RECIPE UNLIMITED CORPORATION
(formerly Cara Operations Limited)
Management's Discussion and Analysis
For the 13 and 26 weeks ended June 30, 2019

The following Management's Discussion and Analysis ("MD&A") for Recipe Unlimited Corporation ("Recipe" or the "Company") provides information concerning the Company's financial condition and results of operations for the 13 and 26 weeks ended June 30, 2019 and July 1, 2018 (" second quarter", "Q2, "the quarter" or "the period"). This MD&A should be read in conjunction with the Company's unaudited Condensed Consolidated Interim Financial Statements ("interim financial statements") and accompanying notes as at June 30, 2019. The consolidated results from operations for the 13 and 26 weeks ended June 30, 2019 are compared to the July 1, 2018. Recipe's fiscal year ends on the last Sunday in December.

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

This MD&A was prepared as at August 8, 2019. Additional information relating to the Company can be found on SEDAR at www.sedar.com.

Basis of Presentation

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

Highlights for the 13 and 26 weeks ended June 30, 2019:

- The Company generates significant Free Cash Flow(1) which provides the Company the ability to fund growth and enhance shareholder returns. Free Cash Flow before growth capex, dividends, and share repurchases under the Company's normal course issuer bid ("NCIB") for the 13 and 26 weeks ended June 30, 2019 was $40.0 million and $75.5 million, respectively.

  Free Cash Flow per share before growth capex, dividends, and NCIB on a diluted basis was $0.63 and $1.18 for the 13 and 26 weeks ended June 30, 2019.

  At Q2 2019, the Company's Debt to EBITDA ratio was 1.7x compared to 2.1x at the end of Q2 2018, illustrating how quickly the Company's leverage has reduced from Free Cash Flow being used to reduce debt on the Company's revolving credit facilities leaving capacity for growth investments and enhanced shareholder returns.

- System Sales(1) decreased $2.9 million to $871.3 million for the 13 weeks ended June 30, 2019 compared to $874.2 million in 2018, representing a decrease of 0.3%. The decrease is related to the SRS decreases. Year to date, System Sales(1) grew $91.9 million to $1,722.0 million compared to $1,630.1 million in 2018, representing an increase of 5.6%. The increase in System Sales is primarily related to the addition The Keg in February 2018 and increases in the retail and catering segment from the Swiss Chalet branded products at grocery, increases in frozen pot pie sales from the addition of the new pie production line, and the addition of Marigolds and Onions in December 2018.

- Same Restaurant Sales ("SRS") Growth(1) for the 13 and 26 weeks ended June 30, 2019 was a decrease of 1.7% compared to the same 13 and 26 weeks in 2018. Contributing factors to our SRS results include mixed performance between our brands; early progress on our new 4-pillar operating model (Quality of Food, Quality of Service, Ambiance and Value for the Experience), with much work still to be done; and challenging winter and spring weather conditions across the country during the first and second quarters.

- Operating EBITDA[1][2] increased to $56.0 million for the 13 weeks ended June 30, 2019 compared to $54.0 million in 2018, an improvement of $2.0 million or 3.7% for the quarter. Year to date, Operating EBITDA[1][2] increased to $106.1 million for the 26 weeks ended June 30, 2019 compared to $100.2 million in 2018, an improvement of $5.9 million or 5.9%. The increases were primarily driven by the improved contribution from the franchise and central segments that more than offset a decrease in corporate contribution.

- Operating EBITDA Margin on System Sales[1] before The Keg royalty expense, was 6.8% for the quarter compared to 6.6% in 2018. Year to date, Operating EBITDA Margin on System Sales[1] before The Keg royalty expense, was 6.6% compared to 6.4% in 2018. Operating EBITDA Margin on System Sales after The Keg royalty expense was 6.4% for the quarter and 6.2% year to date as compared to 6.2% and 6.1% in 2018, respectively. The improvements in margin rate were primarily driven by improved franchise contribution margin and better central segment results that offset lower corporate contribution margin. While The Keg adds EBITDA dollars, because of higher net central overhead costs and the royalty payments to The Keg Royalty Income Fund, in the medium term, The Keg merger will reduce Recipe's Operating EBITDA margin on System Sales below the target 7% to 8% range. Management's focus will continue to be on improving the earnings efficiency of our assets and our increased sales base to grow Operating EBITDA as a percentage of System Sales back to within our 7% to 8% target range by 2020-2022.

- Contribution from retail and catering for the 13 and 26 weeks ended June 30, 2019 was $3.2 million and $7.7 million compared to $2.8 million and $6.0 million for the 13 and 26 weeks ended July 1, 2018, an increase of $0.4 million or 14.3% for the quarter and an increase of $1.7 million or 28.3% year to date. The increases are primarily driven by sales increases of Swiss Chalet branded products at grocery, increases in frozen pot pie sales from the addition of the new pie production line, the addition of The Keg retail business in February 2018 and the addition of Marigolds and Onions in December 2018.

- Earnings before income taxes for the 13 weeks ended June 30, 2019 was $23.8 million compared to $28.4 million in 2018, a net decrease of $4.6 million or 16.2%. The net decrease in the quarter was primarily driven by the $2.0 million increase in Operating EBITDA and a $2.7 million reduction in non-cash fair value changes related to the Exchangeable Keg Partnership units and non-controlling interest liability that was offset by a $4.7 million increase in non-cash impairment and onerous contract expenses, $2.6 million higher depreciation and amortization expense (before IFRS Lease Standard [2] changes), a non-cash write-off of deferring financing fees of $1.0 million, higher stock based compensation expense of $0.4 million, and a net $0.6 million expense impact related to the new IFRS Lease Standard[2] (see IFRS 16 – New Lease Standard).

  Year to date, Earnings before income taxes was $55.1 million compared to $57.8 million in 2018, a net decrease of $2.7 million or 4.7%. The net decrease was primarily driven by the $5.9 million increase in Operating EBITDA and a $5.3 million reduction in non-cash fair value adjustments related to the Exchangeable Keg Partnership units and non-controlling interest liability, offset by $4.9 million higher depreciation and amortization expense (before IFRS Lease Standard[2] changes) non-cash impairment and onerous contract expense increases of $4.1 million, a non-cash write-off of deferring financing fees in the amount of $1.0 million, higher stock based compensation expense of $1.8 million, an increase in loss on disposal of assets of $1.0 million, and a net $0.9 million expense related to the new IFRS Lease Standard[2] (see IFRS 16 – New Lease Standard).

- Adjusted Basic Earnings per Share ("EPS") for the 13 weeks ended June 30, 2019 was $0.38 compared to $0.39 in 2018, while Adjusted Diluted EPS for the 13 weeks ended June 30, 2019 was $0.37 compared to $0.38 in 2018. Year to date, Adjusted Basic EPS was $0.67 compared to $0.74 in 2018, while Adjusted Diluted EPS for the 26 weeks ended June 30, 2019 was $0.65 compared to $0.71 in 2018.

- 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. The Company intends to franchise and increase the number of Anejo and Blanco Cantina restaurants in Canada and we are excited to add these new brands to our emerging brand category along with Burger's Priest and Fresh that are both in early stages with high growth potential.

- Under the Company's NCIB, the Company purchased and cancelled 437,727 and 703,924 Subordinate Voting Shares for $11.7 million and $18.8 million during the 13 and 26 weeks ended June 30, 2019. Subsequent to June 30, 2019 until August 8, 2019, the Company has repurchased 564,956 Recipe subordinate voting shares for $15.1 million under the NCIB. During the period from June 22, 2018 to June 21, 2019, the Company purchased 1,281,972 Subordinate Voting Shares for $33.5 million compared to a total of 1,907,816 Subordinate Voting Shares that were eligible to be purchased under the NCIB.

(1) See "Non-IFRS Measures" on page 35 for definitions of System Sales, SRS Growth, Adjusted Net Earnings, Operating EBITDA, Operating EBITDA Margin on System Sales, and Adjusted EPS. See "Reconciliation of Net Earnings to EBITDA" and "Reconciliation of Net Earnings to Adjusted Net Earnings" for a reconciliation of Operating EBITDA and Adjusted Net Earnings.
(2) Effective December 31, 2018, the Company implemented IFRS 16, Leases. Comparative Operating EBITDA figures provided for each quarter have been restated to reflect the adoption of this accounting standard. See "IFRS 16 – New Lease Standard" on pages 3, 9 and 35 for a reconciliation of the changes to Operating EBITDA, and Note 3 "Changes in accounting policies" in the Interim Financial Statements of the Company for further details.

IFRS 16 – New Lease Standard

Effective December 31, 2018, the Company implemented IFRS 16, Leases. Comparative figures provided for each quarter have been restated to reflect the adoption of this accounting standard. Please refer to pages 9 and 35 for a reconciliation of the changes to Operating EBITDA. Further details on the accounting change are included in Note 3 "Changes in accounting policies" in the Interim Financial Statements of the Company.

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

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

The impact on the net earnings for the 13 and 26 weeks ended June 30, 2019 compared to the 13 and 26 weeks ended July 1, 2018 are presented below:

	For the 13 weeks June 30, 2019			For the 13 weeks July 1, 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**	**Change resulting from IFRS 16**
Total gross revenue	$ 311,857	—	$ 311,857	$ 309,508	—	$ 309,508	$ —
Cost of inventories sold	(111,460)	—	(111,460)	(99,507)	—	(99,507)	—
Selling, general and administrative	(167,261)	—	(167,261)	(175,454)	—	(175,454)	—
Operating lease costs	—	15,010	15,010	—	1,195	1,195	13,815
Depreciation expense	—	(11,145)	(11,145)	—	(328)	(328)	(10,817)
Impairment of assets, net of reversals	(3,961)	—	(3,961)	(689)	—	(689)	—
Restructuring and other	(700)	—	(700)	(516)	—	(516)	—
Operating income	**$ 28,475**	**$ 3,865**	**$ 32,340**	**$ 33,342**	**$ 867**	**$ 34,209**	**$ 2,998**
Finance costs							
Net interest expense and other financing	(3,480)	(4,031)	(7,511)	(2,520)	(466)	(2,986)	(3,565)
Share of (loss) gain from investment in joint ventures	(114)	—	(114)	837	—	837	—
Earnings before change in fair value and income taxes	**$ 24,881**	**$ (166)**	**$ 24,715**	**$ 31,659**	**$ 401**	**$ 32,060**	**$ (567)**
Change in fair value of non-controlling interest liability	—	—	—	(1,000)	—	(1,000)	—
Change in fair value of Exchangeable Keg Partnership units	(907)	—	(907)	(2,619)	—	(2,619)	—
Earnings before income taxes	**$ 23,974**	**$ (166)**	**$ 23,808**	**$ 28,040**	**$ 401**	**$ 28,441**	**$ (567)**

	For the 26 weeks June 30, 2019			For the 26 weeks July 1, 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**	**Change resulting from IFRS 16**
Total gross revenue	$ 616,504	—	$ 616,504	$ 553,657	—	$ 553,657	$ —
							—
Cost of inventories sold	(219,935)	—	(219,935)	(184,263)	—	(184,263)	—
Selling, general and administrative	(334,310)	—	(334,310)	(303,292)	—	(303,292)	—
Operating lease costs	—	28,947	28,947	—	2,401	2,401	26,546
Depreciation expense	—	(22,914)	(22,914)	—	(1,495)	(1,495)	(21,419)
Impairment of assets, net of reversals	(3,961)	—	(3,961)	(1,267)	—	(1,267)	—
Restructuring and other	(475)		(475)	(745)		(745)	—
Operating income	**$ 57,823**	**$ 6,033**	**$ 63,856**	**$ 64,090**	**$ 906**	**$ 64,996**	**$ 5,127**
Finance costs							
Net interest expense and other financing	(5,053)	(6,918)	(11,971)	(5,371)	(932)	(6,303)	(5,986)
Share of gain (loss) from investment in joint ventures	(691)	—	(691)	439	—	439	—
Earnings before change in fair value and income taxes	**$ 52,079**	**$ (885)**	**$ 51,194**	**$ 59,158**	**$ (26)**	**$ 59,132**	**$ (859)**
Change in fair value of non-controlling interest liability	—	—	—	(1,000)	—	(1,000)	—
Change in fair value of Exchangeable Keg Partnership units	3,921	—	3,921	(363)	—	(363)	—
Earnings before income taxes	**$ 56,000**	**(885)**	**$ 55,115**	**$ 57,795**	**(26)**	**$ 57,769**	**$ (859)**

The impact to net earnings for the 13 and 26 weeks ended June 30, 2019 compared to 2018 was a net reduction to earnings before income tax of $0.6 million for the quarter and $0.9 million year to date. Operating income increased $3.0 million for the quarter and increased $5.1 million year to date compared to 2018 resulting from a decrease in rent expense offset by an increase in depreciation expense related to the right-of-use assets. The increase in Operating income is reduced by an increase in net interest expense of $3.6 million for the quarter and $6.0 million year to date related to the new lease standard.

Subsequent Events

Dividend

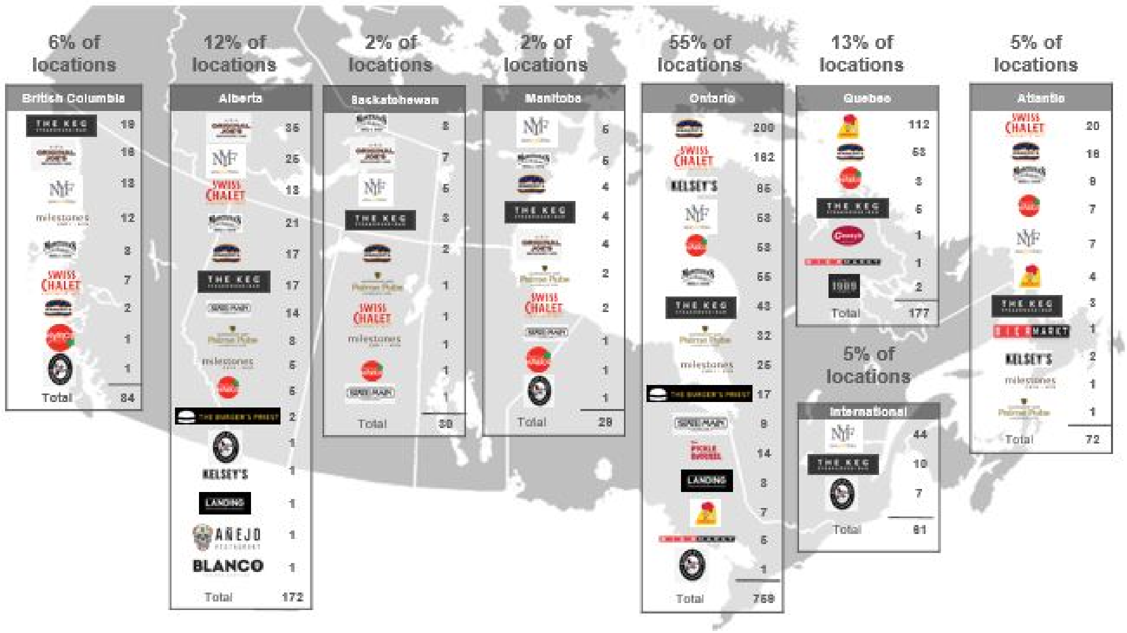
On August 8, 2019 the Company's Board of Directors declared a dividend of $0.1121 per share of subordinate and multiple voting common stock. Payment of the dividend will be made on September 13, 2019 to shareholders of record at the close of business on August 30, 2019. With the Company's strong balance sheet and growing cash flows, management will continue to pursue strategic acquisitions and will explore alternatives to return more capital to its shareholders including continuation of its NCIB and increases to the Company's dividend rate.

Share re-purchases

Subsequent to June 30, 2019 until August 8, 2019, the Company has repurchased 564,956 Recipe subordinate voting shares for $15.1 million under the NCIB.

Overview

Recipe is a full service restaurant company that franchises and operates iconic restaurant brands. As at June 30, 2019, Recipe had 24 brands and 1,384 restaurants, 85% of which are operated by franchisees and joint venture partners, operating in 10 countries (Canada, USA, Bahrain, China, Macao, Oman, Panama, Qatar, Saudi Arabia and the UAE).



Unit count (unaudited)	As at June 30, 2019 Corporate	Franchise	Joint Venture	Total	As at December 30, 2018 Corporate	Franchise	Joint Venture	Total
Swiss Chalet	15	195	—	210	15	197	—	212
Harvey's	11	283	—	294	10	282	—	292
Montana's	5	101	—	106	8	99	—	107
Kelsey's	4	64	—	68	4	64	—	68
East Side Mario's [1]	2	74	—	76	2	74	—	76
Prime Pubs	4	40	—	44	4	40	—	44
Bier Markt	7	—	—	7	7	—	—	7
Milestones	26	16	2	44	22	22	2	46
Landing	9	—	—	9	9	—	—	9
New York Fries	16	146	—	162	16	143	—	159
St-Hubert	12	111	—	123	12	111	—	123
Original Joe's	17	29	16	62	19	27	18	64
State & Main	7	11	7	25	8	11	7	26
Elephant & Castle	10	1	—	11	10	1	—	11
Burger's Priest	—	—	19	19	—	—	17	17
1909 Taverne Moderne	—	—	2	2	—	—	2	2
Pickle Barrel	14	—	—	14	13	—	—	13
The Keg	48	57	—	105	49	56	—	105
Anejo	1	—	—	1	—	—	—	—
Blanco Cantina	1	—	—	1	—	—	—	—
Fresh	—	—	—	—	—	—	—	—
Casey's	—	1	—	1	—	1	—	1
Total restaurants	209	1,129	46	1,384	208	1,128	46	1,382
	15%	82%	3%	100%	15%	83%	3%	100%

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

Selected Financial Information

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

(C$ millions unless otherwise stated)	13 weeks ended June 30, 2019	13 weeks ended July 1, 2018	26 weeks ended June 30, 2019	26 weeks ended July 1, 2018
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
System Sales (1)(3)	**$ 871.3**	**$ 874.2**	**$ 1,722.0**	**$ 1,630.1**
System Sales Growth (1)(3)	(0.3)%	32.3%	5.6 %	23.5%
SRS Growth (2)(3)	(1.7)%	1.9%	(1.7)%	1.9%
Number of corporate restaurants (at period end)	209	212	209	212
Number of joint venture restaurants (at period end)	46	54	46	54
Number of franchised restaurants (at period end)	1,129	1,113	1,129	1,113
Total number of restaurants (at period end)	**1,384**	**1,379**	**1,384**	**1,379**
Total gross revenue	$ 311.9	$ 309.5	$ 616.5	$ 553.7
Operating EBITDA (3)(4)	**$ 56.0**	**$ 54.0**	**$ 106.1**	**$ 100.2**
Operating EBITDA Margin (3)	18.0 %	17.4%	17.2 %	18.1%
Operating EBITDA on System Sales (3)	6.4 %	6.2%	6.2 %	6.1%
Net Keg royalty expense	$ (3.5)	$ (3.5)	$ (7.3)	$ (4.9)
Operating EBITDA(3), excluding The Keg royalty	**$ 59.4**	**$ 57.5**	**$ 113.4**	**$ 105.1**
Operating EBITDA Margin(3) excluding The Keg royalty	19.0 %	18.6%	18.4 %	19.0%
Operating EBITDA on System Sales(3) excluding The Keg royalty	6.8 %	6.6%	6.6 %	6.4%
Free cash flow(3), before growth capex, dividends and NCIB	**$ 40.0**	**$ 41.0**	**$ 75.5**	**$ 74.1**
Free cash flow(3), Per Share - Basic (in dollars)	$ 0.65	$ 0.66	$ 1.23	$ 1.21
Free cash flow(3) Per Share - Diluted (in dollars)	$ 0.63	$ 0.63	$ 1.18	$ 1.16
Free cash flow(3), after growth capex, dividends and NCIB	$ 7.6	$ 20.9	$ 31.4	$ 51.1
Free cash flow(3) Per Share - Basic (in dollars)	$ 0.12	$ 0.33	$ 0.51	$ 0.83
Free cash flow(3) Per Share - Diluted (in dollars)	$ 0.12	$ 0.32	$ 0.49	$ 0.80
Net earnings	**$ 16.6**	**$ 19.5**	**$ 39.3**	**$ 41.0**
Basic EPS (in dollars)	$ 0.27	$ 0.31	$ 0.64	$ 0.67
Diluted EPS (in dollars)	$ 0.26	$ 0.30	$ 0.61	$ 0.65
Adjusted Net Earnings(3)	**$ 23.5**	**$ 24.4**	**$ 41.3**	**$ 45.1**
Adjusted Basic EPS(3) (in dollars)	$ 0.38	$ 0.39	$ 0.67	$ 0.74
Adjusted Diluted EPS(3) (in dollars)	$ 0.37	$ 0.38	$ 0.65	$ 0.71

(1) Results from East Side Mario restaurants in the United States are excluded in the System Sales totals and number of restaurants. See "Non-IFRS Measures" on page 35 for definition of System Sales.

(2) Results from New York Fries located outside of Canada, East Side Mario restaurants in the United States, Casey's restaurants are excluded from SRS Growth. See "Non-IFRS Measures" on page 35 for definition of SRS Growth.

(3) See "Non-IFRS Measures" on page 35 for definitions of System Sales, System Sales Growth, SRS Growth, Operating EBITDA, Operating EBITDA Margin, and Operating EBITDA on System Sales.

(4) Effective December 31, 2018, the Company implemented IFRS 16, Leases. Comparative Operating EBITDA figures provided for each quarter have been restated to reflect the adoption of this accounting standard. See "IFRS 16 – New Lease Standard" on pages 3, 9 and 35 for a reconciliation of the changes to Operating EBITDA, and Note 3 "Changes in accounting policies" in the Interim Financial Statements of the Company for further details.

The following table summarizes results of Recipe's operations for the 13 weeks and 26 weeks ended June 30, 2019, and July 1, 2018:

(C$ millions unless otherwise stated)	13 weeks ended June 30, 2019	13 weeks ended July 1, 2018	26 weeks ended June 30, 2019	26 weeks ended July 1, 2018
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
System Sales (2)(4)	**$ 871.3**	**$ 874.2**	**$ 1,722.0**	**$ 1,630.1**
Sales	$ 264.6	$ 263.5	$ 524.0	$ 465.7
Franchise revenues (3)	47.3	46.0	92.5	88.0
Total gross revenue (1)	**$ 311.9**	**$ 309.5**	**$ 616.5**	**$ 553.7**
Cost of inventories sold	(111.5)	(99.5)	(219.9)	(184.3)
Selling, general and administrative expenses (3)	(163.4)	(174.6)	(328.3)	(302.4)
Impairment of assets, net of reversals	(4.0)	(0.7)	(4.0)	(1.3)
Restructuring and other	(0.7)	(0.5)	(0.5)	(0.7)
Operating income (1)	**$ 32.3**	**$ 34.2**	**$ 63.9**	**$ 65.0**
Net interest expense and other financing charges	(7.5)	(3.0)	(12.0)	(6.3)
Share of loss from investment in associates and joint ventures	(0.1)	0.8	(0.7)	0.4
Earnings before change in fair value and income taxes (1)	**$ 24.7**	**$ 32.1**	**$ 51.2**	**$ 59.1**
Change in fair value of non-controlling interest liability	—	(1.0)	—	(1.0)
Change in fair value of exchangeable partnership units	(0.9)	(2.6)	3.9	(0.4)
Earnings before income taxes (1)	**$ 23.8**	**$ 28.4**	**$ 55.1**	**$ 57.8**
Income taxes - current	(6.3)	(2.9)	(13.4)	(5.5)
Income taxes - deferred	(0.9)	(6.1)	(2.4)	(11.2)
Net earnings (1)	**$ 16.6**	**$ 19.5**	**$ 39.3**	**$ 41.0**
Adjusted Net Earnings (2)	**$ 23.5**	**$ 24.4**	**$ 41.3**	**$ 45.1**
Total assets	$ 2,296.0	$ 1,600.5	$ 2,296.0	$ 1,600.5
Non-current financial liabilities	$ 1,431.0	$ 881.0	$ 1,431.0	$ 881.0
Earnings per share attributable to common shareholders				
Basic EPS	$ 0.27	$ 0.31	$ 0.64	$ 0.67
Diluted EPS	$ 0.26	$ 0.30	$ 0.61	$ 0.65
Adjusted Basic EPS (2)	$ 0.38	$ 0.39	$ 0.67	$ 0.74
Adjusted Diluted EPS(2)	$ 0.37	$ 0.38	$ 0.65	$ 0.71

(1) Figures may not total due to rounding.

(2) See "Non-IFRS Measures" on page 35 for definitions of System Sales, Adjusted Net Earnings, Adjusted Basic EPS and Adjusted Diluted EPS. See page 9 for a reconciliation of Net Earnings to Adjusted Net Earnings.

(3) Effective December 31, 2018, the Company implemented IFRS 16, Leases. Comparative Operating EBITDA figures provided for each quarter have been restated to reflect the adoption of this accounting standard. See "IFRS 16 – New Lease Standard" on pages 3, 9 and 35 for a reconciliation of the changes to Operating EBITDA, and Note 3 "Changes in accounting policies" in the Interim Financial Statements of the Company for further details.

(4) Results from East Side Mario restaurants in the United States are excluded from System Sales totals. See "Non-IFRS Measures" on page 35 for definition of System Sales.

(C$ millions unless otherwise stated)	13 weeks ended June 30, 2019	13 weeks ended July 1, 2018	26 weeks ended June 30, 2019	26 weeks ended July 1, 2018
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reconciliation of Net Earnings to Adjusted Net Earnings (2)				
Net earnings	$ 16.6	$ 19.5	$ 39.3	$ 41.0
Transaction costs	0.3	0.1	0.4	0.7
Write-off of deferring financing fees	1.0	—	1.0	—
Impairment charges	4.0	0.7	4.0	1.3
Restructuring and other	0.7	0.5	0.5	0.7
Change in fair value non-controlling interest liability	—	1.0	—	1.0
Change in fair value of exchangeable partnership units	0.9	2.6	(3.9)	0.4
Adjusted Net Earnings (1)(2)	**$ 23.5**	**$ 24.4**	**$ 41.3**	**$ 45.1**
Reconciliation of Net Earnings to EBITDA (2)				
Net earnings	$ 16.6	$ 19.5	$ 39.3	$ 41.0
Net interest expense and other financing charges	7.5	3.0	12.0	6.3
Income taxes	7.2	9.0	15.8	16.8
Depreciation and amortization	28.9	16.0	56.9	31.4
EBITDA (2)	**$ 60.2**	**$ 47.5**	**$ 124.0**	**$ 95.5**
Reconciliation of EBITDA (2) to Operating EBITDA (2):				
Transaction costs	0.3	0.1	0.4	0.7
Impairment charges	4.0	0.7	4.0	1.3
Restructuring and other	0.7	0.5	0.5	0.7
Change in fair value non-controlling interest liability	—	1.0	—	1.0
Change in fair value of exchangeable partnership units	0.9	2.6	(3.9)	0.4
Income on Partnership units	2.7	2.6	5.5	3.5
Conversion fees	(0.1)	0.1	(0.2)	(0.2)
Losses on early buyout/cancellation of equipment rental contracts	0.1	0.3	0.1	0.5
Net (gain) loss on disposal of property, plant and equipment and other assets	(0.1)	(0.3)	0.5	(0.5)
Stock based compensation	1.8	1.4	3.7	1.9
Change in onerous contract provision	0.4	(1.0)	0.2	(1.3)
Proportionate share of joint venture results	0.1	(0.2)	0.2	(1.0)
Rent impact from IFRS 16 Leases	(15.0)	(1.2)	(28.9)	(2.4)
Operating EBITDA (1)(2)(3)	**$ 56.0**	**$ 54.0**	**$ 106.1**	**$ 100.2**
Reconciliation of Operating EBITDA (2) to Free Cash Flow(2):				
Maintenance capex	(5.6)	(4.8)	(10.7)	(9.3)
Interest on long-term debt	(5.2)	(5.3)	(9.9)	(9.4)
Cash taxes	(5.2)	(2.9)	(10.0)	(7.3)
Free Cash Flow (2) before Growth capex, dividends, NCIB (1)	**$ 40.0**	**$ 41.0**	**$ 75.5**	**$ 74.1**
Growth capex	(7.9)	(6.7)	(12.5)	(9.0)
Proceeds on sale of assets	0.9	0.2	0.9	0.2
Dividends	(13.8)	(13.3)	(13.8)	(13.3)
NCIB	(11.7)	(0.3)	(18.8)	(1.0)
Free Cash Flow (2) after Growth capex, dividends, NCIB (1)	**$ 7.6**	**$ 20.9**	**$ 31.4**	**$ 51.0**

(1) Figures may not total due to rounding.
(2) See “Non-IFRS Measures” on page 35 for definitions of Adjusted Net Earnings, EBITDA and Operating EBITDA.
(3) Effective December 31, 2018, the Company implemented IFRS 16, Leases. Comparative Operating EBITDA figures provided for each quarter have been restated to reflect the adoption of this accounting standard. See “IFRS 16 – New Lease Standard” on pages 3, 9 and 35 for a reconciliation of the changes to Operating EBITDA, and Note 3 “Changes in accounting policies” in the Interim Financial Statements of the Company for further details.

(C$ millions unless otherwise stated)	13 weeks ended June 30, 2019 (unaudited)	13 weeks ended July 1, 2018 (unaudited)	26 weeks ended June 30, 2019 (unaudited)	26 weeks ended July 1, 2018 (unaudited)
Reconciliation of Operating EBITDA to Adjusted Net Earnings(2):	56.0	54.0	106.1	100.2
Net interest expense	(6.5)	(3.0)	(10.9)	(6.3)
Income taxes	(7.2)	(9.0)	(15.8)	(16.8)
Income on Partnership units	(2.7)	(2.6)	(5.5)	(3.5)
Depreciation and amortization	(28.9)	(15.3)	(56.9)	(29.9)
Conversion fees	0.1	(0.1)	0.2	0.2
Losses on early buyout/cancellation of equipment rental contracts	(0.1)	(0.3)	(0.1)	(0.5)
Net (gain) loss on disposal of property, plant and equipment and other assets	0.2	0.3	(0.4)	0.5
Stock based compensation	(1.8)	(1.4)	(3.7)	(1.9)
Change in onerous contract provision	(0.4)	1.0	(0.2)	1.3
Proportionate share of joint venture results	(0.2)	(0.4)	(0.5)	(0.4)
Rent impact from IFRS 16 Leases	15.0	1.2	28.9	2.4
Adjusted Net Earnings (1)(2)(3)	**$ 23.5**	**$ 24.4**	**$ 41.3**	**$ 45.1**
Reconciliation of Adjusted Net Earnings (2) to Net Earnings				
Transaction costs	(0.3)	(0.1)	(0.4)	(0.7)
Change in fair value non-controlling interest liability	—	(1.0)	—	(1.0)
Change in fair value of exchangeable partnership units	(0.9)	(2.6)	3.9	(0.4)
Impairment charges	(4.0)	(0.7)	(4.0)	(1.3)
Restructuring and other	(0.7)	(0.5)	(0.5)	(0.7)
Write-off of deferring financing fees	(1.0)	—	(1.0)	—
Net Earnings (1)	**$ 16.6**	**$ 19.5**	**$ 39.3**	**$ 41.0**

(1) Figures may not total due to rounding.
(2) See “Non-IFRS Measures” on page 35 for definitions of Adjusted Net Earnings, EBITDA and Operating EBITDA.
(3) Effective December 31, 2018, the Company implemented IFRS 16, Leases. Comparative Operating EBITDA figures provided for each quarter have been restated to reflect the adoption of this accounting standard. See “IFRS 16 – New Lease Standard” on pages 3, 9 and 35 for a reconciliation of the changes to Operating EBITDA, and Note 3 “Changes in accounting policies” in the Interim Financial Statements of the Company for further details.

Factors Affecting Our Results of Operations

SRS Growth

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

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

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

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

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

SRS growth for the 13 and 26 weeks ended June 30, 2019 was a decrease of 1.7% compared to 2018. Contributing factors to our SRS results include mixed performance between our brands; early progress on our new 4-pillar operating model (Quality of Food, Quality of Service, Ambiance and Value for the Experience), with much work still to be done; and challenging winter and spring weather conditions across the country during the first and second quarters.

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

See "Non-IFRS Measures" on page 35 for a description of how Recipe calculates SRS growth. SRS Growth for individual brands may be higher or lower than SRS Growth for all restaurants combined, and in some cases, SRS Growth, for individual brands, may be negative.

Competition

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

Restaurant Portfolio Management and Continuous Network Improvement

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

Restaurant renovations also contribute to network improvement. However, the timing of renovations is dependent on having sufficient term remaining on both the particular franchise agreement and lease agreement. Franchisees are responsible for financing franchise restaurant renovations. We have found that renovations are most successful when they include changes to the exterior and interior coupled with a fresh approach to guest service and experience. During the 13 and 26 weeks ended June 30, 2019, the Company completed 26 and 37 renovations, respectively.

Recipe's restaurant network consists of company-owned corporate locations and franchised locations. As at the end of June 30, 2019, there were 1,384 restaurants. The following table presents the changes in Recipe's restaurant unit count:

	For the 26 weeks ended							
	June 30, 2019				July 1, 2018			
Unit count (unaudited)	**Corporate**	**Franchised**	**Joint Venture**	**Total**	**Corporate**	**Franchised**	**Joint Venture**	**Total**
Beginning of year (1)	208	1,128	46	**1,382**	169	1,049	54	**1,272**
Acquisitions (2) .	2	—	—	**2**	49	57	—	**106**
New openings	1	20	2	**23**	2	22	3	**27**
Closures	(10)	(12)	(1)	**(23)**	(6)	(17)	(3)	**(26)**
Casey's closures	—	—	—	**—**	—	—	—	**—**
Corporate buybacks(3)	9	(9)	—	—	3	(3)	—	—
Restaurants re-franchised(4)	(1)	2	(1)	—	(5)	5	—	—
End of period	209	1,129	46	**1,384**	212	1,113	54	**1,379**

(1) Unit count excludes East Side Mario's restaurants located in the United States.
(2) The Keg was acquired on February 22, 2018.
(3) Corporate buy backs represent previously franchised restaurants acquired by the Company to operate corporately.
(4) Restaurants re-franchised represent corporate restaurants re-franchised to be operated by a franchisee.

During the 26 weeks ended June 30, 2019, excluding the acquisitions, the Company opened 23 new restaurant locations and closed 23 locations. Included in the closures were 13 under-performing locations where the closure will benefit the overall system performance and the Company's profitability going forward. Management will continue to review its portfolio of restaurants and will opportunistically close under-performing or non-strategic locations that will benefit the Company long term. Management expects to achieve positive net new restaurants openings for the full year ended 2019.

Financial results

System Sales

System Sales for the 13 and 26 weeks ended June 30, 2019 were $871.3 million and $1,722.0 million compared to $874.2 million and $1,630.1 million in 2018, representing a decrease of $2.9 million or 0.3% for the quarter and an increase of $91.9 million or 5.6% year to date. The decrease in System Sales is related to the SRS decline of 1.7% offset by the addition of The Keg in February 2018.

Total gross revenue

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

Total gross revenue was $311.9 million and $616.5 million for the 13 and 26 weeks ended June 30, 2019 compared to $309.5 million and $553.7 million in 2018, representing an increase of $2.4 million or 0.8% for the quarter and an increase of $62.8 million or 11.3% year to date. The increase in gross revenues was primarily related to the addition of The Keg in February 2018 and increases in retail and catering sales, partially offset by SRS decreases.

Selling, general and administrative expenses

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

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

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

	13 weeks ended		26 weeks ended	
(C$ thousands unless otherwise stated)	**June 30, 2019**	**July 1, 2018**	**June 30, 2019**	**July 1, 2018**
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Corporate restaurant expenses	$ 112.4	$ 111.0	$ 223.6	$ 197.2
Advertising fund transfers	16.1	15.6	31.3	30.0
Franchise assistance and bad debt	0.5	2.4	1.6	4.4
The Keg royalty expense	6.1	6.0	12.8	8.5
Depreciation and amortization[(2)]	28.4	15.3	55.8	29.9
Other[(3)]	(0.1)	24.2	3.1	32.5
Total selling, general and administrative expenses [(1)]	**$ 163.4**	**$ 174.6**	**$ 328.3**	**$ 302.4**
[(2)] Depreciation related to right-of-use asset	(11.1)	(0.3)	(22.9)	(1.5)
[(3)] Rent impact related to new lease standard	15.0	1.2	28.9	2.4
SG&A before the impact from the new lease standard	**$ 167.3**	**$ 175.5**	**$ 334.3**	**$ 303.3**

(1) Figures may not total due to rounding.
(2) Included in depreciation and amortization are $11.1 million and $22.9 million for the 13 and 26 weeks ended June 30, 2019 related to depreciation of Right-of-use assets as a result of the new lease standard IFRS 16, "IFRS 16 – New Lease Standard" compared to $0.3 million and $1.5 million in 2018.
(3) Change in other expenses includes the impact from rent expense of $15.0 million and $28.9 million for the 13 and 26 weeks ended June 30, 2019 related to the new lease standard IFRS 16, see "IFRS 16 – New Lease Standard" compared to $1.2 million and $2.4 million in 2018.

SG&A expenses for the and 13 and 26 weeks ended June 30, 2019 was $163.4 million and $328.3 million compared to $174.6 million and $302.4 million in 2018, representing a decrease of $11.2 million or 6.4% for the quarter and an increase of $25.9 million or 8.6% year to date. SG&A before the impact from the new lease standard was $167.3 million compared to $175.5 million for the same quarter in 2018. The decrease in the quarter is largely related to cost controls resulting in lower overhead expenses as well as improvement to the quality of sales due to the ongoing practice to open new franchise restaurants at the standard royalty rate while closing or taking back under-performing previously subsidized locations. Year to date, SG&A expenses excluding the impact from the new lease standard was $334.3 million compared to $303.3 million in 2018. The increase is primarily from the full period impact of The Keg.

Net interest expense and other financing charges

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

	13 weeks ended		26 weeks ended	
(C$ thousands unless otherwise stated)	**June 30, 2019**	**July 1, 2018**	**June 30, 2019**	**July 1, 2018**
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest expense on long-term debt	$ 5.2	$ 5.3	$ 9.9	$ 9.4
Financing costs	0.2	0.2	0.4	0.3
Write off of deferred financing fees	1.0	—	1.0	—
Interest expense - other	0.1	0.1	0.1	0.2
Interest income on Partnership units	(2.7)	(2.6)	(5.5)	(3.5)
Interest income	(0.4)	(0.5)	(0.9)	(1.0)
Net interest before the impact from the new lease standard	**$ 3.4**	**$ 2.5**	**$ 5.0**	**$ 5.4**
Interest on lease obligations	8.8	0.5	16.4	0.9
Interest income on lease receivable	(4.8)	—	(9.5)	—
Total net interest expense and other financing charges[1]	**$ 7.5**	**$ 3.0**	**$ 12.0**	**$ 6.3**

[1] Figures may not total due to rounding.

Excluding the net interest related to the new lease standard, net interest expense and other financing charges were $3.4 million compared to $2.5 million in 2018, an increase of $0.9 million. The increase is primarily related to the non-cash write off of deferring financing fees related to the credit facilities that were renewed in May 2019. Year to date, net interest expense and other financing charges were $5.0 million compared to $5.4 million in 2018, a decrease of $0.4 million. The decrease is due to a full year of interest income from Keg Partnership units partially offset by a full quarter of The Keg interest on long-term debt expense and the write off of deferring financing fees.

Income taxes

The Company recorded a current income tax expense of $6.3 million and $13.4 million for the 13 and 26 weeks ended June 30, 2019, compared to $2.9million and $5.5 million in 2018, representing an increase of $3.4 million and an increase of $7.9 million, respectively. The increase in current income tax expense is primarily related to the Company now being fully taxable as prior year losses have been utilized for tax purposes and was offset by reduced deferred tax expense.

The Company recorded a net deferred income tax expense of $0.9 million and $2.4 million for the 13 and 26 weeks ended June 30, 2019, compared to an expense of $6.1 million and $11.2 million 2018, representing a deferred income tax expense reduction of $5.2 million and $8.8 million, respectively. The deferred income tax expense reduction is primarily related to the 2018 utilization of prior years' loss carry forward balances and the reversal of the related deferred tax asset in 2018.

Net earnings

Net earnings were $16.6 million and $39.3 million for the 13 and 26 weeks ended June 30, 2019 compared to $19.5 million and $41.0 million in 2018, representing a decrease of $2.9 million for the quarter and a decrease of $1.7 million year to date.

The net $2.9 million decrease in the quarter was primarily driven by the $2.0 million increase in Operating EBITDA, a $1.8 million decrease in income tax expense and a $2.7 million reduction in non-cash fair value changes related to the Exchangeable Keg Partnership units and non-controlling interest liability that was offset by a $4.7 million increase in non-cash impairment and onerous contract expenses, $2.6 million higher depreciation and amortization expense (before IFRS Lease Standard(2) changes), a non-cash write-off of deferring financing fees of $1.0 million, higher stock based compensation of $0.4 million and a net $0.6 million expense impact related to the new IFRS Lease Standard(2) (see IFRS 16 New Lease Standard).

The net $1.7 million decrease year to date was primarily driven by the $5.9 million increase in Operating EBITDA and a $5.3 million reduction in non-cash fair value adjustments related to the Exchangeable Keg Partnership units and non-controlling interest liability and a $1.0 million reduction in income tax expense, offset by $4.9 million higher depreciation and amortization expense (before IFRS Lease Standard(2) changes), non-cash impairment and onerous contract expense increases of $4.1 million, a non-cash write-off of deferring financing fees in the amount of $1.0 million, higher stock based compensation expense of $1.8 million, an increase in loss on disposal of assets of $1.0 million, and a net $0.9 million expense related to the new IFRS Lease Standard(2) (see IFRS 16 - New Lease Standard).

Free Cash Flow

	13 weeks ended		26 weeks ended		rolling 12 months	
(C$ millions unless otherwise stated)	**June 30, 2019**	**July 1, 2018**	**June 30, 2019**	**July 1, 2018**	**June 30, 2019**	**July 1, 2018**
Free cash flow (1)(2), before growth capex, dividends and NCIB	**$ 40.0**	**$ 41.0**	**$ 75.5**	**$ 74.1**	**$ 159.6**	**$ 148.9**
Free cash flow per share - Basic (in dollars)	$ 0.65	$ 0.66	$ 1.23	$ 1.21	$ 2.58	$ 2.47
Free cash flow per share - Diluted (in dollars)	$ 0.63	$ 0.63	$ 1.18	$ 1.16	$ 2.49	$ 2.38
Dividends	**$ 13.8**	**$ 13.3**	**$ 13.8**	**$ 13.3**	**$ 27.1**	**$ 25.3**
Dividends per share - Basic (in dollars)	$ 0.22	$ 0.21	$ 0.22	$ 0.22	$ 0.44	$ 0.42
Dividends per share - Diluted (in dollars)	$ 0.22	$ 0.21	$ 0.22	$ 0.21	$ 0.42	$ 0.40
EPS						
Basic earnings per share	$ 0.27	$ 0.31	$ 0.64	$ 0.67	$ 1.17	$ 1.49
Diluted earnings per share	$ 0.26	$ 0.30	$ 0.61	$ 0.65	$ 1.13	$ 1.43
Adjusted basic earnings per share	$ 0.38	$ 0.39	$ 0.67	$ 0.74	$ 1.67	$ 1.64
Adjusted diluted earnings per share	$ 0.37	$ 0.38	$ 0.65	$ 0.71	$ 1.61	$ 1.58
Shares repurchased	**$ 11.7**	**$ 0.3**	**$ 18.8**	**$ 1.0**	**$ 34.0**	**$ 34.3**
Number of shares repurchased	437,727	11,010	703,924	38,447	1,300,237	1,467,905
Growth capex	**$ 7.9**	**$ 6.7**	**$ 12.5**	**$ 9.0**	**$ 20.4**	**$ 23.4**

(1) See "Non-IFRS Measures" on page 35 for definitions of Operating EBITDA and Free Cash Flow. See page 9 for a reconciliation of Net Earnings to Operating EBITDA and to Free Cash Flow.
(2) Effective December 31, 2018, the Company implemented IFRS 16, Leases. Comparative Operating EBITDA figures provided for each quarter have been restated to reflect the adoption of this accounting standard. See "IFRS 16 – New Lease Standard" on pages 3, 9 and 35 for a reconciliation of the changes to Operating EBITDA, and Note 3 "Changes in accounting policies" in the Interim Financial Statements of the Company for further details.

The Company generates significant Free Cash Flow(1) which provides the Company the ability to fund growth and enhance shareholder returns. Free Cash Flow before growth capex, dividends, and share repurchases under the Company's NCIB for the 13 weeks ended June 30, 2019 was $40.0 million compared to $41.0 million for the 13 weeks ended July 1, 2018. Year to date, Free Cash Flow before growth capex, dividends, and share repurchases was $75.5 million compared to $74.1 million in 2018.

On a rolling 12 month basis, Free Cash Flow before growth capex, dividends, and share repurchases under the Company's NCIB for the 12 month period ending June 30, 2019 was $159.6 million compared to $148.9 million in 2018, an increase of $10.7 million or 7.2%. During this 12 month period, the Company repaid $75.7 million on its credit facilities, a reduction equal to the amounts drawn on the Company's credit facilities to complete The Keg merger in February 2018.

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

Free Cash Flow before growth capex, dividends, and share repurchases per share on a diluted basis was $0.63 for the 13 weeks ended June 30, 2019 compared to $0.63 for the 13 weeks ended July 1, 2018. Year to date, Free Cash Flow before growth capex, dividends, and share repurchases per share on a diluted basis was $1.18 compared to $1.16 in 2018.

During the 13 weeks ended June 30, 2019, the Company paid dividends of $13.8 million or $0.22 dividends per share, and repurchased 437,727 shares at $11.7 million, compared to $13.3 million or $0.21 dividends per share, and repurchases of 11,010 shares costing $0.3 million in 2018. Year to date, the Company declared dividends of $13.8 million or $0.22 dividends per share, and repurchased 703,924 shares at $18.8 million, compared to $13.3 million or $0.22 dividends per share, and repurchases of 38,447 shares costing $1.0 million in 2018.

On a rolling 12 month basis, the Company declared dividends of $27.1 million or $0.44 dividends per share, and repurchased 1,300,237 shares at $34.0 million, compared to $25.3 million or $0.42 dividends per share, and repurchases of 1,467,905 shares costing $34.3 million in 2018.

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

Segment Performance

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

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

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

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

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

The CEO, the Executive Chair of the Board, and the CFO are the chief operating decision makers and they regularly review the operations and performance by segment. The CEO, the Executive Chair of the Board and CFO review operating income as a key measure of performance for each segment and to make decisions about the allocation of resources. The accounting policies of the reportable operating segments are the same as those described in the Company's summary of significant accounting policies. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

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

Operating EBITDA

Operating EBITDA[(1)(2)] before The Keg royalty expense was \$59.4 million, representing 6.8% contribution as a percentage of Total System Sales for the 13 weeks ended June 30, 2019 compared to \$57.5 million representing 6.6% in 2018. Year to date, Operating EBITDA[(1)(2)] before The Keg royalty expense was \$113.4 million, representing 6.6% contribution as a percentage of Total System Sales for the 26 weeks ended June 30, 2019 compared to \$105.1 million representing 6.4% in 2018.

Operating EBITDA[(1)(2)] after The Keg royalty expense was \$56.0 million for the 13 weeks ended June 30, 2019 compared to \$54.0 million in 2018, representing an increase of \$2.0 million or 3.7% for the quarter. Year to date, Operating EBITDA[(1)(2)] after The Keg royalty expense was \$106.1 million for the 26 weeks ended June 30, 2019 compared to \$100.2 million in 2018, representing an increase of \$5.9 million or 5.9%. The increases were driven by higher contribution in the franchise segment from the addition The Keg in February 2018, as well as improvement to the quality of sales due to the ongoing practice to open new franchise restaurants at the standard royalty rate while closing or taking back under-performing previously subsidized locations, and from increases in the retail and catering and central segments that offset a decrease in the corporate segment.

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

(unaudited)	13 weeks ended June 30, 2019				
(C$ thousands unless otherwise stated)	**Corporate**	**Franchised**	**Retail & Catering**	**Central**	**Total**
System Sales	**$ 200,638**	**$ 595,878**	**$ 74,772**	**$ —**	**$ 871,288**
Corporate Results					
Sales	$ 196,216	$ —	$ —	$ 2,640	$ 198,856
Cost of inventories sold and cost of labour	(125,076)	—	—	—	(125,076)
Restaurant contribution before other costs	71,140	—	—	2,640	73,780
Restaurant contribution before other costs %	36.3%				
Other operating costs	(50,594)	—	—	—	(50,594)
Total Contribution	**$ 20,546**	**—**	**—**	**$ 2,640**	**$ 23,186**
Franchise Results					
Franchise royalty income	—	$ 27,417	—	—	27,417
Franchise royalty income as a % of franchise sales	—	4.6%	—	—	—
New franchise fees, property and equipment rent	—	—	—	3,696	3,696
Franchise rent assistance and bad debt	—	(535)	—	—	(535)
Contribution from franchise restaurants	**—**	**$ 26,882**	**—**	**$ 3,696**	**$ 30,578**
Contribution from Retail and Catering	**—**	**—**	**$ 3,178**	**—**	**3,178**
Net Central contribution	**—**	**—**	**—**	**$ 2,507**	**2,507**
Operating EBITDA[1] before royalty expense	**$ 20,546**	**$ 26,882**	**$ 3,178**	**$ 8,843**	**$ 59,449**
Net royalty expense				$ (3,454)	$ (3,454)
Operating EBITDA[1]	**$ 20,546**	**$ 26,882**	**$ 3,178**	**$ 5,389**	**$ 55,995**
Contribution as a % of corporate sales	10.5%	—	—	—	—
Contribution as a % of franchise sales	—	4.5%	—	—	—
Contribution as a % of total System Sales	—	—	4.3%	0.6%	6.4%
Contribution (excluding net royalty expense) as a % of total System Sales	10.5%	4.5%	4.3%	1.0%	6.8%

(unaudited)	13 weeks ended July 1, 2018				
(C$ thousands unless otherwise stated)	**Corporate**	**Franchised**	**Retail & Catering**	**Central**	**Total**
System Sales	**$ 207,356**	**$ 596,847**	**$ 70,008**	$ —	**$ 874,211**
Corporate Results					
Sales	$ 203,579	$ —	$ —	$ 2,878	$ 206,457
Cost of inventories sold and cost of labour	(127,198)	—	—	—	(127,198)
Restaurant contribution before other costs	76,381	—	—	2,878	79,259
Restaurant contribution before other costs %	37.5%				
Other operating costs.	(52,048)	—	—	—	(52,048)
Total Contribution	**$ 24,333**	—	—	**$ 2,878**	**$ 27,211**
Franchise Results					
Franchise royalty income	—	$ 27,126	—	—	27,126
Franchise royalty income as a % of franchise sales	—	4.5%	—	—	—
New franchise fees, property and equipment rent	—	—	—	3,531	3,531
Franchise rent assistance and bad debt	—	(2,415)	—	—	(2,415)
Contribution from franchise restaurants	—	**$ 24,711**	—	**$ 3,531**	**$ 28,242**
Contribution from Retail and Catering	—	—	**$ 2,778**	—	**2,778**
Net Central contribution	—	—	—	**$ (732)**	**(732)**
Operating EBITDA[1][2] before royalty expense	**$ 24,333**	**$ 24,711**	**$ 2,778**	**$ 5,677**	**$ 57,499**
Net royalty expense				$ (3,463)	$ (3,463)
Operating EBITDA[1][2]	**$ 24,333**	**$ 24,711**	**$ 2,778**	**$ 2,214**	**$ 54,036**
Contribution as a % of corporate sales	12.0%	—	—	—	—
Contribution as a % of franchise sales	—	4.1%	—	—	—
Contribution as a % of total System Sales	—	—	4.0%	0.3%	6.2%
Contribution (excluding net royalty expense) as a % of total System Sales	12.0%	4.1%	4.0%	0.6%	6.6%

[1] See "Non-IFRS Measures" on page 35 for definition of Operating EBITDA. Effective December 31, 2018, the Company implemented IFRS 16, Leases. Comparative Operating EBITDA figures provided for each quarter have been restated to reflect the adoption of this accounting standard. See "IFRS 16 – New Lease Standard" on pages 3, 9 and 35 for a reconciliation of the changes to Operating EBITDA, and Note 3 "Changes in accounting policies" in the Interim Financial Statements of the Company for further details.

(unaudited)	26 weeks ended June 30, 2019				
(C$ thousands unless otherwise stated)	**Corporate**	**Franchised**	**Retail & Catering**	**Central**	**Total**
System Sales	**$ 397,612**	**$ 1,177,196**	**$ 147,225**	**$ —**	**$ 1,722,033**
Corporate Results					
Sales	$ 388,827	$ —	$ —	$ 5,529	$ 394,356
Cost of inventories sold and cost of labour	(247,990)	—	—	—	(247,990)
Restaurant contribution before other costs	140,837	—	—	5,529	146,366
Restaurant contribution before other costs %	35.4%				
Other operating costs.	(101,826)	—	—	—	(101,826)
Total Contribution	**$ 39,011**	**—**	**—**	**$ 5,529**	**$ 44,540**
Franchise Results					
Franchise royalty income	—	53,996	—	—	53,996
Franchise royalty income as a % of franchise sales	—	4.6%	—	—	—
New franchise fees, property and equipment rent	—	—	—	6,720	6,720
Franchise rent assistance and bad debt	—	(1,625)	—	—	(1,625)
Contribution from franchise restaurants	**—**	**$ 52,371**	**—**	**$ 6,720**	**$ 59,091**
Contribution from Retail and Catering	**—**	**—**	**$ 7,723**	**—**	**7,723**
Net Central contribution	**—**	**—**	**—**	**$ 2,008**	**2,008**
Operating EBITDA[(1)(2)] before royalty expense	**$ 39,011**	**$ 52,371**	**$ 7,723**	**$ 14,257**	**$ 113,362**
Net royalty expense				$ (7,307)	$ (7,307)
Operating EBITDA[(1)(2)]	**$ 39,011**	**$ 52,371**	**$ 7,723**	**$ 6,950**	**$ 106,055**
Contribution as a % of corporate sales	10.0%	—	—	—	—
Contribution as a % of franchise sales	—	4.4%	—	—	—
Contribution as a % of total System Sales	—	—	5.2%	0.4%	6.2%
Contribution (excluding net royalty expense) as a % of total System Sales	10.0%	4.4%	5.2%	0.8%	6.6%

(unaudited)	26 weeks ended July 1, 2018				
(C$ thousands unless otherwise stated)	**Corporate**	**Franchised**	**Retail & Catering**	**Central**	**Total**
System Sales	**$ 357,327**	**$ 1,139,911**	**$ 132,886**	**$ —**	**$ 1,630,124**
Corporate Results					
Sales	$ 349,717	$ —	$ —	$ 5,963	$ 355,680
Cost of inventories sold and cost of labour	(221,514)	—	—	—	(221,514)
Restaurant contribution before other costs	128,203	—	—	5,963	134,166
Restaurant contribution before other costs %	35.9%				
Other operating costs.	(90,786)	—	—	—	(90,786)
Total Contribution	**$ 37,417**	**—**	**—**	**$ 5,963**	**$ 43,380**
Franchise Results					
Franchise royalty income	—	$ 51,486	—	—	51,486
Franchise royalty income as a % of franchise sales	—	4.5%	—	—	—
New franchise fees, property and equipment rent	—	—	—	6,370	6,370
Franchise rent assistance and bad debt	—	(4,407)	—	—	(4,407)
Contribution from franchise restaurants	**—**	**$ 47,079**	**—**	**$ 6,370**	**$ 53,449**
Contribution from Retail and Catering	**—**	**—**	**$ 6,028**	**—**	**6,028**
Net Central contribution	**—**	**—**	**—**	**$ 2,245**	**2,245**
Operating EBITDA[(1)(2)] before royalty expense	**$ 37,417**	**$ 47,079**	**$ 6,028**	**$ 14,578**	**$ 105,102**
Net royalty expense				$ (4,913)	$ (4,913)
Operating EBITDA[(1)(2)]	**$ 37,417**	**$ 47,079**	**$ 6,028**	**$ 9,665**	**$ 100,189**
Contribution as a % of corporate sales	10.7%	—	—	—	—
Contribution as a % of franchise sales	—	4.1%	—	—	—
Contribution as a % of total System Sales	—	—	4.5%	0.6%	6.1%
Contribution (excluding net royalty expense) as a % of total System Sales	10.7%	4.1%	4.5%	0.9%	6.4%

(1) See "Non-IFRS Measures" on page 35 for definitions of Operating EBITDA and page 9 for a reconciliation of Net Earnings to Operating EBITDA.
(2) Effective December 31, 2018, the Company implemented IFRS 16, Leases. Comparative Operating EBITDA figures provided for each quarter have been restated to reflect the adoption of this accounting standard. See "IFRS 16 – New Lease Standard" on pages 3, 9, and 35 for a reconciliation of the changes to Operating EBITDA, and Note 3 "Changes in accounting policies" in the Interim Financial Statements of the Company for further details.

Corporate

As at June 30, 2019, the corporate segment restaurant count consisted of 209 restaurants compared to 208 at December 30, 2018, an increase of 1 location, and 212 at July 1, 2018. Year to date, the Company acquired 2 locations in the Anejo and Blanco purchase, opened 1 new restaurant, completed 9 corporate buybacks, closed 10 restaurants and re-franchised 1 restaurant. The corporate restaurant segment includes the proportionate results from the Company's 46 joint venture restaurants from the Original Joe's investment, the Burger's Priest investment, and 1909 Taverne Moderne joint venture.

Sales

Sales represent food and beverage sales from Recipe's corporate restaurants. Corporate restaurant sales are impacted by SRS Growth and the change in number of corporate restaurants. Sales were $196.2 million and $388.8 million for the 13 and 26 weeks ended June 30, 2019 compared to $203.6 million and $349.7 million in 2018, a decrease of $7.4 million or 3.6% for the quarter and an increase of $39.1 million or 11.2% year to date. The decrease in the quarter is primarily related to SRS decreases, restaurant closures and restaurants re-franchised during 2018, offset by restaurant buy backs. The increase year to date was primarily related to the full year impact from the addition of The Keg in February 2018 partially offset by closures and restaurants re-franchised during 2018.

Cost of inventories sold and cost of labour

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

Cost of inventories sold and cost of labour was $125.1 million and $248.0 million for the 13 and 26 weeks ended June 30, 2019 compared to $127.2 million and $221.5 million in 2018, a decrease of $2.1 million or 1.7% for the quarter and an increase of $26.5 million or 12.0% year to date. The decrease in the quarter directly related to the decrease in sales. The increase year to date was primarily due to the full year impact from the addition of The Keg in February 2018 partially offset by closures and restaurants re-franchised during 2018. Cost of inventories sold and cost of labour as a percentage of sales increased from 62.5% to 63.8% for the 13 weeks ended June 30, 2019, an increase of 1.3 percentage points. Year to date, cost of inventories sold and cost of labour as a percentage of sales increased from 63.3% to 63.8% for the 26 weeks ended June 30, 2019, an increase of 0.5 percentage points.

Contribution from Corporate segment

Total contribution from corporate restaurants was $20.5 million and $39.0 million for the 13 and 26 weeks ended June 30, 2019 compared to $24.3 million and $37.4 million in 2018, a decrease of $3.8 million or 15.6% for the quarter and an increase of $1.6 million or 4.3% year to date. The decrease in the quarter is related to the sales decrease and contribution rate decrease mostly from taking back under-performing franchise restaurants that operate below our 10% to 15% target contribution level. The increase year to date is primarily driven by the increase in number of corporate restaurants, including the full year impact from the addition of The Keg in February 2018.

For the 13 weeks ended June 30, 2019, total contribution from corporate restaurants as a percentage of corporate sales was 10.5% compared to 12.0% in 2018. Year to date, total contribution from corporate restaurants as a percentage of corporate sales was 10.0% compared to 10.7% for the 26 weeks in 2018. The decreases were primarily related to the sales decreases and wage rate increases partially offset by the addition of The Keg which operates corporate restaurants within our 10% to 15% target range.

Franchise

As at June 30, 2019, the franchise restaurant segment consisted of 1,129 restaurants compared to 1,128 at December 30, 2018 and 1,113 at July 1, 2018. Year to date, the Company completed 20 new restaurant openings, 1 corporate and 1 joint venture restaurant was re-franchised, partially offset by 12 closures, and 9 corporate buybacks. The franchise segment includes the proportionate share of royalties earned from the joint venture restaurants from the Original Joe's transaction.

Franchise segment System Sales were $595.9 million and $1,177.2 million during the 13 and 26 weeks ended June 30, 2019 compared to $596.8 million and $1,139.9 million in 2018, a decrease of $0.9 million or 0.2% for the quarter and an increase of $37.3 million or 3.3% year to date. The decrease in the quarter was primarily related to the SRS decrease. The increase year to date was primarily attributed to the new restaurant openings and conversions of corporate and joint venture restaurants to franchise in 2018 and 2019, the addition of The Keg in February 2018, partially offset by the SRS decrease, restaurant closures, and corporate buybacks.

Franchise revenues

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

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

Franchise revenues were $27.4 million and $54.0 million for the 13 and 26 weeks ended June 30, 2019 compared to $27.1 million and $51.5 million in 2018, an increase of $0.3 million or 1.1% for the quarter and an increase of $2.5 million or 4.9% year to date. The increase was primarily attributed to the addition of The Keg and new restaurants opened in 2018 and 2019.

Contribution from franchise segment

Total contribution from franchise restaurants was $26.9 million for the 13 weeks ended June 30, 2019 compared to $24.7 million in 2018, an increase of $2.2 million or 8.9% for the quarter. Year to date, total contribution from franchise restaurants was $52.4 million for the 26 weeks ended June 30, 2019 compared to $47.1 million in 2018, an increase of $5.3 million or 11.3%. The effective net royalty rate for the 13 and 26 weeks ended June 30, 2019 was 4.5% and 4.4% compared to 4.1% and 4.1% in 2018. The increase was related to improvement to the quality of sales due to the ongoing practice to open new franchise restaurants at the standard royalty rate while closing or taking back under-performing previously subsidized locations and from the addition of The Keg. There are brands acquired since 2014 which charge different standard royalty rates, in particular St-Hubert which charges 4% as its standard royalty and The Keg which charges over 5% when considering its total franchise portfolio.

Retail and Catering

Sales

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

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

Contribution from retail and catering

Contribution from retail and catering for the 13 weeks ended June 30, 2019 was $3.2 million compared to $2.8 million in 2018, an increase of $0.4 million or 14.3% for the quarter. Year to date, contribution from retail and catering for the 26 weeks ended June 30, 2019 was $7.7 million compared to $6.0 million in 2018, an increase of $1.7 million or 28.3%. The increases are primarily driven by sales increases from the Swiss Chalet branded products at grocery, increases in frozen pot pie sales from the addition of the new pie production line, and the additions of The Keg retail business in February 2018, and Marigolds and Onions catering business in December 2018.

Central

Sales

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

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

Total central segment sales were $2.6 million and $5.5 million for the 13 and 26 weeks ended June 30, 2019 compared to $2.9 million $6.0 million in 2018, representing a decrease of $0.3 million or 10.3% for the quarter and a decrease of $0.5 million or 8.3% year to date. The decrease is related to the Company reducing the rate charged on mobile and web order fees charged to its franchisees, and a shift from phone ordering to web and mobile-based meal orders at lower rates.

New franchise fees, rent revenue and equipment rent

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

Franchise fees, property rent and equipment rent revenues from franchisees were $3.7 million and $6.7 million for the 13 and 26 weeks ended June 30, 2019 compared to $3.5 million and $6.4 million in 2018. The increase is primarily related to higher franchise renewal fees during the period offset by reductions in equipment rental revenue related to the expiry of equipment rental agreements, a line of revenue the Company no longer pursues as management prefers franchisees to finance restaurant purchases with third party lenders.

Contribution from central segment

Central segment contribution before the net royalty expense for the 13 weeks ended June 30, 2019 was $8.8 million compared to $5.7 million in 2018, representing an increase of $3.1 million or 54.4% for the quarter. Year to date, Central segment contribution before the net royalty expense for the 26 weeks ended June 30, 2019 was $14.3 million compared to $14.6 million in 2018, representing a decrease of $0.3 million or 2.1%. The $3.1 million central segment contribution increase in the quarter is primarily the result of effective cost controls and synergies from consolidating certain shared services with acquired brands.

Total central segment contribution, before the net royalty expense, as a percentage of total System Sales for the 13 weeks ended June 30, 2019 was 1.0% compared to 0.6% in 2018, an increase of 0.4 percentage points for the quarter. Year to date, total central segment contribution, before the net royalty expense, as a percentage of total System Sales for the 26 weeks ended June 30, 2019 was 0.8% compared to 0.9% in 2018, a decrease of 0.1 percentage points. The decreases are primarily related to the addition of The Keg which operates with higher net overhead costs which are more than offset by The Keg corporate and franchise contributions.

Selected Quarterly Information

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

(C$ millions unless otherwise stated) [1]	Q2 – 2019 Jun 30, 2019	Q1 – 2019 Mar 31, 2019	Q4 – 2018 Dec 30, 2018	Q3 – 2018 Sept 30, 2018	Q2 – 2018 July 1, 2018	Q1 – 2018 Apr 1, 2018	Q4 – 2017 Dec 31, 2017	Q3 – 2017 Sept 24, 2017	Q2 – 2017 June 25, 2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
System Sales [1]	**$ 871.3**	**$ 850.7**	**$ 905.4**	**$ 879.8**	**$ 874.2**	**$ 755.9**	**$ 774.9**	**$ 684.7**	**$ 660.8**
Total System Sales Growth [1]	(0.3)%	12.5 %	16.8 %	28.5%	32.3%	14.7%	20.9%	36.9%	46.7 %
SRS Growth [1]	(1.7)%	(1.6)%	(0.2)%	1.8%	1.9%	2.1%	2.5%	0.9%	(0.3)%
Number of restaurants (at period end)	1,384	1,382	1,382	1,370	1,379	1,382	1,272	1,249	1,255
Operating EBITDA before The Keg royalty[1][2]	**$ 59.4**	**$ 53.9**	**$ 67.1**	**$ 54.9**	**$ 57.5**	**$ 47.6**	**$ 57.4**	**$ 46.9**	**$ 40.5**
Operating EBITDA Margin on System Sales before The Keg royalty[1]	**6.8 %**	**6.3 %**	**7.4 %**	**6.2%**	**6.6%**	**6.3%**	**7.4%**	**6.8%**	**6.1 %**
Operating EBITDA [1][2]	**$ 56.0**	**$ 50.1**	**$ 63.3**	**$ 51.2**	**$ 54.0**	**$ 46.2**	**$ 57.4**	**$ 46.9**	**$ 40.5**
Operating EBITDA Margin on System Sales [1][2]	**6.4 %**	**5.9 %**	**7.0 %**	**5.8%**	**6.2%**	**6.1%**	**7.4%**	**6.8%**	**6.1 %**
Corporate restaurant sales	$ 196.2	$ 192.6	$ 205.0	$ 199.0	$ 203.6	$ 146.1	$ 125.8	$ 111.2	$ 103.4
Number of corporate restaurants	209	211	208	207	212	213	169	161	162
Contribution from Corporate segment	$ 20.5	$ 18.5	$ 21.5	$ 21.6	$ 24.3	$ 13.1	$ 12.3	$ 11.8	$ 10.4
Contribution as a % of corporate sales	10.5 %	9.6 %	10.7 %	10.8%	12.0%	9%	9.8%	10.6%	10.1 %
Number of joint venture restaurants	46	47	46	46	54	55	54	50	52
Franchise restaurant sales	$ 595.9	$ 581.3	$ 615.3	$ 607.2	$ 596.8	$ 543.1	$ 571.0	$ 515.7	$ 504.7
Number of franchised restaurants	1,129	1,124	1,128	1,117	1,113	1,114	1,049	1,038	1,041
Contribution from Franchise segment	$ 26.9	$ 25.5	$ 26.6	$ 25.7	$ 24.7	$ 22.4	$ 24.1	$ 20.0	$ 19.9
Contribution as a % of Franchise sales	4.5 %	4.4 %	4.3 %	4.2%	4.1%	4.1%	4.2%	3.9%	3.9 %
Contribution from retail and catering	$ 3.2	$ 4.5	$ 8.9	$ 4.6	$ 2.8	$ 3.3	$ 6.6	$ 3.4	$ 0.6
Contribution from Central segment before The Keg royalty	$ 8.8	$ 5.4	$ 10.1	$ 3.0	$ 5.7	$ 8.9	$ 14.4	$ 11.7	$ 9.6
Contribution as a % of total System Sales	1.0 %	0.6 %	1.1 %	0.3%	0.6%	1.2%	1.9%	1.7%	1.5 %
Total gross revenue	$ 311.9	$ 304.6	$ 328.2	$ 312.4	$ 309.5	$ 246.5	$ 240.0	$ 203.8	$ 194.4
Operating EBITDA Margin [1][2]	18.0 %	16.4 %	19.3 %	16.4%	17.3%	18.7%	23.9%	23.0%	20.8 %
Earnings before income taxes	**$ 23.8**	**$ 31.3**	**$ 15.4**	**$ 31.4**	**$ 28.5**	**$ 29.3**	**$ 37.0**	**$ 30.4**	**$ 21.6**
Net earnings	$ 16.6	$ 22.7	$ 9.0	$ 23.8	$ 19.5	$ 21.5	$ 27.3	$ 21.2	$ 17.4
Adjusted Net Earnings [1]	**$ 23.5**	**$ 17.7**	**$ 34.3**	**$ 27.6**	**$ 24.4**	**$ 20.6**	**$ 31.1**	**$ 22.7**	**$ 22.6**
Net earnings operations attributable to common shareholders of the Company	$ 16.6	$ 22.5	$ 9.0	$ 23.6	$ 19.5	$ 21.7	$ 27.4	$ 21.0	$ 17.4
EPS attributable to common shareholders of the Company (in dollars)									
Basic EPS	$ 0.27	$ 0.36	$ 0.15	$ 0.38	$ 0.31	$ 0.36	$ 0.47	$ 0.35	$ 0.29
Diluted EPS	$ 0.26	$ 0.35	$ 0.14	$ 0.37	$ 0.30	$ 0.35	$ 0.45	$ 0.34	$ 0.28
Adjusted Basic EPS [1]	**$ 0.38**	**$ 0.29**	**$ 0.55**	**$ 0.44**	**$ 0.39**	**$ 0.34**	**$ 0.53**	**$ 0.38**	**$ 0.38**
Adjusted Diluted EPS [1]	**$ 0.37**	**$ 0.28**	**$ 0.53**	**$ 0.43**	**$ 0.38**	**$ 0.33**	**$ 0.51**	**$ 0.37**	**$ 0.36**
Free Cash Flow before growth capex, dividends, and NCIB [1]	**$ 40.0**	**$ 35.1**	**$ 47.2**	**$ 37.3**	**$ 41.0**	**$ 33.2**	**$ 37.0**	**$ 37.7**	**$ 30.0**
Free Cash Flow per share - basic (in dollars)	$ 0.65	$ 0.57	$ 0.76	$ 0.60	$ 0.66	$ 0.55	$ 0.63	$ 0.63	$ 0.50
Free Cash Flow per share - diluted (in dollars)	$ 0.63	$ 0.55	$ 0.74	$ 0.58	$ 0.63	$ 0.53	$ 0.60	$ 0.61	$ 0.48

[1] See “Non-IFRS Measures” on page 35 for definitions of System Sales, System Sales Growth, SRS Growth, Operating EBITDA, Operating EBITDA Margin, Operating EBITDA Margin on System Sales, Adjusted Net Earnings, Adjusted Basic EPS, Adjusted Diluted EPS and Free Cash Flow.
[2] Effective December 31, 2018, the Company implemented IFRS 16, Leases. Comparative Operating EBITDA figures provided for each quarter have been restated to reflect the adoption of this accounting standard. See “IFRS 16 – New Lease Standard” on pages 3, 9 and 35 for a reconciliation of the changes to Operating EBITDA, and Note 3 “Changes in accounting policies” in the Interim Financial Statements of the Company for further details.

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

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

Historical Commentary on Quarterly Results

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

System Sales grew from $660.8 million in Q2 2017 to $874.2 million in Q2 2018 and has declined slightly in Q2 2019 to $871.3 million. System Sales increases in 2017 and 2018 are driven by SRS increases, the addition of new restaurants, the acquisitions of St-Hubert in September 2016, Original Joe's in December 2016, Burger's Priest in June 2017, Pickle Barrel in December 2017, The Keg in February 2018, and Marigolds and Onions in December 2018, and increases in retail and catering sales. The decrease in Q2 2019 is primarily driven by the SRS decline in the quarter.

Operating EBITDA has improved significantly from $40.5 million in Q2 2017 to $54.0 million in Q2 of 2018 and to $56.0 million in Q1 2019. Excluding The Keg royalty, Operating EBITDA in Q2 2018 was $57.5 million and $59.4 million in Q2 2019. Operating EBITDA has improved each quarter (year over year) as a result of growth in the corporate, franchise, retail and catering segments, the addition of new restaurants, and from the acquisitions of St-Hubert, Original Joe's, Burger's Priest, Pickle Barrel, The Keg, and Marigolds and Onions.

Operating EBITDA Margin on System Sales before The Keg royalty was 6.1% in Q2 2017, 6.6% in Q2 2018 and 6.8% in Q2 2019. Operating EBITDA has been impacted with the acquisition of brands that operate at lower profit margins. Management's focus will continue to be on improving the earnings efficiency of our assets and our increased sales base to grow Operating EBITDA as a percentage of System Sales back to within our 7% to 8% target range by 2020-2022.

Contribution dollars from the corporate restaurant segment have fluctuated (year over year) each quarter as a result of the addition and sale of corporate restaurants and from taking back under-performing previously subsidized franchise locations. Quarterly contribution from the corporate segment increased from $10.4 million in Q2 2017 to $24.3 million in Q2 2018 and decreased to $20.5 million in Q2 2019. Contribution in Q2 2019 decreased primarily as a result of the decline in sales and lower contribution rate driven by taking back under-performing previously subsidized franchise locations.

The franchise restaurant segment contribution as a percentage of System Sales was 4.5% in Q2 2019 compared to 4.1% in 2018 and 3.9% in 2017. Quarterly contribution from the franchise segment has improved each quarter (year over year) from $19.9 million in Q2 2017 to $24.7 million in Q2 2018 and to $26.9 million in Q2 2019. The improvements in Q2 2019 are primarily related to increases in the net franchise royalty recovery rate. The franchise contribution dollar increases are the result of increased sales from the addition of new restaurants and the additions of St-Hubert in September 2016, Original Joe's in December 2016, and The Keg in February 2018.

Contribution from retail and catering has grown from $0.6 million in Q2 2017 to $2.8 million in Q2 2018 and to $3.2 million in Q2 2019. The increases are related to increased sales from the addition of Swiss Chalet branded products and from the additions of catering sales from the acquisitions of Pickle Barrel and Marigolds and Onions.

Contribution from the central segment before The Keg royalty expense has changed from $9.6 million Q2 2017 to $5.7 million in Q2 2018, and to $8.8 million in Q2 2019. The decreases from 2017 are primarily related to increased overhead costs related to the addition of The Keg in February 2018 and lowering the rates charged on off-premise call centre fees to its franchisees, and a shift from phone ordering to web and mobile-based meal orders at lower fees.

Total gross revenue has increased significantly each quarter (year over year) from $194.4 million in Q2 2017 to $309.5 million in Q2 2018 and $311.9 million in Q2 2019. The increases are a result of the increase in the number corporate restaurants, the addition of corporate restaurants from the St-Hubert, Original Joe's, Pickle Barrel, and The Keg transactions; increases in the retail and catering segment at St-Hubert and from the addition of Pickle Barrel catering, Rose Reisman, and Marigolds and Onions.

Quarterly earnings before income taxes has increased from $21.6 million in Q2 2017 to $28.5 million in Q2 2018 then decreased to $23.8 million in Q2 2019. The net decrease in the quarter was primarily driven by the $2.0 million increase in Operating EBITDA and a $2.7 million reduction in non-cash fair value changes related to the Exchangeable Keg Partnership units and non-controlling interest liability that was offset by a $4.7 million increase in non-cash impairment and onerous contract expenses, $2.6 million higher depreciation and amortization expense (before IFRS Lease Standard[2] changes), a non-cash write-off of deferring financing fees of $1.0 million, higher stock based compensation of $0.4 million and a net $(0.6) million expense impact related to the new IFRS Lease Standard[2] (see IFRS 16 New Lease Standard). The increases since 2017 have been driven by increases in System Sales, increased contribution from the corporate, franchise, retail and catering segments, and from the additions of Pickle Barrel in December 2017, The Keg in February 2018, and Marigolds and Onions in December 2018.

Free Cash Flow before growth capex, dividends, and NCIB has increased from $30.0 million in Q2 2017 to $41.0 million in Q2 2018 and $40.0 million in Q2 2019. On a diluted per share basis, Free Cash Flow before growth capex, dividends, and NCIB has increased from $0.48 in Q2 2017 to $0.63 in Q2 2018 and to $0.63 in Q2 2019. The strong Free Cash Flows have been used to pay and increase dividends to shareholders, to reduce the Company's borrowings from various acquisitions, to invest in the Company's core brands, and to repurchase the Company's subordinate voting shares.

Liquidity and Capital Resources

Recipe's principal uses of funds are for operating expenses (including net lease payments), capital expenditures, finance costs, debt service, dividends and the repurchase of its subordinate voting shares through its NCIB. Management believes that cash generated from operations, together with amounts available under its credit facility (refer to page 29), will be sufficient to meet its future operating expenses, capital expenditures, future debt service costs, discretionary dividends, and discretionary share repurchases. However, Recipe's ability to fund future debt service costs, operating expenses, capital expenditures and dividends will depend on its future operating performance which will be affected by general economic, financial and other factors including factors beyond its control. See "Risk and Uncertainties" (refer to page 40). Recipe's management reviews acquisition and investment opportunities in the normal course of its business and, if suitable opportunities arise, may make selected acquisitions and investments to implement Recipe's business strategy. Historically, the funding for any such acquisitions or investments have come from cash flow from operating activities, additional debt, or the issuance of equity. Similarly, from time to time, Recipe's management reviews opportunities to dispose of non-core assets and may, if suitable opportunities arise, sell certain non-core assets.

Below is summary of the Company's credit availability, liquidity, net debt to Operating EBITDA positions, and Free Cash Flow. During the second quarter the Company completed the refinancing of its $550.0 million credit facilities on more favorable borrowing terms and raised $250.0 million of 10 year 4.72% Private Notes.

(C$ millions unless otherwise stated)	**June 30, 2019**	**December 30, 2018**	**July 1, 2018**	**December 31, 2017**
Revolving credit facility	$ 550.0	$ 400.0	$ 400.0	$ 400.0
Add: Accordion feature	250.0	50.0	50.0	50.0
Add: Private notes	250.0	—	—	—
Add: Term credit facility	—	150.0	150.0	150.0
Add: The Keg credit facilities	47.0	47.0	47.0	—
Subtotal - credit availability	**$ 1,097.0**	**$ 647.0**	**$ 647.0**	**$ 600.0**
Less: Draw on revolving credit facility	(128.3)	(220.0)	(300.0)	(229.0)
Less: Draw on private notes	(250.0)	—	—	—
Less: Draw on term credit facility	—	(150.0)	(150.0)	(150.0)
Less: Draw on The Keg credit facilities	(19.0)	(21.0)	(23.0)	—
Subtotal - total debt	**$ (397.3)**	**$ (391.0)**	**$ (473.0)**	**$ (379.0)**
Liquidity	**$ 699.7**	**$ 256.0**	**$ 174.0**	**$ 221.0**
	26 weeks ended June 30, 2019	**52 weeks ended December 30, 2018**	**26 weeks ended July 1, 2018**	**53 weeks ended December 31, 2017**
Operating EBITDA[(1)(2)]	$ 106.1	$ 214.7	$ 100.2	$ 186.6
Net debt to Operating EBITDA[(1)(2)]	1.7x	1.7x	2.1x	2.2x
Free cash flow [(1)(2)], before growth capex, dividends and NCIB	$ 75.5	$ 158.7	$ 74.1	$ 138.4
Free cash flow [(1)(2)], after growth capex, dividends and NCIB	$ 31.4	$ 112.3	$ 51.1	$ 52.4

(1) See "Non-IFRS Measures" on page 35 for definitions of Operating EBITDA and Free Cash Flow. See page 9 for a reconciliation of Net Earnings to Operating EBITDA and to Free Cash Flow.
(2) Effective December 31, 2018, the Company implemented IFRS 16, Leases. Comparative Operating EBITDA figures provided for each quarter have been restated to reflect the adoption of this accounting standard. See "IFRS 16 – New Lease Standard" on pages 3, 9 and 35 for a reconciliation of the changes to Operating EBITDA, and Note 3 "Changes in accounting policies" in the Interim Financial Statements of the Company for further details.

Working Capital

A working capital deficit is typical of restaurant operations, where the majority of sales are for cash and there are rapid turnover of inventories. In general, the turnover of accounts receivable and inventories is faster than accounts payable, resulting in negative working capital. Sales of Recipe's Ultimate Gift Card and the addition of The Keg gift card significantly improve the Company's liquidity in the fourth quarter as cash is received within one to two weeks from time of sale. Gift card sales are highest in November and December followed by high redemptions in the January to March period. Recipe's gift card liability at June 30, 2019 was $104.9 million compared to $153.8 million at December 30, 2018, a decrease of $48.9 million due to higher redemptions in the first and second quarters following the gift card sales during the holiday season in Q4.

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

(C$ millions unless otherwise stated)	June 30, 2019	December 30, 2018	change in working capital
	(unaudited)		
Cash	$ 42.7	$ 49.3	$ 6.6
Accounts receivable	74.4	103.5	29.1
Inventories	40.0	36.6	(3.4)
Prepaid expenses and other assets	8.1	9.4	1.3
Current portion of lease recievables	75.4	—	(75.4)
Current portion of long-term receivables	6.2	4.9	(1.3)
Total Current Assets [(1)]	**$ 246.8**	**$ 203.7**	**$ (43.1)**
Accounts payable and accrued liabilities	$ 129.9	$ 134.9	$ (5.0)
Provisions	3.6	9.7	(6.1)
Gift card liability	104.9	153.8	(48.9)
Income taxes payable	6.7	5.7	1.0
Current portion of long-term debt	4.0	154.0	(150.0)
Current portion of lease liability	120.6	3.2	117.4
Total Current Liabilities	**$ 369.7**	**$ 461.3**	**$ (91.6)**
Working capital deficit	**$ (122.9)**	**$ (257.6)**	**$ (134.7)**

(1) Figures may not total due to rounding.

At June 30, 2019, Recipe had a working capital deficit of $122.9 million compared to $257.6 million at December 30, 2018. The change in working capital deficit of $134.7 million was primarily related to the $150.0 million decrease in current portion of long-term debt a result of the refinancing in May 2019, decrease in gift card liability of $48.9 million related to higher gift card redemptions following the 2018 holiday period, increase in current portion of lease receivables of $75.4 million related to the adoption of IFRS 16 new lease standard, offset by decrease in accounts receivable of $29.1 million and increase in current portion of the lease liability of $117.4 million related to the adoption of IFRS 16 new lease standard.

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

Cash Flows

The following table presents Recipe's cash flows for the 13 and 26 weeks ended June 30, 2019 compared to the 13 and 26 weeks ended July 1, 2018:

	13 weeks ended		26 weeks ended	
(C$ millions unless otherwise stated)	June 30, 2019	July 1, 2018	June 30, 2019	July 1, 2018
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash flows from (used in) operating activities	$ 54.2	$ 41.4	$ 74.7	$ 40.6
Cash flows from (used in) investing activities	$ (19.3)	$ (9.8)	$ (2.3)	$ (88.6)
Cash flows (used in) from financing activities	$ (33.8)	$ (34.8)	$ (79.8)	$ 50.5
Change in cash during the period [(1)]	$ 1.0	$ (3.2)	$ (7.5)	$ 2.4

(1) Figures may not total due to rounding.

Cash flows from operating activities of continuing operations

Cash flows from operating activities were $54.2 million and $74.7 million for the 13 weeks and 26 weeks ended June 30, 2019 compared to $41.4 million and $40.6 million in 2018, an increase of $12.8 million for the quarter and an increase of $34.1 million year to date. The increase was primarily related to the reduction in gift card liability due to higher redemptions following the Q4 2018 holiday period, a reduction in accounts receivable, partially offset by increases from the addition in current portion of long-term receivables related to the new lease standard.

Cash flows used in investing activities of continuing operations

The following table presents Recipe's capital expenditures for the 13 and 26 weeks ended June 30, 2019 compared to the 13 and 26 weeks ended July 1, 2018:

	13 weeks ended		26 weeks ended	
(C$ millions unless otherwise stated)	**June 30, 2019**	**July 1, 2018**	**June 30, 2019**	**July 1, 2018**
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Purchase of property, plant and equipment:				
Maintenance:				
Corporate restaurants	1.1	(0.5)	2.8	1.4
Central / IT expenditures / Other	4.5	5.3	7.8	7.8
Total maintenance	$ 5.6	$ 4.8	$ 10.7	$ 9.3
Growth initiatives:				
Major renovations	2.9	4.2	4.0	4.4
New builds	5.0	2.5	8.5	4.6
Total growth	$ 7.9	$ 6.7	$ 12.5	$ 9.0
Total purchase of property, plant and equipment (2)	**$ 13.5**	**$ 11.5**	**$ 23.1**	**$ 18.3**
Total purchase of property, plant and equipment	(13.5)	(11.5)	(23.1)	(18.3)
Acquisitions	(5.0)	—	(5.4)	(71.8)
Buy backs (1)	—	—	(3.4)	—
Proceeds on disposal of property, plant and equipment	0.9	0.2	0.9	0.2
Proceeds on early buyout of equipment and rental contracts	0.1	0.2	0.1	0.3
Additions to other assets	—	—	—	(0.1)
Share of loss from investment in associates in joint ventures	(0.1)	(0.2)	0.1	0.2
Change in long term receivables	(1.7)	1.5	28.5	0.8
Total cash flows provided by (used in) investing activities (2)	**$ (19.3)**	**$ (9.8)**	**$ (2.3)**	**$ (88.6)**

(1) There was 1 buy back in the quarter and 9 buy backs year-to-date (2018 – 2 buy backs in the quarter and 3 buy backs year-to-date).
(2) Figures may not total due to rounding.

Cash flows used in investing activities were $19.3 million and $2.3 million for the 13 and 26 weeks ended June 30, 2019 compared to cash used in investing activities of $9.8 million and $88.6 million in 2018, a change of $9.6 million for the quarter and $86.3 million year to date. The change is primarily related to The Keg merger partially offset by the change in long-term receivables resulting from the adoption of the new lease standard.

Commitments for Capital Expenditures

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

Cash flows (used in) from financing activities

The following table presents Recipe's cash used in financing activities for the 13 and 26 weeks ended June 30, 2019 compared to the 13 and 26 weeks ended July 1, 2018:

	13 weeks ended		26 weeks ended	
(C$ millions unless otherwise stated)	**June 30, 2019**	**July 1, 2018**	**June 30, 2019**	**July 1, 2018**
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Increases in debt	265.0	—	265.0	104.0
Debt repayments	(257.7)	(19.0)	(258.7)	(34.0)
Deferred financing fees	(2.9)	—	(2.9)	—
Issuance of subordinated voting common shares	0.6	—	1.9	0.1
Share repurchase	(11.7)	(0.3)	(18.8)	(1.0)
Change in lease liability	(8.8)	0.8	(43.3)	—
Interest paid net of interest income received	(4.6)	(2.9)	(9.3)	(5.4)
Dividends paid on subordinate and multiple voting shares	(13.8)	(13.3)	(13.8)	(13.3)
Cash flows (used in) from financing activities [(1)]	**$ (33.8)**	**$ (34.8)**	**$ (79.8)**	**$ 50.5**

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

Cash flows used in financing activities were $33.8 million and $79.8 million for the 13 and 26 weeks ended June 30, 2019. Cash used in financing activities primarily consist of the shares repurchased under the Company's NCIB of $11.7 million and $18.8 million for the 13 and 26 weeks ended June 30, 2019; change in the lease liability of $8.8 million and $43.3 million for the 13 and 26 weeks ended June 30, 2019 resulting from the change in the new lease standard; dividends of $13.8 million; net interest paid of $4.6 million and $9.3 million for the 13 and 26 weeks ended June 30, 2019; offset by a net increase in debt of $7.3 million for the quarter and $6.3 million year to date.

Cash flows from financing activities were $34.8 million and $50.5 million for the 13 and 26 weeks ended July 1, 2018. Cash from financing activities primarily consist of a net increase in the Company's credit facility related to The Keg merger, less interest paid in the amount of $2.9 million and $5.4 million for the 13 and 26 weeks ended July 1, 2018; and dividends of $13.3 million.

Debt

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 June 30, 2019, $250.0 million (December 30, 2018 - $nil; July 1, 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 June 30, 2019, $128.3 million (December 30, 2018 - $370.0 million; July 1, 2018 - $450.0 million) was drawn under the amended and extended credit facilities with an effective interest rate of 3.93% representing bankers acceptance rate of 2.0% plus 1.38% borrowing spread, standby fees and the amortization of deferred financing fees of 0.55%.

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 June 30, 2019, the standby fee rate was 0.25%.

As at June 30, 2019, the Company was in compliance with all covenants and has not exceeded any covenant levels requiring early repayments.

At the end of June 30, 2019, the Company had a Net Debt to EBITDA ratio of 1.7x, positioning the Company for more growth and enhanced shareholder returns.

The Keg Facility

In connection with The Keg merger, the Company assumed a multi-option credit agreement with a Canadian banking syndicate for the expansion of restaurant operations. The revolving credit and term loan facilities, with a syndicate of two Canadian banks, are available to finance the construction of certain new corporate restaurants and major renovations in Canada. These facilities are comprised of a $9.0 million reducing term facility, a $35.0 million revolving facility for future restaurant expansion which is subject to annual repayment based on 25% of excess operating cash flow, and a revolving demand operating facility of up to $3.0 million available for general corporate purposes, including working capital, overdrafts and letters of credit.

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

As at June 30, 2019, $19.0 million of the revolving facility has been drawn and is due on the July 2, 2020 maturity date, and less than $0.1 million of the revolving demand operating facility has been used to issue letters of credit.

On June 18, 2018, the Company renegotiated the terms of its credit agreement with its existing banking syndicate. The credit facilities now bear interest at a rate between bank prime plus 0.25% to bank prime plus 1.0% based on certain financial criteria. As at June 30, 2019, the Company meets the criteria for interest at bank prime plus 0.25%.

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

As at June 30, 2019, the Company was in compliance with all covenants and has not exceeded any covenant levels requiring early repayments.

Off Balance Sheet Arrangements

Letters of credit

Recipe has outstanding letters of credit amounting to $0.6 million as at June 30, 2019 (December 30, 2018 - $0.6 million), primarily for various utility companies that provide services to the corporate owned locations and support for certain franchisees' external financing used to fund their initial conversion fee payable to Recipe.

Outstanding Share Capital

The Company's authorized share capital consists of an unlimited number of common shares and an unlimited number of non-voting common shares. As at August 8, 2019, there were 61,368,302 subordinate and multiple voting shares (December 30, 2018 – 61,755,594) issued and outstanding.

The Company has a common share stock option plan for its directors, CEO and employees. The total number of options granted and outstanding as at August 8, 2019 is 7,144,968.

Related Parties

Shareholders

As at June 30, 2019, the Principal Shareholders hold 67.9% of the total issued and outstanding shares and have 97.8% of the voting control attached to all the shares. Cara Holdings holds 23.6% of the total issued and outstanding shares, representing 40.9% voting control. Fairfax holds 44.3% of the total issued and outstanding shares, representing 56.9% voting control.

During the 13 and 26 weeks ended June 30, 2019, the Company paid a dividend of $0.2242 per share (July 1, 2018 - $0.2136 per share) on the Subordinate and Multiple Voting Shares of which Fairfax received $6.0 million (July 1, 2018 - $5.8 million) and Cara Holdings received $3.2 million (July 1, 2018 - $3.1 million), respectively.

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 26 weeks ended June 30, 2019 and July 1, 2018.

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

Insurance Provider

Some of Recipe's insurance policies are held by a company that is a subsidiary of Fairfax. The transaction is on market terms and conditions. As at June 30, 2019, no payments were outstanding.

The Keg

On February 22, 2018 ("The Keg acquisition date"), the Company completed the merger with The Keg for approximately $200.0 million comprised of $105.0 million in cash and 3,801,284 Recipe subordinate voting shares at the exchange amount. In addition, Recipe may be required to pay up to an additional $30.0 million of cash consideration upon the achievement of certain financial milestones. The cash portion of the purchase price was settled by drawing on its existing credit facility. 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.

The Company has elected not to account for the merger as a business combination under IFRS 3 Business Combinations, as the transaction represents a combination of entities under common control of Fairfax. Accordingly, the combination will be recorded on a book value basis.

Investment in Original Joe's joint venture companies

The Company has joint venture arrangements with certain Original Joe's franchises. The Company has an equity investment in these restaurants at varying ownership interests as well as term loans and demand loans related to new restaurant construction, renovation and working capital. As at June 30, 2019 there was a due from related party balance of $11.6 million (December 30, 2018 - $9.9 million; July 1, 2018 - $12.8 million) which consists of term loans and demand loans secured by restaurant assets of the joint venture company which has been recorded at fair value and will be accreted up to the recoverable value over the remaining term of the loans. The term loans bear interest at rates ranging from 7.75% to 9.76% and all mature September 21, 2019. The term loans are reviewed and renewed on an annual basis. The expected current portion of these loans is $1.0 million (December 30, 2018 - $1.0 million; July 1, 2018 - $2.2 million). The demand loans bear interest at 5% and have no specific terms of repayment. Pooling arrangements between the joint venture companies to share costs and repay the loans exist such that restaurants within a certain restaurant pool of common ownership agree that available cash from restaurants can be used to apply against balances outstanding among the group. For the 13 and 26 weeks ended June 30, 2019, the Company charged interest in the amount of $0.1 million and $0.2 million, respectively (13 and 26 weeks ended July 1, 2018 - $0.2 million and $0.4 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 June 30, 2019 the accounts receivable balance included $0.1 million (December 30, 2018 - $0.3 million; July 1, 2018 - $0.5 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 26 weeks ended June 30, 2019, an increase of $0.1 million and an increase of $0.1 million, respectively (13 and 26 weeks ended July 1, 2018 - $1.2 million and $1.1 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. For the 13 and 26 weeks ended June 30, 2019, an increase of $0.1 million and a decrease of $0.1 million to the investment balance, respectively (13 and 26 weeks ended July 1, 2018 - $nil and $0.1 million increase) was recorded in relation to the Company's proportionate share of income for the period and included in share of loss from investment in joint ventures on the statement of earnings.

Investment in restaurant joint venture

The Company has an investment in a joint venture to operate two 1909 Taverne Moderne restaurants with a third party. As at June 30, 2019, the Company has invested $4.0 million, recorded in long-term receivables (December 30, 2018 - $4.5 million, July 1, 2018 - $4.2 million). The loan receivable is unsecured, non-interest bearing and does not have defined repayment terms. The Company and the third party each have a 50% ownership interest in the joint venture. Both parties have joint control and all relevant activities require the unanimous consent from both parties. The Company has accounted for the investment by using the equity method.

The Company's investment is increased by the proportionate share of income earned. For the 13 and 26 weeks ended June 30, 2019, a decrease of $0.2 million and $0.5 million, respectively, to the long term receivable balance (13 and 26 weeks ended July 1, 2018 - $0.4 million and $0.9 million decrease) was recorded in relation to the Company's proportionate share of loss for the period and included in share of loss from investment in joint ventures on the statement of earnings.

Investment in Rose Reisman Catering joint venture

In connection with the acquisition of Pickle Barrel on December 1, 2017, the Company has a 50% ownership interest in Rose Reisman Catering. The investment is considered a joint venture arrangement as both parties have joint control and all relevant activities require the unanimous consent from both parties. The Company has accounted for the investment by using the equity method.

The Company's investment is increased by the proportionate share of income earned. For the 13 and 26 weeks ended June 30, 2019, the Company recorded a decrease of $nil and $0.1 million decrease, respectively, to the investment balance (13 and 26 weeks ended July 1, 2018 - $0.1 million decrease and a $0.1 million increase) in relation to the Company's proportionate share of income for the period and included in share of loss from investment in joint ventures on the statement of earnings.

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

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.

Outlook

Despite the declines in sales, the Company saw improvements with Operating EBITDA and Operating EBITDA Margin for the quarter. Operating EBITDA before the net royalty expense increased $1.9 million or 3.3% to $59.4 million with a contribution margin of 6.8% as a percentage of Total System Sales compared to 6.6% in the second quarter of 2018.

Management provides the following comments regarding its strategies and initiatives:

- *Free Cash Flow* — The Company generates significant Free Cash Flow[1] which provides the Company the ability to fund growth and enhance shareholder returns. Free Cash Flow before growth capex, dividends, and share repurchases under the Company's normal course issuer bid ("NCIB") for the 13 weeks ended June 30, 2019 was $40.0 million compared to $41.0 million for the 13 weeks ended July 1, 2018, a decrease of $1.0 million or 2.4%.

  Free Cash Flow per share before growth capex, dividends, and NCIB on a diluted basis was $0.63 for the 13 weeks ended June 30, 2019 compared to $0.63 for 2018.

  At Q2 2019, the Company's Debt to EBITDA ratio was 1.7x compared to 2.1x at the end of Q2 2018, illustrating how quickly the Company's leverage has reduced from Free Cash Flow being used to reduce debt on the Company's revolving credit facility.

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

- *System Sales and SRS Growth* — Management is not satisfied with the decline in System Sales and SRS of negative 1.7%. Contributing factors to our SRS results include mixed performance between our brands; early progress on our new 4-pillar operating model, with much work still to be done; and challenging weather conditions across the country during the first and second quarters. Despite negative SRS, our disciplined operating model, and our focus on long-term network health, franchisee profitability and cost control enabled us to increase Operating EBITDA by $2.0 million and improve Operating EBITDA Margin to 6.4%.

  Management continues to review its portfolio of restaurants to maximize site potential and profitability to the Company and our franchisee partners. Management's focus will continue to be on the quality of sales from its portfolio of restaurants as we improve site selection, renovate to improve guest experience, continually enhance our food and service pillars while maintaining our practice to open new franchise restaurants at the standard royalty rate while closing or taking back under-performing previously subsidized locations. On a year to date basis, the Company has renovated 52 locations and has opened 23 new locations and closed 23 under-performing restaurants.

- *Total Operating* EBITDA — Before the impact from the net royalty to The Keg Royalties Income Fund, Total Operating EBITDA margin was 6.8% for the quarter compared to 6.6% in 2018. The combined contributions from Corporate, Franchise, Retail and Catering, and Central segments resulted in Total Operating EBITDA margin of 6.4% for the quarter compared to 6.2% in 2018. While The Keg adds EBITDA dollars, because of net central overhead costs and royalty payments to The Keg Royalties Income Fund in the medium term, The Keg merger will reduce Recipe's Operating EBITDA margin on System Sales below the target 7% to 8% range. Management's focus will continue to be on improving the earnings efficiency of our assets and our increased sales base to grow Operating EBITDA as a percentage of System Sales back to within our 7% to 8% target range by 2020-2022.

- *Corporate restaurant profitability* — Corporate restaurant profitability for the 13 weeks ended June 30, 2019 was 10.5% compared to 9.6% in the first quarter of fiscal 2019 and 12.0% in the second quarter of 2018. The decline in the quarter was mostly from the reduction in sales, higher wage rates and taking back under-performing restaurants. Management believes that corporate restaurant profitability will improve as the 4-pillar strategy focus on Food, Service, Ambiance, and Value for the Experience progresses and we continue to improve the quality of our portfolio and sales while we respond to increased competition and a cautious consumer.

Management will continue to pursue the sale of certain corporate restaurants in its franchise banners to franchisees and will pursue the sale of its share in joint venture locations to the Company's joint venture partners to convert joint venture locations to franchise to improve the corporate-franchise portfolio mix.

- *Franchise segment* —Franchise contribution as a percentage of franchise sales has improved to 4.5% in the quarter compared to 4.1% in 2018. The increase is primarily related to improvement to quality of sales due to the ongoing practice to open new franchise restaurants at the standard royalty rate while closing or taking back under-performing previously subsidized locations. Management believes the effective royalty recovery rate will gradually increase over time closer to 5% as the Company adds new franchisees, renews existing locations at the standard royalty rate, and exits under-performing locations. In addition, The Keg will also increase Recipe's overall net royalty rate as new and renewed Keg franchisees pay 6% royalty while others pay 5% until their franchise agreement is renewed.

- *Retail and catering* — Contribution dollars from retail and catering was $3.2 million in the quarter compared to $2.8 million in 2018. A new pie production line was added in the third quarter 2018 which has increased production capacity and enabled the Company to meet the increased demand for its St-Hubert and Swiss Chalet frozen pie products with less reliance on higher cost third party producers. Since the acquisition of St-Hubert in 2016, the Company has successfully launched a number of products, including Swiss Chalet ribs and pot pies, across the country in grocery chains. The Company will be adding a new rib line in Q4 2019 to increase its rib production capacity to meet the increased demand. Management is also pursuing the launch of several more Recipe branded retail products to expand its retail presence in national grocery chains. The Company has also identified catering sales and contribution as a significant opportunity for growth with the acquisitions of Pickle Barrel catering in December 2017, Rose Reisman catering in December 2017, and Marigolds and Onions in December 2018.

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

- *Restaurant Count* — In the 26 weeks ended June 30, 2019, the Company opened 23 new restaurant locations as compared to 27 in the first half of 2018 and closed 23 locations as compared to 26 in 2018. The Company has also renovated 52 locations. Included in the closures were under-performing locations where the closure will benefit the overall system performance and the Company's corporate and franchise contribution models going forward. Closures also included locations that no longer fit the long term strategy of certain brands. Management will continue to review its portfolio of restaurants and will opportunistically close under-performing or non-strategic locations that will benefit the Company long term.

- *Growth, acquisitions and share buy-backs* —The Company currently has a net debt to EBITDA ratio of approximately 1.7x compared to 2.1x at the end of Q2 2018. At this debt level, and with strong cash flow from operations, the Company has the ability to consider more growth opportunities, including acquisitions, while continuing to reduce its debt, and by opportunistically repurchasing its subordinate voting shares for cancellation under the NCIB. During the 26 weeks ended June 30, 2019, the Company purchased and cancelled 703,924 Subordinate Voting Shares for $18.8 million under the Company's NCIB program. Subsequent to June 30, 2019 until August 8, 2019, the Company has repurchased 564,956 Recipe subordinate voting shares for $15.1 million under the NCIB. In addition, the Company's new financing structure positions Recipe for strategic and opportunistic growth at long-term favourable borrowing rates and credit terms. Management believes that locking in long-term fixed rate capital before interest rates increase is prudent and will enable future accretive growth.

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

Future Accounting Changes

New standards and amendments to existing standards have been issued and are applicable to the Company for its annual periods beginning on or after December 31, 2018. See note 3 of the Company’s condensed consolidated interim financial statements for the 13 and 26 weeks ended June 30, 2019 for a summary of new accounting standards adopted during 2019 and note 4 for a summary of future accounting standards not yet adopted.

Controls and Procedures

There were no changes in the Company's internal controls over financial reporting during the 13 and 26 weeks ended June 30, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Critical Accounting Judgments and Estimates

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

Non-IFRS Measures

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

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

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

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

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

"Operating EBITDA" is defined as net earnings before: (i) net interest expense and other financing charges; (ii) income taxes; (iii) depreciation of property, plant and equipment; (iv) amortization of other assets and deferred gain; (v) impairment of assets, net of reversals; (vi) losses on early buyout / cancellation of equipment rental contracts; (vii) restructuring and other; (viii) conversion fees; (ix) net (gain) / loss on disposal of property, plant and equipment; (x) stock based compensation and costs related to its restricted share units; (xi) changes in onerous contract provision; (xii) expense impact from fair value inventory adjustment resulting from the St-Hubert purchase relating to inventory sold during the period; (xiii) acquisition related transaction costs; (xiv) change in fair value of non-controlling interest liability; (xv) change in fair value of Exchangeable Partnership units; (xvi) the Company's proportionate share of equity accounted investment in joint ventures; (xvii) interest income from the Partnership units; and the rent expense impact related to the implementation of IFRS 16, "Leases".

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

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

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

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

"Adjusted Net Earnings" is defined as net earnings plus (i) change in fair value of non-controlling interest liability; (ii) change in fair value of Exchangeable Partnership units; (iii) one-time transaction costs; (iv) non-cash impairment charges; (v) restructuring and other; and (vi) write-off of deferred financing fees.

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

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

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

(C$ millions unless otherwise stated)	Q2 – 2019 June 30, 2019	Q1 – 2019 March 31, 2019	Q4 – 2018 Dec 30, 2018	Q3 – 2018 Sept 30, 2018
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reconciliation of net earnings to Adjusted Net Earnings				
Net earnings	$ 16.6	$ 22.7	$ 9.0	$ 23.8
Transaction costs	0.3	0.1	1.7	0.5
Write off of deferring financing fees	1.0	—	—	—
Impairment charges	4.0	—	6.8	—
Restructuring and other	0.7	(0.2)	8.9	2.6
Change in fair value of non-controlling interest liability	—	—	1.5	1.0
Change in fair value of exchangeable Partnership units	0.9	(4.8)	6.4	(0.3)
Adjusted Net Earnings [(1)]	**$ 23.5**	**$ 17.7**	**$ 34.3**	**$ 27.6**

(C$ millions unless otherwise stated)	Q2 – 2018 July 1, 2018	Q1 - 2018 April 1, 2018	Q4 - 2017 December 31, 2017	Q3 - 2017 Sept 24, 2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reconciliation of net earnings to Adjusted Net Earnings				
Net earnings	$ 19.5	$ 21.5	$ 27.3	$ 21.2
Transaction costs	0.1	0.5	0.1	0.1
Impairment charges	0.7	0.6	2.5	0.7
Restructuring and other	0.5	0.2	1	0.7
Change in fair value of non-controlling interest liability	1.0	—	—	—
Change in fair value of exchangeable Partnership units	2.6	(2.3)	—	—
Adjusted Net Earnings [(1)]	**$ 24.4**	**$ 20.6**	**$ 31.1**	**$ 22.7**

(1) Figures may not total due to rounding.

The following table provides reconciliations of EBITDA and Operating EBITDA:

(C$ millions unless otherwise stated)	Q2 - 2019 June 30, 2019	Q1 - 2019 March 31, 2019	Q4 - 2018 Dec 30, 2018	Q3 - 2018 Sept 30, 2018
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reconciliation of net earnings from continuing operations to EBITDA:				
Net earnings .	16.6	$ 22.7	$ 9	$ 23.8
Net interest expense and other financing charges.	7.5	4.5	2.8	2.8
Income taxes.	7.2	8.6	6.4	7.6
Depreciation and amortization	28.9	27.9	16.2	12.1
EBITDA[1]	**60.2**	**$ 63.7**	**$ 34.4**	**$ 46.3**
Reconciliation of EBITDA to Operating EBITDA:				
Transaction costs.	0.3	0.1	1.7	0.4
Impairment charges	4.0	—	6.8	—
Restructuring and other	0.7	(0.2)	8.9	2.7
Change in fair value non-controlling interest liability	—	(4.8)	7.9	0.6
Change in fair value of exchangeable partnership units	0.9			
Income on Partnership units.	2.7	2.8	2.7	2.7
Conversion fees..	(0.1)	(0.1)	0.5	(0.7)
(Gains) Losses on early buyout/cancellation of equipment rental contracts	0.1	—	0.5	0.3
Net gain on disposal of property, plant and equipment and other assets	(0.1)	0.6	(0.3)	(1.9)
Stock based compensation.	1.8	1.9	2.1	2.3
Change in onerous contract provision	0.4	(0.2)	0.9	(1.4)
Proportionate share of equity accounted joint venture	0.1	0.2	(1.4)	1.1
Rent impact from adoption of IFRS 16 "Leases" [2]	(15.0)	(13.9)	(1.2)	(1.2)
Operating EBITDA [1]	**$ 56.0**	**$ 50.1**	**$ 63.5**	**$ 51.2**

(C$ millions unless otherwise stated)	Q2 - 2018 July 1, 2018	Q1 – 2018 Apr 1, 2018	Q4 – 2017 Dec 31, 2017	Q3 - 2017 Sept 24, 2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reconciliation of net earnings from continuing operations to EBITDA:				
Net earnings	$ 19.5	$ 21.5	$ 27.3	$ 21.2
Net interest expense and other financing charges....	3.0	3.3	3.5	3.2
Income taxes.	9.0	7.8	9.7	9.2
Depreciation and amortization.	15.3	14.6	14.3	12.9
EBITDA(1).	**$ 46.8**	**$ 47.2**	**$ 54.8**	**$ 46.4**
Reconciliation of EBITDA to Operating EBITDA:				
Transaction costs...	0.1	0.5	0.1	0.1
Impairment charges	0.7	0.6	2.5	0.7
Restructuring and other	0.5	0.2	1.0	0.7
Fair value adjustments	3.6	(2.3)	—	—
Income on Partnership units....	2.6	1.0	—	—
Conversion fees	0.1	(0.3)	(0.3)	(0.3)
Losses on early buyout/cancellation of equipment rental contracts	0.3	0.2	(0.1)	0.6
Net (gain) on disposal of property, plant and equipment	(0.3)	(0.2)	(0.3)	(0.4)
Stock based compensation	1.0	0.5	0.5	0.5
Change in onerous contract provision	(1.0)	(0.3)	0.3	(0.4)
Proportionate share of equity accounted joint venture	0.8	0.4	0.2	(0.1)
Rent impact from adoption of IFRS 16 "Leases" (2)	(1.2)	(1.2)	(1.1)	(1.1)
Operating EBITDA (1)	**$ 54.0**	**$ 46.2**	**$ 57.4**	**$ 46.9**

(1) Figures may not total due to rounding.
(2) Note that effective December 31,2018, the Company implemented IFRS16,Leases. Comparative Operating EBITDA figures provided for each quarter have been restated to reflect the adoption of this accounting standard. Please refer to "IFRS 16 New Lease Standard" for further details.

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

(C$ millions unless otherwise stated)	Q2 - 2019 June 30, 2019	Q1 - 2019 March 31, 2019	Q4 - 2018 December 30, 2018	Q3 - 2018 Sept 30, 2018
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Operating EBITDA	$ 56.0	$ 50.1	$ 63.3	$ 51.2
Maintenance capex	(5.6)	(5.5)	(9.1)	(7)
Cash taxes	(5.2)	(4.8)	(1.7)	(1.7)
Interest on long-term debt	(5.2)	(4.7)	(5.3)	(5.2)
Free Cash Flow before growth capex, dividends, NCIB [(1)]	**$ 40.0**	**$ 35.1**	**$ 47.2**	**$ 37.3**
Growth capex	(7.9)	(4.5)	(4.2)	(3.8)
Proceeds on sale of assets	0.9	—	5.3	7.6
Dividends declared	(13.8)	(6.9)	(6.7)	(6.7)
Shares repurchased	(11.7)	(7.1)	(14.5)	(0.7)
Free Cash Flow before growth capex, dividends, NCIB [(1)]	**$ 7.5**	**$ 16.6**	**$ 27.2**	**$ 33.7**

(C$ millions unless otherwise stated)	Q2 - 2018 July 1, 2018	Q1 – 2018 April 1, 2018	Q4 – 2017 Dec 31, 2017	Q3 - 2017 Sept 24, 2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Operating EBITDA	$ 54.0	$ 46.2	$ 57.4	$ 46.9
Maintenance capex	(4.8)	(4.4)	(12.9)	(3.2)
Cash taxes	(2.9)	(4.5)	(4.1)	(3.3)
Interest on long-term debt	(5.3)	(4.1)	(3.4)	(2.7)
Free Cash Flow before growth capex, dividends, NCIB [(1)]	**$ 41.0**	**$ 33.2**	**$ 37.0**	**$ 37.7**
Growth capex	(6.7)	(2.3)	(2.3)	(12.1)
Proceeds on sale of assets	0.4	0.1	0.9	0.7
Dividends declared.	(6.7)	(6.7)	(6.0)	(6.0)
Share repurchased	(0.3)	(0.7)	(5.3)	(28.0)
Free Cash Flow before growth capex, dividends, NCIB [(1)]	**$ 27.8**	**$ 23.6**	**$ 24.3**	**$ (7.7)**

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

Forward-Looking Information

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

Risks and Uncertainties

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

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

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