u>	<u>\$ 2,067</u>	<u>\$ 15,753</u>
Net income tax expense	<u>\$ 5,157</u>	<u>\$ 7,604</u>	<u>\$ 20,954</u>	<u>\$ 24,370</u>

Recognized deferred tax assets and liabilities

(in thousands of Canadian dollars)	September 29, 2019	December 30, 2018	September 30, 2018
Opening balance	\$ (70,420)	\$ (77,437)	\$ (77,437)
Deferred income tax (expense)/recovery	(2,067)	(16,368)	(15,848)
The Keg acquisition	—	24,162	24,075
Marigolds and Onions acquisition	—	(530)	—
Original Joe's acquisition	—	(40)	—
Income taxes recognized in other comprehensive income	—	(207)	—
Other	(65)	—	—
IFRS 16 adjustment to opening balance	864	—	—
	<u>\$ (71,688)</u>	<u>\$ (70,420)</u>	<u>\$ (69,210)</u>

Recorded in the consolidated balance sheets as follows:

Deferred tax asset	\$ 26,183	\$ 22,411	\$ 29,666
Deferred tax liability	(97,871)	(92,831)	(98,876)
	<u>\$ (71,688)</u>	<u>\$ (70,420)</u>	<u>\$ (69,210)</u>

12 Inventories

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

(in thousands of Canadian dollars)	September 29, 2019	December 30, 2018	September 30, 2018
Raw materials	\$ 7,764	\$ 6,678	\$ 5,498
Work in progress	1,077	843	979
Finished goods	21,552	15,661	21,189
Food and beverage supplies	11,945	13,404	11,890
	\$ 42,338	\$ 36,586	\$ 39,556

13 Long-term receivables

(in thousands of Canadian dollars)	September 29, 2019	December 30, 2018	September 30, 2018
Lease receivable (note 3)	\$ 481,549	\$ —	\$ —
Franchise receivable	13,264	18,430	20,179
Due from related parties (note 27)	18,475	15,448	10,771
Promissory notes	721	1,091	802
	\$ 514,009	\$ 34,969	\$ 31,752

Recorded in the consolidated balance sheets as follows:

(in thousands of Canadian dollars)	September 29, 2019	December 30, 2018	September 30, 2018
Current portion of long-term receivables	\$ 80,987	\$ 4,900	\$ 2,625
Long-term receivables	433,022	30,069	29,127
	\$ 514,009	\$ 34,969	\$ 31,752

Lease receivable

Lease receivables are related to the lease liability where the Company is on the real estate head lease of its franchised locations and a corresponding sublease contract is entered into between the Company and its franchisees. These subleases are all related to non-consolidated franchisees and are related to the long-term obligation of the franchisee sub-tenants to pay the Company over the term of the lease agreements excluding any unexercised renewal options, as they have not been determined to be certain to be exercised.

The comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The impact of changes related to the adoption of IFRS 16 are disclosed in note 3.

Lease receivables are reviewed for impairment based on expected losses at each balance sheet date in accordance with IFRS 9. An impairment loss is recorded when the credit risk is assessed to have increased for the lease receivables. For the 13 and 39 weeks ended September 29, 2019, the Company recorded an impairment loss of \$0.4 million and \$0.9 million, respectively (13 and 39 weeks ended September 30, 2018 - \$nil) on long-term lease receivables.

Lease receivables have maturity dates ranging from 2020 to 2037 and bear an average effective interest rate of 3.7% to 4.4%.

Franchise receivable

In prior years, the Company converted certain corporate restaurants to franchise and sold the restaurants to independent operators (“franchisees”). As part of these conversion agreements certain franchisees entered into rental agreements to rent certain restaurant assets from the Company. Franchise receivables of \$13.3 million (December 30, 2018 - \$18.4 million; September 30, 2018 - \$20.2 million) relates primarily to the long-term obligation of the franchisees to pay the Company over the term of the rental agreement which is equal to the term of the license agreement or the term to the expected buyout date assuming that the franchisee is more likely than not to acquire the rented assets from the Company.

Long-term franchise receivables are reviewed for impairment based on expected losses at each balance sheet date. An impairment loss is recorded when the credit risk is assessed to have increased for the lease receivables. For the 13 and 39 weeks ended September 29, 2019, the Company recorded \$nil (13 and 39 weeks ended September 30, 2018 - \$nil) of impairment losses on long-term franchise receivables.

Franchise receivables have maturity dates ranging from 2020 to 2034 and bear an average effective interest rate of 8% - 10%.

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14 Property, plant and equipment

	As at September 29, 2019							
(in thousands of Canadian dollars)	Land	Buildings	Equipment	Leasehold improvements	Assets under finance lease	Right-of-Use Assets	Construction-in-progress	Total
Cost								
Balance, beginning of year	\$36,359	\$ 114,335	\$ 231,834	\$ 208,987	\$ 42,811	\$ —	\$ 8,947	\$643,273
IFRS 16 Adjustment to Opening Balance (note 3)	—	—	—	12,516	(41,589)	265,423	—	236,350
Other IFRS 16 transition adjustments	—	—	1,427	5,660	—	(9,535)	—	(2,448)
Additions	—	14	4,938	2,389	—	24,408	27,816	59,565
Acquisitions and Buybacks (note 5)	—	—	453	350	—	—	—	803
Disposals and adjustments	(270)	(129)	(11,609)	(9,328)	(1,222)	1,975	—	(20,583)
Foreign exchange translation	—	—	(406)	(1,012)	—	(416)	—	(1,834)
Transfer to/(from) construction-in-progress	—	110	8,391	11,915	—	—	(20,416)	—
Balance as at September 29, 2019	\$36,089	\$ 114,330	\$ 235,028	\$ 231,477	\$ —	\$ 281,855	\$ 16,347	\$915,126
Accumulated depreciation and impairment losses								
Balance, beginning of year	\$ —	\$ 11,675	\$ 132,848	\$ 78,068	\$ 20,692	\$ —	\$ —	\$243,283
IFRS 16 Adjustment to Opening Balance (note 3)	—	—	—	971	(19,900)	(971)	—	(19,900)
Other IFRS 16 transition adjustments	—	—	—	—	—	971	—	971
Depreciation expense	—	3,115	21,108	23,169	—	34,322	—	81,714
Impairment losses	—	—	1,282	5,537	—	1,779	—	8,598
Foreign exchange translation	—	—	(324)	(761)	—	(109)	—	(1,194)
Disposals and adjustments	—	(93)	(11,272)	(8,325)	(792)	(368)	—	(20,850)
Balance as at September 29, 2019	\$ —	\$ 14,697	\$ 143,642	\$ 98,659	\$ —	\$ 35,624	\$ —	\$292,622
Carrying amount as at September 29, 2019	\$36,089	\$ 99,633	\$ 91,386	\$ 132,818	\$ —	\$ 246,231	\$ 16,347	\$622,504
June 30, 2019	\$35,971	\$ 100,590	\$ 94,955	\$ 135,410	\$ —	\$ 252,103	\$ 17,800	\$636,829
March 31, 2019	\$36,241	\$ 101,583	\$ 96,664	\$ 137,018	\$ —	\$ 264,337	\$ 11,852	\$647,695
December 30, 2018	\$36,359	\$ 102,660	\$ 98,986	\$ 130,919	\$ 22,119	\$ —	\$ 8,947	\$399,990
September 30, 2018	\$38,816	\$ 104,972	\$ 87,006	\$ 140,486	\$ 22,883	\$ —	\$ 18,860	\$413,023

Right-of-use assets

IFRS 16 defines a lease as a contract that conveys the right to use an asset for a period of time in exchange for consideration. On December 31, 2018, the initial commencement date of IFRS 16, the Company's right-of-use assets were recognized and calculated as the initial amount of the lease liability, plus any lease payment made before the commencement date, plus any initial direct costs incurred, minus any lease incentives received. Subsequent to initial recognition, the Company measures the right-of-use assets at cost less accumulated depreciation and impairment losses. The carrying value is also adjusted for any re-measurement of the lease liability.

The amortization period for the right-of-use asset is from the initial commencement date to the end of the lease term including any exercised renewal options.

Impairment losses

For the 13 and 39 weeks ended September 29, 2019, the Company recorded \$5.2 million and \$8.6 (13 and 39 weeks ended September 30, 2018 - \$nil and \$0.6 million) of impairment losses on property, plant and equipment in respect of 9 and 17 cash generating units (“CGUs”) (13 and 39 weeks ended September 30, 2018 - nil and 1 CGUs). An impairment loss is recorded when the carrying amount of the restaurant location exceeds its recoverable amount. The recoverable amount is based on the greater of the CGU’s fair value less costs to sell (“FVLCS”) and its value in use (“VIU”). Approximately 59% (September 30, 2018 - 100%) of impaired CGUs had carrying values greater than their FVLCS. The remaining 41% (September 30, 2018 - 0%) of impaired CGUs had carrying values greater than their VIU.

For the 13 and 39 weeks ended September 29, 2019, the Company did not record any impairment reversals (September 30, 2018 - nil).

When determining the VIU of a restaurant location, the Company employs a discounted cash flow model for each CGU. The duration of the cash flow projections for individual CGUs varies based on the remaining useful life of the significant asset within the CGU or the remaining lease term of the location. Sales forecasts for cash flows are based on actual operating results, operating budgets and long-term growth rates that were consistent with strategic plans presented to the Company’s Board and ranged between 0% and 3%. The estimate of the VIU of the relevant CGUs was determined using an after-tax discount rate of 4.0% to 18.5% at September 29, 2019 (September 30, 2018 - 8.2% to 12.5%).

15 Brands and other assets

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

(in thousands of Canadian dollars)	As at September 29, 2019			
	Brands	Other assets	Investment in joint ventures (note 27)	Total
Cost				
Balance, beginning of year	\$ 526,072	\$ 98,336	\$ 18,635	\$ 643,043
Additions from business acquisitions (note 5) ..	—	1,971	—	1,971
Additions	—	124	—	124
Disposal	—	(449)	(209)	(658)
Share of loss	—	—	(166)	(166)
Adjustments	—	673	(322)	351
Balance as at September 29, 2019	\$ 526,072	\$ 100,655	\$ 17,938	\$ 644,665
Accumulated amortization				
Balance, beginning of year	\$ —	\$ 26,860	\$ —	\$ 26,860
Amortization	—	4,822	—	4,822
Disposal	—	(449)	—	(449)
Impairment	—	150	—	150
Other	—	220	—	220
Adjustments	—	327	—	327
Balance as at September 29, 2019	\$ —	\$ 31,930	\$ —	\$ 31,930
Carrying amount as at September 29, 2019	\$ 526,072	\$ 68,725	\$ 17,938	\$ 612,735
June 30, 2019	\$ 526,072	\$ 70,313	\$ 17,934	\$ 614,319
March 31, 2019	\$ 526,072	\$ 72,045	\$ 18,357	\$ 616,474
December 30, 2018	\$ 526,072	\$ 71,476	\$ 18,635	\$ 616,183
September 30, 2018	\$ 526,072	\$ 71,281	\$ 18,589	\$ 615,942

16 Goodwill

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

(in thousands of Canadian dollars)	<u>September 29, 2019</u>	<u>December 30, 2018</u>	<u>September 30, 2018</u>
Cost			
Balance, beginning of period	\$ 196,638	\$ 191,111	\$ 191,111
Additions from business acquisitions (note 5)	5,675	5,527	900
Additions resulting from change in Preliminary Purchase Equation	384	—	—
Balance, end of period	<u>\$ 202,697</u>	<u>\$ 196,638</u>	<u>\$ 192,011</u>

17 Provisions

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

<u>As at September 29, 2019</u>					
(in thousands of Canadian dollars)	<u>Asset retirement obligations</u>	<u>Lease obligations for closed restaurants</u>	<u>Franchise onerous contracts</u>	<u>Other</u>	<u>Total</u>
Balance, beginning of period	\$ 5,478	\$ 13,154	\$ 2,279	\$ 2,564	\$ 23,475
Additions	183	—	—	98	281
Accretion	138	—	—	—	138
Payments	(45)	—	—	(142)	(187)
Adjustments	(10)	(90)	—	(182)	(282)
Impact from transition to IFRS 16	—	(13,064)	(2,279)	—	(15,343)
Balance as at September 29, 2019	<u>\$ 5,744</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,338</u>	<u>\$ 8,082</u>
June 30, 2019	\$ 5,672	\$ —	\$ —	\$ 2,487	\$ 8,159
March 31, 2019	\$ 5,631	\$ —	\$ —	\$ 2,481	\$ 8,112
December 30, 2018	\$ 5,478	\$ 13,154	\$ 2,279	\$ 2,564	\$ 23,475
September 30, 2018	\$ 5,740	\$ 4,792	\$ 1,407	\$ 2,626	\$ 14,565

Recorded in the consolidated balance sheets as follows:

(in thousands of Canadian dollars)	<u>September 29, 2019</u>	<u>December 30, 2018</u>	<u>September 30, 2018</u>
Provisions-current	\$ 3,439	\$ 9,679	\$ 7,362
Provisions-long-term	4,643	13,796	7,203
	<u>\$ 8,082</u>	<u>\$ 23,475</u>	<u>\$ 14,565</u>

18 Long-term debt

(in thousands of Canadian dollars)	September 29, 2019	December 30, 2018	September 30, 2018
Private debt.....	\$ 250,000	\$ —	\$ —
Term credit facility - revolving.....	253,325	220,025	270,025
Term credit facility - non-revolving.....	—	150,000	150,000
The Keg credit facilities.....	18,000	21,000	22,000
	<u>521,325</u>	<u>391,025</u>	<u>442,025</u>
Less: financing costs.....	3,686	1,459	1,646
	<u>\$ 517,639</u>	<u>\$ 389,566</u>	<u>\$ 440,379</u>

Recorded in the consolidated balance sheets as follows:

(in thousands of Canadian dollars)	September 29, 2019	December 30, 2018	September 30, 2018
Current portion of long-term debt.....	4,000	154,000	154,000
Long-term portion of long-term debt.....	513,639	235,566	286,379
	<u>\$ 517,639</u>	<u>\$ 389,566</u>	<u>\$ 440,379</u>

Private debt

On May 1, 2019, the Company issued \$250.0 million First Lien 10 year Senior Secured Notes by way of a private placement (the “Notes”). The Notes rank pari passu in right of payment with the lenders under the Company’s amended and restated credit agreement (“New Credit Facility”), is secured on a first lien basis on the assets that secure the Company’s New Credit Facility, and is guaranteed by all material subsidiaries and holding companies of the Company on the same basis as the New Credit Facility. The Notes bear interest from their date of issue at a rate of 4.72% per annum, payable semi-annually and maturing on May 1, 2029. As at September 29, 2019, \$250.0 million (December 30, 2018 - \$nil; September 30, 2018 - \$nil) was drawn under the Notes.

Term credit facility

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

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

As at September 29, 2019, \$253.3 million (December 30, 2018 - \$370.0 million; September 30, 2018 - \$420.0 million) was drawn under the amended and extended credit facilities. The effective interest rate for the 39 weeks ended September 29, 2019 was 3.94% representing bankers acceptance rate of 2.19% plus 1.25% borrowing spread, standby fees and the amortization of deferred financing fees of 0.50%.

The Company is also required to pay a standby fee of between 0.20% and 0.46% per annum on the undrawn portion of the \$550.0 million revolving facility. The standby fee, like the interest rate, is based on the Company’s total funded net debt to EBITDA ratio. As of September 29, 2019, the standby fee rate was 0.25%.

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

The Keg Credit Facilities

In connection with The Keg merger (note 27), 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 September 29, 2019, \$18.0 million of the revolving facility has been drawn. On September 26, 2019, the maturity date was extended from July 2, 2020 to October 1, 2020. No other terms of these facilities were amended. Less than \$0.1 million of the revolving demand operating facility has been used to issue letters of credit.

On June 18, 2018, the Company renegotiated the terms of its credit agreement with its existing banking syndicate. The credit facilities now bear interest at a rate between bank prime plus 0.25% to bank prime plus 1.0% based on certain financial criteria. As at September 29, 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").

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The movement in long-term debt from December 30, 2018 to September 29, 2019 is as follows:

(in thousands of Canadian dollars)	Private Debt	Term Credit facility	Keg credit facilities	Total
Balance at December 30, 2018	\$ —	\$ 370,025	\$ 21,000	\$ 391,025
Less Financing costs	—	(1,306)	(153)	(1,459)
	—	368,719	20,847	389,566
Changes from financing cash flows				
Repayment of borrowings	—	—	(1,000)	(1,000)
Balance due to changes from financing cash flows as at March 31, 2019	\$ —	\$ 368,719	\$ 19,847	\$ 388,566
Repayment of borrowings	—	(256,700)	(1,000)	(257,700)
Issuance of borrowings	250,000	15,000	—	265,000
Addition to deferred financing costs	(1,664)	(1,221)	—	(2,885)
Balance due to changes from financing cash flows as at June 30, 2019	\$ 248,336	\$ 125,798	\$ 18,847	\$ 392,981
Repayment of borrowings	—	—	(1,000)	(1,000)
Issuance of borrowings	—	125,000	—	125,000
Addition to deferred financing costs	(78)	—	—	(78)
Balance due to changes from financing cash flows as at September 29, 2019	\$ 248,258	\$ 250,798	\$ 17,847	\$ 516,903
Non-cash movements				
Amortization of deferred financing costs	73	589	74	736
Balance at September 29, 2019	\$ 248,331	\$ 251,387	\$ 17,921	\$ 517,639

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

(in thousands of Canadian dollars)	Term Credit facility	Keg credit facilities	Total
Balance at December 31, 2017	\$ 379,025	\$ —	\$ 379,025
Less Financing costs	<u>(1,905)</u>	<u>—</u>	<u>(1,905)</u>
	377,120	—	377,120
Changes from financing cash flows			
Issuance of borrowings	104,000	—	104,000
Repayment of borrowings	(15,000)	—	(15,000)
Debt assumed on acquisition (note 26)	<u>—</u>	<u>23,774</u>	<u>23,774</u>
Balance due to changes from financing cash flows as at April 1, 2018	\$ 466,120	\$ 23,774	\$ 489,894
Repayment of borrowings	(18,000)	(1,000)	(19,000)
Issuance of borrowings	<u>—</u>	<u>—</u>	<u>—</u>
Balance due to changes from financing cash flows as at July 1, 2018	\$ 448,120	\$ 22,774	\$ 470,894
Repayment of borrowings	<u>(30,000)</u>	<u>(774)</u>	<u>(30,774)</u>
Balance due to changes from financing cash flows as at September 30, 2018	\$ 418,120	\$ 22,000	\$ 440,120
Non-cash movements			
Amortization of deferred financing costs	421	(162)	259
Balance at September 30, 2018	<u>\$ 418,541</u>	<u>\$ 21,838</u>	<u>\$ 440,379</u>

19 Leases

The Company's lease contracts consist of real estate leases for use in the operation of its corporate restaurants, call centre, retail and catering business, and corporate head offices; leased IT equipment, leased vehicles and equipment for use in its retail and catering business. The Company is also on the head lease of many of its franchised locations whereby a corresponding sublease contract is entered into between the Company and its franchisees (see note 13).

At the initial commencement date, the Company's lease liabilities are measured at the present value of the future lease payments using the Company's incremental borrowing rate. After initial recognition, the lease liabilities are measured at amortized cost using the effective interest method. The comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The impact of changes related to the adoption of IFRS 16 are disclosed in note 3.

(in thousands of Canadian dollars)	September 29, 2019	December 30, 2018	September 30, 2018
Balance, beginning of year	\$ 26,016	\$ 27,496	\$ 27,496
IFRS 16 inception adjustment (note 3)	782,857	—	—
Additions	27,016	1,490	1,490
Lease renewals and modifications	39,216	—	—
Early lease terminations	(5,619)	—	—
Adjustments	(5,690)	—	—
Interest expense	24,461	1,906	1,419
Foreign translation adjustment	(410)	—	—
Payments	(114,159)	(4,876)	(3,638)
Balance, end of period	\$ 773,688	\$ 26,016	\$ 26,767

Recorded in the consolidated balance sheets as follows:

(in thousands of Canadian dollars)	September 29, 2019	December 30, 2018	September 30, 2018
Current portion of lease liability	\$ 121,090	\$ 3,192	\$ 3,144
Lease liability	652,598	22,824	23,623
	\$ 773,688	\$ 26,016	\$ 26,767

20 Other long-term liabilities

(in thousands of Canadian dollars)	<u>September 29, 2019</u>	<u>December 30, 2018</u>	<u>September 30, 2018</u>
Accrued pension and other benefit plans	\$ 21,523	\$ 22,132	\$ 23,208
Non-controlling interest liability	23,011	23,011	21,511
Contingent liability	19,778	19,778	17,000
Deferred income	12,440	8,012	8,569
Deferred rental income	5,239	7,055	7,591
Accrued rent expense (note 3)	—	7,554	7,020
Other long-term liabilities	3,717	3,572	7,732
Deferred share units	1,539	1,141	1,164
	<u><u>\$ 87,247</u></u>	<u><u>\$ 92,255</u></u>	<u><u>\$ 93,795</u></u>

Recorded in the consolidated balance sheets as follows:

(in thousands of Canadian dollars)	<u>September 29, 2019</u>	<u>December 30, 2018</u>	<u>September 30, 2018</u>
Accounts payable and accrued liabilities	\$ 8,040	\$ 4,588	\$ 3,447
Other long-term liabilities	79,207	87,667	90,348
	<u><u>\$ 87,247</u></u>	<u><u>\$ 92,255</u></u>	<u><u>\$ 93,795</u></u>

Accrued pension and other benefit plans

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

For the 13 and 39 weeks ended September 29, 2019, the Company recorded expenses of \$0.2 million and \$0.5 million (13 and 39 weeks ended September 30, 2018 - \$0.2 million and \$0.6 million) related to pension benefits.

Non-controlling interest liability

In connection with the Original Joe's transaction, a non-controlling interest liability representing the expected earn-out liability, on a discounted basis, to purchase the remaining 10.8% ownership of Original Joe's Franchise Group Inc. based on meeting certain targets over a period of time.

Contingent liability

In connection with The Keg and the Marigolds and Onions acquisitions, a contingent liability in the amounts of \$17.0 million and \$2.8 million, respectively, has been recorded as at September 29, 2019 (December 30, 2018 - \$17.0 million and \$2.8 million; September 30, 2018 - \$17.0 million and \$nil), representing amounts payable to the former shareholders contingent on certain targets and conditions being met.

Deferred income

Unearned franchise and conversion fee income

At September 29, 2019, the Company had deferred \$3.6 million (December 30, 2018 - \$4.0 million; September 30, 2018 - \$4.2 million) of initial franchise fees and conversion fees received from franchisees that will be recognized over the remaining term of the respective franchise agreements.

Sale-leaseback transactions

At September 29, 2019, the Company had deferred \$2.4 million (December 30, 2018 - \$2.9 million; September 30, 2018 - \$3.0 million) related to gains realized on sale-leaseback transactions.

Covenancy fees

The Company collects covenancy fees from franchisees on subtenant leases. At September 29, 2019, the Company had unearned covenancy fees of \$4.3 million (December 30, 2018 - nil; September 30, 2018 - \$nil) in connection with recording a lease receivable on transition to IFRS 16 (see note 3 and 13).

Unearned Revenue

The Company earns sales incentives which includes rebates and promotional programs based on achievement of specified volume or growth in volume levels and other agreed promotional activities. At September 29, 2019, the Company had unearned revenue of \$2.1 million (December 30, 2018 - \$0.5 million; September 30, 2018 - \$0.9 million).

Deferred rental income

In prior years, the Company converted certain corporate restaurants to franchise and sold the restaurants to independent operators (“franchisees”). As part of these conversion agreements, certain franchisees entered into rental agreements to rent certain restaurant assets from the Company. The \$5.2 million balance at September 29, 2019 (December 30, 2018 - \$7.1 million; September 30, 2018 – \$7.6 million) represents the unearned revenue associated with the rental agreements calculated as the present value of the minimum lease payments using an interest rate implicit in the rental agreement.

Deferred share units (“DSU”)

The non-employee board members receive DSUs as compensation for their participation on the board. These DSUs are settled for cash when members cease to participate on the board of directors. For the 13 and 39 weeks ended September 29, 2019, the Company recognized an expense of \$0.1 million and \$0.4 million (13 and 39 weeks ended September 30, 2018 - \$0.2 million and \$0.5 million) and a liability was recorded as part of Other Long-Term Liabilities in the amount of \$1.5 million as at September 29, 2019 (December 30, 2018 - \$1.1 million; September 30, 2018 - \$1.2 million).

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21 Long-term incentive plans

Under the various stock option plans, the Company may grant options to buy up to 15% of its total Subordinate and Multiple Voting Shares outstanding, a total of 8.5 million shares, a guideline the Company has set on the number of stock option grants. As at September 29, 2019, approximately 6.8 million stock options were granted and outstanding.

Stock options outstanding as at September 29, 2019 have a term of up to eight years from the initial grant date. Each stock option is exercisable into one Subordinate Voting Share at the price specified in the terms of the option agreement. There were no accelerated vesting features upon the initial public offering under any of the plans described below.

The following table summarizes the options granted:

	For the 13 and 39 weeks ended September 29, 2019					
	CEO stock option plan		Employee stock option plan		Total	
	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share
Outstanding options, December 30, 2018	2,899,355	\$ 11.61	4,495,106	\$ 29.63	7,394,461	\$ 22.56
Exercised	—	\$ —	(125,040)	\$ 10.31	(125,040)	\$ 10.31
Forfeited	—	\$ —	(30,250)	\$ 25.21	(30,250)	\$ 25.21
Outstanding options, March 31, 2019	2,899,355	\$ 11.61	4,339,816	\$ 30.21	7,239,171	\$ 22.76
Exercised	—	\$ —	(94,203)	\$ 8.51	(94,203)	\$ 8.51
Outstanding options, June 30, 2019	2,899,355	\$ 11.61	4,245,613	\$ 30.75	7,144,968	\$ 22.98
Exercised	—	\$ —	(316,473)	\$ 8.51	(316,473)	\$ 8.51
Forfeited	—	\$ —	(51,144)	\$ 24.82	(51,144)	\$ 24.82
Outstanding options, September 29, 2019	2,899,355	\$ 11.61	3,877,996	\$ 32.64	6,777,351	\$ 23.64
Options exercisable, September 29, 2019	2,419,355	\$ 8.51	495,814	\$ 24.73	2,915,169	\$ 11.27

	For the 13 and 39 weeks ended September 30, 2018					
	CEO stock option plan		Employee stock option plan		Total	
	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share
Outstanding options, December 31, 2017	2,449,355	\$ 8.74	1,680,071	\$ 17.06	4,129,426	\$ 12.12
Exercised	—	\$ —	(16,270)	\$ 8.51	(16,270)	\$ 8.51
Forfeited	—	\$ —	(32,181)	\$ 23.06	(32,181)	\$ 23.06
Outstanding options, April 1, 2018	2,449,355	\$ 8.74	1,631,620	\$ 17.02	4,080,975	\$ 12.05
Granted	450,000	\$ 27.24	3,150,000	\$ 34.63	3,600,000	\$ 33.71
Forfeited	—	\$ —	(2,080)	\$ 25.51	(2,080)	\$ 25.51
Outstanding options, July 1, 2018	2,899,355	\$ 11.61	4,779,540	\$ 28.43	7,678,895	\$ 22.20
Exercised	—	\$ —	(215,054)	\$ 8.51	(215,054)	\$ 8.51
Forfeited	—	\$ —	(56,318)	\$ 26.63	(56,318)	\$ 26.63
Outstanding options, September 30, 2018	2,899,355	\$ 11.61	4,508,168	\$ 29.61	7,407,523	\$ 22.56
Options exercisable, September 30, 2018	2,419,355	\$ 8.51	241,935	\$ 8.51	2,661,290	\$ 8.51

CEO stock option plan

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

During the 13 and 39 weeks ended September 29, 2019, no stock options were granted under the CEO Plan. During the 13 and 39 weeks ended September 30, 2018, nil and 150,000 stock options at an exercise price of \$27.39 were granted under the CEO Plan to the Executive Chair of the Board and the former CEO, Bill Gregson and 300,000 stock options at an exercise price of \$27.17 were granted to the current CEO, Frank Hennessey. These options vest over five years and expire after eight years.

During the 13 and 39 weeks ended September 29, 2019 and September 30, 2018, no stock options were exercised or forfeited under the CEO Plan.

For the 13 and 39 weeks ended September 29, 2019, the Company recognized stock-based compensation costs of \$0.2 million and \$0.8 million (13 and 39 weeks ended September 30, 2018 - \$0.4 million and \$0.6 million) related to the CEO Plan with a corresponding increase to contributed surplus.

Employee stock option plan

Under the Employee Stock Option Plan (“Employee Plan”), the Company granted options in accordance with certain terms of the CFO employment agreement to purchase Subordinate Voting Shares of the Company.

Under the Employee Plan, the Company also granted options to various members of the Company’s management team to purchase Subordinate Voting Shares of the Company. The options vest after 3 years and expire after eight years.

Under this plan, the CFO has 180,000 options at an average exercise price of \$27.36 and the Company’s management team has 3,697,996 at an average exercise price of \$32.91.

During the 13 and 39 weeks ended September 29, 2019, no options were granted to the CFO (13 and 39 weeks ended September 30, 2018 the CFO was granted 150,000 stock options at an exercise price of \$27.39, with a 5 year vesting period and expire after ten years).

During the 13 and 39 weeks ended September 29, 2019, the Company granted no stock options under the Employee Plan. During the 13 and 39 weeks ended September 30, 2018, in connection with his appointment to the board, Mr. David Aisenstat was granted 3,000,000 stock options at an exercise price of \$35.00. These stock options vest upon the achievement of specific Company performance measures and expire after 8 years.

During the 13 and 39 weeks ended September 29, 2019, 316,473 and 535,716 stock options with a weighted average exercise price of \$8.51 and \$8.93 were exercised, respectively (13 and 39 weeks ended September 30, 2018 – 215,054 and 231,324 stock options with a weighted average exercise price of \$8.51).

During the 13 and 39 weeks ended September 29, 2019, 51,144 and 81,394 stock options with a weighted average exercise price of \$24.82 and \$24.97 were forfeited, respectively (13 and 39 weeks ended September 30, 2018 – 56,318 and 90,579 stock options with a weighted average exercise price of \$26.63 and \$25.33).

For the 13 and 39 weeks ended September 29, 2019, the Company recognized stock-based compensation cost of \$0.7 million and \$2.7 million, respectively (13 and 39 weeks ended September 30, 2018 - \$1.1 million and \$2.5 million) related to the Employee Plan with a corresponding increase to contributed surplus.

Restricted share units (“RSU”)

RSUs are granted at the beginning of each year and are earned only if certain performance conditions are met. RSUs earned and outstanding represent RSUs that have been earned as a result of achieving certain performance targets. RSUs vest after 3 or 4 years and will be settled for subordinate voting shares.

RSUs earned and outstanding	For the 13 weeks ended		For the 39 weeks ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
RSUs outstanding, beginning	280,700	234,042	256,470	—
RSUs earned in the period	—	—	38,164	234,042
RSUs forfeited	(1,947)	—	(15,881)	—
RSUs outstanding, end of period	278,753	234,042	278,753	234,042
RSUs vested, end of period	—	—	—	—
RSUs granted, not yet earned	110,787	—	110,787	—

During the 13 and 39 weeks ended September 29, 2019, nil and 38,164 RSUs were granted to certain key employees in connection with new long-term employment agreements. For the 13 and 39 weeks ended September 29, 2019, the Company recognized an expense of \$0.4 million and \$1.7 million (13 and 39 weeks ended September 30, 2018 - \$0.4 and \$0.7 million).

Performance Share Units (“PSU”)

PSUs are granted at the beginning of each year and are earned when certain long-term performance targets are achieved. The total number of PSUs earned can increase if maximum performance targets are met. PSUs are earned only if the performance target is achieved at the end of the 3-year period from grant date and vest 5 years from the grant date. As at September 29, 2019, there were 135,551 PSUs granted but not yet earned or vested that can increase to 251,103 PSUs if maximum 3 year performance targets are achieved. PSUs vest after 5 years and will be settled for subordinate voting shares.

22 Share capital

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

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

On February 22, 2018 the Company issued 3,801,284 subordinate voting shares in connection with the Keg merger (note 27).

On June 20, 2019, the Company announced its notice of intention to make a normal course issuer bid ("NCIB") for its Subordinate Voting Shares. The Company may purchase up to 1,822,329 Subordinate Voting Shares during the period from June 24, 2019 to June 23, 2020. Purchases of the Subordinate Voting Shares are made at market prices and any Subordinate Voting Shares purchased through the NCIB will be canceled. During the 13 and 39 weeks ended September 29, 2019, the Company purchased and canceled 618,947 and 1,322,871 Subordinate Voting Shares for \$16.5 million and \$35.2 million (13 and 39 weeks ended September 30, 2018 – 27,700 and 66,147 Subordinate Voting Shares for \$0.7 million and \$1.7 million).

On August 14, 2019, the Company announced its notice of intention to make a substantial issuer bid ("SIB") to purchase for cancellation its Subordinate Voting and Multiple Voting Shares. On September 25, 2019, the Company completed the repurchase and cancellation of 4,629,629 Subordinate Voting Shares at a price of \$27.00 per share under the SIB for an aggregate purchase price of \$125.0 million.

As at September 29, 2019, there were 34,054,824 Multiple Voting Shares and 22,283,986 Subordinate Voting Shares issued and outstanding.

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

	Number of Common Shares (in thousands)			Share Capital (in thousands of dollars)		
	Multiple voting common shares	Subordinate voting common shares	Total Common Shares	Multiple voting common shares	Subordinate voting common shares	Total Share Capital
Balance at December 31, 2017	34,396	24,176	58,572	\$ 192,548	\$ 498,420	\$ 690,968
Shares issued under stock option plan (note 21).....	—	17	17	—	173	173
Shares re-purchased under NCIB.....	—	(635)	(635)	—	(16,207)	(16,207)
Shares issued as part of Keg merger.....	—	3,801	3,801	—	94,728	94,728
Balance at December 30, 2018	34,396	27,359	61,755	\$ 192,548	\$ 577,114	\$ 769,662
Shares issued under stock option plan (note 21).....	—	125	125	—	2,222	2,222
Shares re-purchased under NCIB.....	—	(266)	(266)	—	(7,079)	(7,079)
Balance at March 31, 2019	34,396	27,218	61,614	\$ 192,548	\$ 572,257	\$ 764,805
Shares issued under stock option plan (note 21).....	—	94	94	—	1,068	1,068
Shares re-purchased under NCIB.....	0	(438)	(438)	—	(11,674)	(11,674)
Balance at June 30, 2019	34,396	26,874	61,270	\$ 192,548	\$ 561,651	\$ 754,199
Shares issued under stock option plan (note 21).....	—	316	316	—	4,131	4,131
Shares re-purchased under NCIB & SIB.....	(341)	(4,907)	(5,248)	(9,255)	(132,699)	(141,954)
Balance at September 29, 2019	34,055	22,283	56,338	\$ 183,293	\$ 433,083	\$ 616,376

	Number of Common Shares (in thousands)			Share Capital (in thousands of dollars)		
	Multiple voting common shares	Subordinate voting common shares	Total Common Shares	Multiple voting common shares	Subordinate voting common shares	Total Share Capital
Balance at December 25, 2016	34,396	25,586	59,982	\$ 192,548	\$ 531,176	\$ 723,724
Shares issued under stock option plan (note 21).....	—	28	28	—	351	351
Shares re-purchased under NCIB.....	—	(1,468)	(1,468)	—	(33,857)	(33,857)
Shares issued as part of Pickle Barrel transaction.....	—	30	30	—	750	750
Balance at December 31, 2017	34,396	24,176	58,572	\$ 192,548	\$ 498,420	\$ 690,968
Shares issued under stock option plan (note 21).....	—	17	17	—	173	173
Shares re-purchased under NCIB.....	—	(27)	(27)	—	(654)	(654)
Shares issued as part of Keg merger.....	—	3,801	3,801	—	94,728	94,728
Balance at April 1, 2018	34,396	27,967	62,363	\$ 192,548	\$ 592,667	\$ 785,215
Shares re-purchase under NCIB.....	—	(11)	(11)	—	(300)	(300)
Balance at July 1, 2018	34,396	27,956	62,352	\$ 192,548	\$ 592,367	\$ 784,915
Shares re-purchase under NCIB.....	—	(28)	(28)	—	(746)	(746)
Balance at September 30, 2018	34,396	27,928	62,324	\$ 192,548	\$ 591,621	\$ 784,169

23 Earnings per share

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

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

		13 weeks ended September 29, 2019			13 weeks ended September 30, 2018		
		Net earnings attributable to shareholders of the Company	Weighted average number of shares	EPS	Net earnings attributable to shareholders of the Company	Weighted average number of shares	EPS
Basic	\$	6,844	60,651	\$ 0.11	\$ 23,617	62,334	\$ 0.38
Diluted	\$	6,844	62,728	\$ 0.11	\$ 23,617	64,643	\$ 0.37

		39 weeks ended September 29, 2019			39 weeks ended September 30, 2018		
		Net earnings attributable to shareholders of the Company	Weighted average number of shares	EPS	Net earnings attributable to shareholders of the Company	Weighted average number of shares	EPS
Basic	\$	46,162	61,217	\$ 0.75	\$ 64,766	61,638	\$ 1.05
Diluted	\$	46,162	63,279	\$ 0.73	\$ 64,766	63,858	\$ 1.01

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

	For the 13 weeks ended		For the 39 weeks ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Common shares	60,651,488	62,333,643	61,216,670	61,637,928
Effect of stock options issued ⁽¹⁾ ...	2,076,839	2,309,592	2,062,814	2,219,754
	62,728,327	64,643,235	63,279,484	63,857,682

⁽¹⁾ 3,995,083 and 3,995,083 shares have been excluded from the 13 and 39 weeks ended September 29, 2019 because they are anti-dilutive (13 and 39 weeks ended September 30, 2018 - 3,393,913 and 3,694,490 shares)

24 Cash flows

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

(in thousands of Canadian dollars)	For the 13 weeks ended		For the 39 weeks ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Accounts receivable	\$ 3,623	\$ 8,220	\$ 32,600	\$ 2,658
Inventories	(2,311)	452	(5,500)	(7,006)
Income taxes (recoverable) payable	3,951	1,086	4,949	(743)
Prepaid expenses and other assets	1,914	7,605	3,216	1,800
Accounts payable and accrued liabilities ..	(3,826)	(11,809)	(8,921)	(9,575)
Gift card liability	(10,551)	(9,053)	(59,533)	(42,389)
Income taxes paid	4,008	1,732	14,009	9,077
Change in interest payable	(4,658)	5,247	(5,291)	4,703
Net change in non-cash operating working capital	\$ (7,850)	\$ 3,480	\$ (24,471)	\$ (41,475)

25 Commitments, contingencies and guarantees

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

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

The Company has outstanding letters of credit amounting to \$0.5 million (December 30, 2018 - \$0.6 million; September 30, 2018 - \$0.6 million) primarily for various utility companies that provide services to corporate owned or franchised locations and support for certain franchisees' external financing used to fund their initial franchise fees and conversion fees, if applicable, payable to the Company. The probability of the letters of credit being drawn as a result of default by a franchisee is low.

Indemnification provisions

In addition to the above guarantees, the Company has also provided and the Company receives customary indemnifications in the normal course of business and in connection with business dispositions and acquisitions. These indemnifications include items relating to taxation, litigation or claims that may be suffered by a counterparty as a consequence of the transaction. Until such times as events take place and/or claims are made under these provisions, it is not possible to reasonably determine the amount of liability under these arrangements. Historically, the Company has not made significant payments relating to these types of indemnifications.

26 Financial instruments and risk management

Market risk

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

Interest rate risk

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

Commodity price risk

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

Liquidity and capital availability risk

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

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

Credit risk

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

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

The following is an aging of the Company's accounts receivable, net of the allowance for uncollectible accounts, as at September 29, 2019, December 30, 2018, and September 30, 2018:

(in thousands of Canadian dollars)

	September 29, 2019			
	Current	> 30 days past due	> 60 days past due	Total
Accounts receivable (net of allowance)	\$ 61,869	\$ 5,853	\$ 3,538	\$ 71,260
Balance at December 30, 2018	\$ 90,441	\$ 7,869	\$ 5,204	\$ 103,514
Balance at September 30, 2018	\$ 55,741	\$ 6,803	\$ 5,359	\$ 67,903

There are no significant impaired receivables that have not been provided for in the allowance. As at September 29, 2019, the Company believes that the \$13.9 million (December 30, 2018 - \$15.9 million; September 30, 2018 - \$15.6 million) allowance sufficiently covers any credit risk related to the receivable balances past due. The remaining amounts past due were not classified as impaired as the past due status was reasonably expected to be remedied.

Fair value of financial instruments

The fair value of derivative financial instruments is the estimated amount that the Company would receive or pay to terminate the instrument at the reporting date. The fair values have been determined by reference to prices provided by counterparties. The fair values of all derivative financial instruments are recorded in other long-term liabilities on the consolidated balance sheets.

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

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

The following describes the fair value determinations of financial instruments:

Long-term debt

Fair value (Level 2) is based on the Company's current incremental borrowing rate for similar types of borrowing arrangements. The carrying amount of the debt associated with the Company's current financing would approximate its fair value as at September 29, 2019.

Other financial instruments

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

27 Related parties

Shareholders

As at September 29, 2019, the Principal Shareholders hold 70.8% of the total issued and outstanding shares and have 98.2% of the voting control attached to all the shares. Cara Holdings holds 22.6% of the total issued and outstanding shares, representing 36.5% voting control. Fairfax holds 48.2% of the total issued and outstanding shares, representing 61.7% voting control. During the 13 and 39 weeks ended September 29, 2019, Fairfax sold 1,411,335 Subordinate Voting Shares under the SIB in order to purchase an equal number of Multiple Voting Shares from Cara Holdings. Fairfax's voting interest and equity ownership increased as a result of this exchange in combination with less voting shares and outstanding overall after the SIB. Under the SIB, Cara Holdings participated and tendered 341,460 Multiple Voting Shares. These Multiple Voting Shares were converted into Subordinate Voting Shares on a one-for one basis immediately prior to the completion of the SIB.

During the 13 and 39 weeks ended September 29, 2019, the Company paid a dividend of \$0.1121 and \$0.3363 per share (13 and 39 weeks ended September 30, 2018, 2018 - \$0.1068 and \$0.3204 per share) on the Subordinate and Multiple Voting Shares of which Fairfax received \$9.1 million (September 30, 2018 - \$8.7 million) and Cara Holdings received \$4.3 million (September 30, 2018 - \$4.6 million), respectively, on a year to date basis.

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 13 and 39 weeks ended September 29, 2019 and September 30, 2018.

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

Insurance Provider

Some of Recipe's insurance policies are held by a company that is a subsidiary of Fairfax. The transaction is on market terms and conditions. As at September 29, 2019, no payments were outstanding.

The Keg

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

On January 1, 2019, an estimated \$12.6 million in annual net sales were added to the KRIF Royalty Pool and the total number of restaurants in the Royalty Pool increased to 105. As a result of the contribution of the additional net sales to the KRIF Royalty Pool, KRL expects to receive 294,741 additional Exchangeable Keg Partnership Units, being 1.87% of the KRIF units on a fully diluted basis.

On January 1, 2019, KRL received 80% of this entitlement, representing the equivalent of 235,793 KRIF units, being 1.50% of the KRIF units on a fully diluted basis. KRL will also receive a proportionate increase in monthly distributions from the Keg Partnership. Including the initial 235,793 portion of the KRIF Fund units described above, KRL will have the right to exchange its units in the capital of the Partnership for 4,318,857 KRIF units,

representing 27.56% of the KRIF units on a fully diluted basis. The balance of the additional entitlement will be adjusted on December 31, 2019, to be effective January 1, 2019, once the actual performance of new restaurants has been confirmed. If the Company were to receive 100% of the estimated Additional Entitlement for 2019, it would have the right to exchange its Partnership units for 4,377,805 Fund units, representing 27.83% of the KRIF units on a fully diluted basis.

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 The Keg Partnership

The Company's equity investment in the Partnership is represented by the investment in The Keg GP Ltd ("KGP"). The value of the equity investment in the Partnership is nominal as substantially all of the cash flows from the Partnership are attributable to the Class C and Class A, B and D Partnership units ("Exchangeable Partnership units" or "Exchangeable units").

Exchangeable Unit Investment in the Partnership

(in thousands of Canadian dollars)	September 29, 2019		December 30, 2018		September 30, 2018	
	# of units	Fair Value	# of units	Fair Value	# of units	Fair Value
Class A Partnership units	905,944	\$ 14,930	905,944	\$ 14,640	905,944	\$ 16,071
Class B Partnership units	176,700	2,912	176,700	2,856	176,700	3,135
Class D Partnership units	3,236,213	53,333	2,947,424	47,630	2,947,424	52,287
Exchangeable unit investment in the Partnership	4,318,857	\$ 71,175	4,030,068	\$ 65,126	4,030,068	\$ 71,493
Class C unit investment in the Partnership	5,700,000	57,000	5,700,000	57,000	5,700,000	57,000
	10,018,857	\$128,175	9,730,068	\$122,126	9,730,068	\$128,493

The Exchangeable unit investment in the Partnership is comprised of the Exchangeable Partnership units held by the Company, and measured at fair value through profit or loss. The closing market price of a Fund unit as at September 29, 2019 was \$16.48.

Investment in The Keg Royalties Income Fund

During the 13 and 39 weeks ended September 29, 2019, the Company purchased 300 KRIF units for \$5.0 thousand .

Other

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

As at September 29, 2019, the Company has a \$2.5 million royalty fee payable, including GST, to the Fund (December 30, 2018 - \$3.0, September 30, 2018 - \$2.5 million) and a \$0.4 million interest payable amount due to the Fund on the Keg Loan (December 30, 2018 - \$0.4 million, September 30, 2018 - \$0.4 million) included in accounts payable and accrued liabilities.

As at September 29, 2019, the Company has \$1.1 million in distributions receivable from the Partnership (December 30, 2018 - \$1.2 million, September 30, 2018 - \$1.0 million) related to its ownership of the Class C and Exchangeable Partnership units. These amounts were received from the Partnership when due, subsequent to the above periods.

The Company performs accounting services for a company owned by a director. For the 13 and 39 weeks ended September 29, 2019, KRL earned \$0.1 million and \$0.2 million for these services, respectively (13 and 39 weeks ended September 30, 2018 – \$0.1 million and \$0.2 million), which has been recognized by the Company as other income, net of the costs to provide these services.

The Company incurs royalty expense with respect to the licence and royalty agreement between the Company and the Partnership. As a result of the common directors on the board of the Company and on the board of The Keg GP, the general partner of the Partnership, the royalty expense is treated as a related party transaction. The Company incurred royalty expense of \$6.2 million and \$19.0 million, respectively, for the 13 and 39 weeks ended September 29, 2019 (13 and 39 weeks ended September 30, 2018 – \$6.4 million and \$14.8 million).

The Company also records investment income on its investment in Exchangeable and Class C units of the Partnership, which is presented as interest income on Partnership units in the condensed consolidated interim statements of earnings and comprehensive income. During the 13 and 39 weeks ended September 29, 2019, the Company recorded investment income of \$2.8 million and \$8.3 million, respectively, related to these units (13 and 39 weeks ended September 30, 2018 – \$2.7 million and \$6.3 million).

Investment in Original Joe’s joint venture companies

The Company has joint venture arrangements with certain Original Joe’s franchises. The Company has an equity investment in these restaurants at varying ownership interests as well as term loans and demand loans related to new restaurant construction, renovation and working capital. As at September 29, 2019 there was a due from related party balance of \$12.3 million (December 30, 2018 - \$9.9 million; September 30, 2018 - \$8.4 million) which consists of term loans and demand loans secured by restaurant assets of the joint venture company which has been recorded at fair value and will be accreted up to the recoverable value over the remaining term of the loans. The term loans bear interest at rates ranging from 7.75% to 9.76% and all mature September 21, 2020. The term loans are reviewed and renewed on an annual basis. The expected current portion of these loans is \$1.0 million (December 30, 2018 - \$1.0 million; September 30, 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 and 39 weeks ended September 29, 2019, the Company charged interest in the amount of \$0.1 million and \$0.2 million, respectively (13 and 39 weeks ended September 30, 2018 - \$0.1 million and \$0.5 million) on the term loans and demand loans.

The Company charges Original Joe’s joint venture franchises a royalty and marketing fee of 5% and 2%, respectively, on net sales. As at September 29, 2019 the accounts receivable balance included \$0.1 million (December 30, 2018 - \$0.3 million; September 30, 2018 - \$0.1 million) due from related parties in relation to these royalty and marketing payments. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties in accordance with the franchise agreement.

The Company’s investment in joint ventures and associates are increased by the proportionate share of income earned. For the 13 and 39 weeks ended September 29, 2019, an increase of \$0.1 million and an increase of \$0.2 million, respectively (13 and 39 weeks ended September 30, 2018 - \$0.1 million and \$0.5 million increase) to the investment balance was recorded in relation to the Company’s proportionate share of income or loss for the period and included in share of income from investment in associates and joint ventures on the statement of earnings.

Investment in Burger’s Priest joint venture

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

The Company's investment is increased by the proportionate share of income earned. There was no change to the investment for the 13 weeks ended September 29, 2019 and a decrease of \$0.2 million for the 39 weeks ended September 29, 2019 (13 and 39 weeks ended September 30, 2018 - \$0.1 million and \$0.2 million increase). The changes were recorded in relation to the Company's proportionate share of income for the period and included in share of loss from investment in joint ventures on the statement of earnings.

Investment in 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 September 29, 2019, the Company has invested \$5.2 million, recorded in long-term receivables (December 30, 2018 - \$4.5 million, September 30, 2018 - \$3.8 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 and 39 weeks ended September 29, 2019, a decrease of \$0.5 million and \$1.1 million, respectively, to the long term receivable balance (13 and 39 weeks ended September 30, 2018 - \$0.6 million and \$1.3 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. As at September 29, 2019, the Company has invested \$0.2 million, recorded in long-term receivables (December 30, 2018 - \$0.2 million, September 30, 2018 - \$nil). The Company has accounted for the investment by using the equity method.

The Company's investment is increased by the proportionate share of income earned. For the 13 and 39 weeks ended September 29, 2019, the Company recorded a decrease of \$0.1 and \$0.2 million decrease, respectively, to the investment balance (13 and 39 weeks ended September 30, 2018 - \$0.1 million decrease and \$nil) 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.

Significant subsidiaries

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

28 Segmented information

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 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.

Recipe Unlimited Corporation
Condensed Consolidated Interim Financial Statements
For the 13 and 39 weeks ended September 29, 2019 and September 30, 2018

(in thousands of Canadian dollars)	For the 13 weeks ended		For the 39 weeks ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Gross revenue				
Sales	\$ 191,262	\$ 199,033	\$ 580,089	\$ 548,750
Proportionate share of equity accounted joint venture sales	(6,752)	(9,330)	(22,171)	(29,016)
Sales at corporate restaurants	\$ 184,510	\$ 189,703	\$ 557,918	\$ 519,734
Franchise revenues	27,279	27,662	81,275	79,148
Proportionate share of equity accounted joint venture royalty revenue	127	951	424	898
Royalty revenue	\$ 27,406	\$ 28,613	\$ 81,699	\$ 80,046
Retail & Catering	75,734	67,660	220,833	194,941
Central	5,480	7,248	17,729	21,976
Non-allocated revenue	15,829	16,837	47,284	47,022
Total gross revenue	\$ 308,959	\$ 310,061	\$ 925,463	\$ 863,719
Operating income				
Corporate	\$ 3,594	\$ 11,794	\$ 22,849	\$ 33,051
Franchise	26,128	25,671	78,499	72,750
Retail & Catering	2,511	1,923	7,701	1,542
Central	(11,412)	59	(40,023)	2,967
Proportionate share equity accounted joint venture results included in corporate and franchise segment	(154)	358	(43)	1,647
Non-allocated costs	(301)	(4,016)	14,975	(11,172)
	\$ 20,366	\$ 35,789	\$ 83,958	\$ 100,785
Depreciation and amortization				
Corporate	\$ 13,335	\$ 8,708	\$ 32,829	\$ 23,844
Franchise	—	—	—	—
Retail & Catering	1,932	2,440	4,616	8,253
Central	13,531	1,534	49,092	10,980
	\$ 28,798	\$ 12,682	\$ 86,537	\$ 43,077
Capital expenditures				
Corporate	\$ 7,512	\$ 4,787	\$ 22,825	\$ 15,345
Franchise	—	—	—	—
Retail & Catering	1,382	2,487	2,904	3,890
Central	3,130	3,587	9,428	9,906
	\$ 12,024	\$ 10,861	\$ 35,157	\$ 29,141

29 Subsequent Events

Dividend

On November 11, 2019 the Company's Board of Directors declared a dividend of \$0.1121 per share of subordinate and multiple voting common stock. Payment of the dividend will be made on December 13, 2019 to shareholders of record at the close of business on November 29, 2019.

Share re-purchases

Subsequent to September 29, 2019 until November 11, 2019, the Company has purchased 249,700 units of The Keg Royalties Income Fund ("KRIF") for \$4.0 million. These units are not cancelled and will be held by the Company as an investment in KRIF in addition to the 4,318,857 exchangeable KRIF units held by Keg Restaurants Ltd, a wholly owned subsidiary of Recipe.