

Recipe Unlimited Corporation

Condensed Consolidated Interim Financial Statements
For the 13 weeks ended March 29, 2020 and March 31, 2019

Recipe Unlimited Corporation
Condensed Consolidated Interim Statements of Earnings and Comprehensive Income
For the 13 weeks ended March 29, 2020 and March 31, 2019

	For the 13 weeks ended	
	March 29 2020	March 31, 2019
(in thousands of Canadian dollars, except where otherwise indicated)		
Sales (note 6).....	\$ 229,757	\$ 259,485
Franchise revenues (note 7).....	40,165	45,162
Total gross revenue	\$ 269,922	\$ 304,647
Cost of inventories sold.....	(102,957)	(108,475)
Selling, general and administrative expenses (note 8).....	(162,551)	(164,881)
Impairment, net of reversals, of restaurant assets and lease receivables (notes 13, 14, and 15).....	(16,282)	—
Restructuring and other (note 9).....	1,143	225
Operating income (loss)	\$ (10,725)	\$ 31,516
Net interest expense and other financing charges (note 10).....	(6,401)	(4,460)
Share of gain (loss) from investment in joint ventures (note 15).....	113	(577)
Earnings (loss) before change in fair value and income taxes	\$ (17,013)	\$ 26,479
Change in fair value of non-controlling interest liability (note 20).....	—	—
Change in fair value of Exchangeable Keg Partnership units and Keg Royalty Income Fund units.....	(33,050)	4,828
Earnings (loss) before income taxes	\$ (50,063)	\$ 31,307
Current income tax expense (note 11).....	(2,410)	(7,090)
Deferred income tax recovery (expense) (note 11).....	11,228	(1,510)
Net earnings (loss)	\$ (41,245)	\$ 22,707
Net earnings (loss) attributable to Shareholders of the Company.....	(40,974)	22,469
Non-controlling interest.....	(271)	238
	\$ (41,245)	\$ 22,707
Statement of comprehensive income		
Net earnings (loss).....	(41,245)	22,707
Other comprehensive income.....	1,067	303
Total comprehensive income (loss)	\$ (40,178)	\$ 23,010
Net earnings (loss) per share attributable to the Common Shareholders of the Company (note 23) (in dollars)		
Basic earnings (loss) per share.....	\$ (0.73)	\$ 0.36
Diluted earnings (loss) per share.....	\$ (0.73)	\$ 0.35

Recipe Unlimited Corporation
Condensed Consolidated Interim Statements of Total Equity
For the 13 weeks ended March 29, 2020 and March 31, 2019

(in thousands of Canadian dollars, except where otherwise indicated)	Attributable to the Common Shareholders of the Company						Total equity
	Number of shares (in thousands)	Share capital (note 23)	Merger reserve	Contributed surplus	Accumulated other comprehensive loss	Deficit	
Balance at December 29, 2019	56,378	\$617,126	\$(216,728)	\$ 10,617	\$ (3,404)	\$(62,625)	\$ 344,986
Net loss	—	—	—	—	—	(40,974)	(40,974)
Other comprehensive income	—	—	—	—	1,067	—	1,067
Dividends	—	—	—	—	—	(6,633)	(6,633)
Share re-purchase (note 22)	(26)	(312)	—	—	—	—	(312)
Stock-based compensation (note 21)	—	—	—	488	—	—	488
	<u>(26)</u>	<u>(312)</u>	<u>—</u>	<u>488</u>	<u>1,067</u>	<u>(47,607)</u>	<u>(46,364)</u>
Balance at March 29, 2020	<u>56,352</u>	<u>\$616,814</u>	<u>\$(216,728)</u>	<u>\$ 11,105</u>	<u>\$ (2,337)</u>	<u>\$(110,232)</u>	<u>\$ 298,622</u>

(in thousands of Canadian dollars, except where otherwise indicated)	Attributable to the Common Shareholders of the Company						Total equity
	Number of shares (in thousands)	Share capital (note 23)	Merger reserve	Contributed surplus	Accumulated other comprehensive loss	Deficit	
Balance at December 30, 2018	61,755	\$769,662	\$(216,728)	\$ 13,546	\$ (2,556)	\$(78,112)	\$ 485,812
Net earnings	—	—	—	—	—	22,707	22,707
Other comprehensive loss	—	—	—	—	(303)	—	(303)
The Keg merger	—	—	—	—	—	(2,107)	(2,107)
Dividends	—	—	—	—	—	(6,909)	(6,909)
Share re-purchase (note 22)	(266)	(7,079)	—	—	—	—	(7,079)
Stock options exercised (note 21)	125	2,222	—	(933)	—	—	1,289
Stock-based compensation (note 21)	—	—	—	1,924	—	—	1,924
	<u>(141)</u>	<u>(4,857)</u>	<u>—</u>	<u>991</u>	<u>(303)</u>	<u>13,691</u>	<u>9,522</u>
Balance at March 31, 2019	<u>61,614</u>	<u>\$764,805</u>	<u>\$(216,728)</u>	<u>\$ 14,537</u>	<u>\$ (2,859)</u>	<u>\$(64,421)</u>	<u>\$ 495,334</u>

Recipe Unlimited Corporation
Condensed Consolidated Interim Balance Sheets
As at March 29, 2020, December 29, 2019 and March 31, 2019

(in thousands of Canadian dollars)

	March 29 2020	December 29 2019	March 31 2019
Assets			
Current Assets			
Cash.....	\$ 311,928	\$ 40,351	\$ 41,252
Accounts receivable (note 26).....	75,774	117,279	71,195
Inventories (note 12).....	37,180	39,804	33,449
Current taxes receivable.....	3,241	—	—
Prepaid expenses and other assets.....	8,410	6,536	6,653
Current portion of long-term receivables (note 13).....	75,736	80,347	77,965
Total Current Assets	\$ 512,269	\$ 284,317	\$ 230,514
Long-term receivables (note 13).....	394,227	400,883	435,614
Property, plant and equipment (note 14).....	593,147	602,914	647,695
Investment in the Keg Limited Partnership (note 27).....	101,480	128,640	132,148
Brands and other assets (note 15).....	610,624	611,490	616,474
Goodwill (note 16).....	198,313	198,313	198,313
Deferred tax asset (note 11).....	48,444	37,509	26,175
Total Assets	\$ 2,458,504	\$ 2,264,066	\$ 2,286,933
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities.....	\$ 120,501	\$ 124,590	\$ 120,092
Provisions (note 17).....	2,994	4,721	3,908
Gift card liability.....	128,611	167,585	111,594
Income taxes payable.....	3,234	12,015	5,701
Current portion of long-term debt (note 18).....	—	—	154,000
Current portion of lease liabilities (note 19).....	121,559	121,847	120,510
Total Current Liabilities	\$ 376,899	\$ 430,758	\$ 515,805
Long-term debt (note 18).....	770,974	475,742	234,762
Note payable to The Keg Royalties Income Fund.....	57,000	57,000	57,000
Provisions (note 17).....	3,651	3,589	4,204
Lease liabilities (note 19).....	642,972	646,602	661,457
Other long-term liabilities (note 20).....	64,985	66,973	82,057
Deferred gain on sale of The Keg Rights (note 27).....	144,688	139,315	139,028
Deferred tax liability (note 11).....	98,713	99,101	97,286
Total Liabilities	\$ 2,159,882	\$ 1,919,080	\$ 1,791,599
Shareholders' Equity			
Common share capital (note 22).....	\$ 616,814	\$ 617,126	\$ 764,805
Contributed surplus.....	11,105	10,617	14,537
Merger reserve.....	(216,728)	(216,728)	(216,728)
Accumulated other comprehensive loss.....	(2,337)	(3,404)	(2,859)
Deficit.....	(110,232)	(62,625)	(64,421)
Total Shareholders' Equity	\$ 298,622	\$ 344,986	\$ 495,334
Total Liabilities and Equity	\$ 2,458,504	\$ 2,264,066	\$ 2,286,933
Commitments, contingencies and guarantees (note 25)			
Subsequent events (note 29)			

Recipe Unlimited Corporation
Condensed Consolidated Interim Statements of Cash Flows
For the 13 weeks ended March 29, 2020 and March 31, 2019

	For the 13 weeks ended	
	March 29 2020	March 31 2019
(in thousands of Canadian dollars)		
Cash from (used in)		
Operating Activities		
Net earnings (loss).....	\$ (41,245)	\$ 22,707
Depreciation and amortization.....	27,441	28,368
Amortization of deferred gain.....	(446)	(423)
Net gain on disposal of property, plant and equipment and other assets.....	177	599
Loss on early buyout/cancellation of equipment rental contracts.....	(46)	—
Impairment, net of reversals, of restaurant assets and lease receivables (notes 13, 14, 15, and 27).....	16,282	—
Loss on settlement of lease liabilities (note 19).....	118	—
Net interest expense on long-term debt and note payable to the Keg Royalties Income Fund (note 10).....	5,447	3,606
Interest expense on lease liabilities (note 10).....	3,038	2,887
Stock based compensation.....	488	1,924
Income taxes paid.....	(14,451)	(4,810)
Change in restructuring provision.....	(2,138)	(1,531)
Change in deferred tax (note 11).....	(11,323)	1,555
Change in fair value of exchangeable Keg Partnership units.....	33,050	(4,828)
Other non-cash items.....	(4,895)	(2,847)
Net change in non-cash operating working capital (note 24).....	(4,856)	(18,127)
Cash flows from operating activities.....	\$ 6,641	\$ 29,080
Investing Activities		
Business acquisitions, net of cash assumed (note 5).....	\$ (9)	\$ (3,773)
Purchase of property, plant and equipment.....	(8,838)	(9,627)
Proceeds on disposal of property, plant and equipment.....	82	—
Proceeds on early buyout of equipment rental contracts.....	658	—
Investment in joint ventures.....	(500)	—
Share of loss from investment in joint ventures.....	(113)	577
Additions to other assets.....	(1,091)	—
Lease payments received (note 13).....	22,977	23,641
Change in long-term receivables.....	(1,217)	806
Cash flows (used in) investing activities.....	\$ 11,949	\$ 11,624
Financing Activities		
Issuance of long-term debt (note 18).....	\$ 300,000	\$ —
Repayment of long-term debt (note 18).....	(5,000)	(1,000)
Issuance of subordinated voting common shares (note 22).....	—	1,289
Share re-purchase (note 22).....	(312)	(7,079)
Payment on lease liabilities (note 19).....	(37,742)	(37,433)
Interest paid on long-term debt and note payable.....	(3,552)	(4,669)
Cash flows (used in) from financing activities.....	\$ 253,394	\$ (48,892)
Change in cash during the period.....	\$ 271,984	\$ (8,188)
Foreign currency translation adjustment.....	(407)	168
Cash - Beginning of period.....	40,351	49,272
Cash - End of period.....	\$ 311,928	\$ 41,252

1 Nature and description of the reporting entity

Recipe Unlimited Corporation is a Canadian Company incorporated under the Ontario Business Corporations Act and is a Canadian full service restaurant operator and franchisor.

The Company's subordinate voting shares are listed on the Toronto Stock Exchange under the stock symbol "RECP". As part of the Company's initial public offering ("IPO") during fiscal 2015, the Company issued multiple voting shares to Fairfax Financial Holdings Limited and its affiliates ("Fairfax") and to the Phelan family through Cara Holdings Limited and its affiliates ("Cara Holdings", and together with Fairfax, the "Principal Shareholders"). As at March 29, 2020, the Principal Shareholders hold 70.7% of the total issued and outstanding shares and have 98.1% of the voting control attached to all the shares.

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

Impact of COVID-19

In the first quarter of 2020 the Company was impacted by the COVID-19 pandemic and the corresponding government mandated closures of non-essential services. As a consequence, 42% of our Canadian corporate and franchise restaurants were completely closed in mid-March and 58% of restaurant locations remained partially open for off-premise (take out and delivery) sales. In addition, the Company's Retail and Catering divisions remained open as an essential service continuing to supply branded and private label products to grocery customers.

In response to the COVID-19 disruption, the Company closed its central office locations and implemented remote work from home protocols, focused on off-premise sales and delivery channels with revised menus, e-commerce platform enhancements and opened a new "Ultimate Kitchen" to offer multi-brand off-premise choices for delivery to customers from a single kitchen. In conjunction with government wage subsidy programs available to the Company and to laid off employees, the Company laid off most restaurant level associates and adjusted the work and compensation arrangements for all central associates. For all corporate and franchise restaurants and central leases, the Company is negotiating rent deferral or reductions for the COVID-19 disruption period.

On March 17, 2020 the Company drew \$300.0 million on its revolving credit facility to provide liquidity during the COVID-19 period and announced that the payment of dividends will be suspended after the April 15, 2020 dividend. In addition, the Company has suspended share buybacks and has implemented cost reductions and/or deferrals, including salary reductions for management and the suspension of board fees.

Regarding the Company's franchise network, effective mid-March 2020 the Company suspended collections of all fees from franchisees including April 1st rent. The Company is working with each franchisee to arrange lender accommodations and expanded credit facilities and the Company is working with each franchise landlord to arrange rent deferrals or reductions for the COVID-19 disruption period.

While the actions taken to provide liquidity during the COVID-19 period are considered sufficient for the foreseeable future, the future effect of COVID-19 on the economy and businesses, in general, remains uncertain. The medium and long term impact to the Company from COVID-19 will depend on the length of time restaurants are closed, the financial solutions achieved with government, lenders, franchisees, and landlords, post COVID-19 consumer dining behaviours, and the macro impact on the overall economy, in particular household debt and levels of disposable income. Potential financial solutions which may be required include, but are not limited to, obtaining sufficient financial support from government(s) for the Company and its franchisees, lenders, and obtaining rent relief from landlords.

2 Basis of Presentation

Statement of compliance

The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and International Accounting Standard (“IAS”) 34, “Interim Financial Reporting” as issued by the International Accounting Standards Board (“IASB”). The unaudited condensed consolidated interim financial statements should be read in conjunction with the Company’s 2019 audited annual consolidated financial statements and accompanying notes, except for new accounting standards that have been adopted in 2020, as described in note 3.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors (“Board”) on May 7, 2020.

Basis of preparation

The condensed consolidated interim financial statements were prepared on a historical cost basis, except for initial recording of net assets acquired on business combinations, certain financial instruments, liabilities associated with certain stock-based compensation, defined benefit plan assets and certain investments in the Keg Limited Partnership units, which are stated at fair value. Liabilities associated with employee benefits are stated at actuarially determined present values.

Critical accounting judgements and estimates

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Company’s accounting policies except those adopted during the 13 weeks ended March 29, 2020 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 29, 2019.

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

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

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

Comparative information

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

3 Significant accounting policies

Accounting standards implemented in 2020

Definition of a Business (Amendment to IFRS 3)

On October 22, 2018, the IASB issued amendments to IFRS 3 Business Combinations, that seek to clarify whether a transaction results in an asset or a business acquisition. The Company has adopted this amendment in its financial statements for the annual period beginning on December 30, 2019. There was no material impact on the consolidated financial statements.

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

On October 31, 2018, the IASB refined its definition of material and removed the definition of material omissions or misstatements from IAS 8. The Company has adopted this amendment in its financial statements for the annual period beginning on December 30, 2019. There was no material impact on the consolidated financial statements.

4 Future accounting standards

Sale or Contribution of assets between an investor and its associate or joint venture

On September 11, 2014 the IASB issued Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28). The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture (JV). Specifically, under the existing consolidation standard the parent recognizes the full gain on the loss of control, whereas under the existing guidance on associates and JVs the parent recognizes the gain only to the extent of unrelated investors' interests in the associate or JV. The main consequence of the amendments is that a full gain/loss is recognized when the assets transferred meet the definition of a 'business' under IFRS 3 Business Combinations. A partial gain/loss is recognized when the assets transferred do not meet the definition of a business, even if these assets are housed in a subsidiary. The Company did not adopt these amendments in its financial statements for the annual period beginning December 30, 2019, as the effective date for these amendments has been deferred indefinitely.

5 Acquisitions and Buyouts

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

Rose Reisman Catering - see note 27 Related Parties

On January 31, 2020, the Company purchased the remaining 50% interest in Rose Reisman Catering for an immaterial amount.

Re-acquired franchise locations

In the normal course of business, the Company may acquire or re-acquire franchise restaurants and convert them into corporate restaurants. During the 13 weeks ended March 29, 2020, 1 franchise location (March 31, 2019 – 8 locations) was re-acquired by the Company.

(in thousands of Canadian dollars)

	<u>March 29, 2020</u>	<u>March 31, 2019</u>
Consideration		
Cash	\$ 9	\$ 3,388
Total Consideration	<u>\$ 9</u>	<u>\$ 3,388</u>
Net assets acquired		
Inventories	\$ 9	\$ 195
Property, plant and equipment	—	187
Brands and other assets	—	1,971
Total Assets	9	2,353
Liabilities		
Accounts payable and accrued liabilities	—	256
Total liabilities	—	256
Goodwill	—	1,291
Total	<u>\$ 9</u>	<u>\$ 3,388</u>

Anejo and Blanco Cantina

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

Recipe Unlimited Corporation

Notes to the Condensed Consolidated Interim Financial Statements

For the 52 weeks ended December 29, 2019 and December 30, 2018**6 Sales**

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

(in thousands of Canadian dollars)	For the 13 weeks ended	
	March 29, 2020	March 31, 2019
Sales at corporate restaurants	\$ 151,804	\$ 185,092
Food processing and distribution sales	72,860	68,802
Catering sales	2,365	2,702
Call centre service charge revenues	2,728	2,889
	\$ 229,757	\$ 259,485

7 Franchise revenues

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

(in thousands of Canadian dollars)	For the 13 weeks ended	
	March 29, 2020	March 31, 2019
Royalty revenue	\$ 22,928	\$ 26,879
Marketing fund contributions	14,514	15,212
Other rental income	1,946	2,146
Franchise fees on new and renewal licenses	488	493
Income on finance leases	252	385
Amortization of unearned conversion fees income	37	47
	\$ 40,165	\$ 45,162

8 Selling, general and administrative expenses

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

(in thousands of Canadian dollars)	For the 13 weeks ended	
	March 29, 2020	March 31, 2019
Corporate restaurant expenses	\$ 103,784	\$ 111,239
Advertising fund transfers	13,105	15,212
The Keg royalty expense	5,706	6,686
Franchise assistance and bad debt	962	1,151
Depreciation of property, plant and equipment (note 14)	25,282	26,084
Amortization of other assets (note 15)	1,123	1,325
Net loss on disposal of property, plant and equipment and other assets	177	567
Loss on settlement of lease liabilities (note 19)	118	—
Other	12,294	2,617
	\$ 162,551	\$ 164,881

For the year ended March 29, 2020, \$1.0 million (March 31, 2019 - \$1.0 million) of depreciation related to property, plant and equipment has been included in cost of inventories sold as part of food processing and distribution.

Recipe Unlimited Corporation

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 29, 2020 and March 31, 2019**9 Restructuring and other**

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

The following table provides a summary of the costs recognized and cash payments made, as well as the corresponding net liability as at March 29, 2020:

(in thousands of Canadian dollars)	For the 13 weeks ended	
	March 29, 2020	March 31, 2019
Net liability, beginning of period	\$ 13,707	11,523
Adjustments	(3,602)	—
Cost recognized		
Employee termination benefits.....	517	78
Site closing costs and other.....	(1,660)	(303)
	\$ (1,143)	\$ (225)
Cash payments		
Employee termination benefits.....	547	637
Site closing costs and other.....	448	669
	\$ 995	\$ 1,306
Net liability, end of period	\$ 7,967	\$ 9,992

Recorded in the consolidated balance sheets as follows:

(in thousands of Canadian dollars)	March 29 2020	December 29 2019	March 31 2019
Employee termination benefits:			
Accounts payable and accrued liabilities.....	\$ 1,552	\$ 1,561	\$ 1,375
Site closing costs and other are recorded as a reduction to:			
Long-term receivable.....	—	3,010	1,279
Provisions (current).....	—	1,705	—
Property, plant and equipment.....	6,415	7,431	7,338
	\$ 7,967	\$ 13,707	\$ 9,992

10 Net interest expense and other financing charges

(in thousands of Canadian dollars)	For the 13 weeks ended	
	March 29, 2020	March 31, 2019
Interest expense on long-term debt	\$ 5,447	\$ 3,606
Interest expense on note payable to The Keg Royalties Income Fund	1,069	1,069
Financing costs	252	170
Interest expense - other	143	87
Interest income on Partnership units and KRIF units	(2,675)	(2,834)
Interest income	(873)	(525)
Interest on lease obligations (note 19)	7,564	7,621
Interest income on lease receivable	(4,526)	(4,734)
	\$ 6,401	\$ 4,460

11 Income taxes

The Company's income tax expense is comprised of the following:

(in thousands of Canadian dollars)	For the 13 weeks ended	
	March 29 2020	March 31 2019
Current income tax expense		
Current period	\$ 2,414	\$ 7,076
Adjustments for prior years	(4)	14
	\$ 2,410	\$ 7,090
Deferred income tax expense (recovery)		
Benefit from previously unrecognized tax asset	\$ 150	\$ —
Origination and reversal of temporary differences	(11,378)	579
Adjustments for prior years	—	931
	\$ (11,228)	\$ 1,510
Net income tax expense (recovery)	\$ (8,818)	\$ 8,600

Recognized deferred tax assets and liabilities

(in thousands of Canadian dollars)	March 29 2020	December 29 2019	March 31 2019
Opening balance	\$ (61,592)	\$ (70,420)	\$ (70,420)
Deferred income tax expense	11,228	7,980	(1,510)
Income taxes recognized in other comprehensive Other	—	76	—
	95	(92)	(45)
IFRS 16 adjustment to opening balance	—	864	864
	\$ (50,269)	\$ (61,592)	\$ (71,111)

Recipe Unlimited Corporation

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 29, 2020 and March 31, 2019

Deferred tax assets and liabilities are attributable to the following:

(in thousands of Canadian dollars)	March 29 2020	December 29 2019	March 31 2019
Classified in the consolidated balance sheets as follows:			
Deferred tax asset.....	\$ 48,444	\$ 37,509	\$ 26,175
Deferred tax liability.....	(98,713)	(99,101)	(97,286)
	<u>\$ (50,269)</u>	<u>\$ (61,592)</u>	<u>\$ (71,111)</u>

12 Inventories

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

(in thousands of Canadian dollars)	March 29 2020	December 29 2019	March 31 2019
Raw materials.....	\$ 5,968	\$ 6,937	\$ 6,202
Work in progress.....	1,128	921	812
Finished goods.....	18,256	19,035	14,236
Food and beverage supplies.....	11,828	12,911	12,199
	<u>\$ 37,180</u>	<u>\$ 39,804</u>	<u>\$ 33,449</u>

13 Long-term receivables

(in thousands of Canadian dollars)	March 29 2020	December 29 2019	March 31 2019
Lease receivable	\$ 443,643	\$ 455,245	\$ 479,460
Franchise receivable	9,842	11,189	17,409
Due from related parties (note 27)	15,903	14,170	15,728
Promissory notes	575	626	982
	\$ 469,963	\$ 481,230	\$ 513,579

Recorded in the consolidated balance sheets as

(in thousands of Canadian dollars)	March 29 2020	December 29 2019	March 31 2019
Current portion of long-term receivables	\$ 75,736	\$ 80,347	\$ 77,965
Long-term receivables	394,227	400,883	435,614
	\$ 469,963	\$ 481,230	\$ 513,579

Lease receivable

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

Lease receivables are reviewed for impairment based on expected losses at each balance sheet date in accordance with IFRS 9. An impairment loss is recorded when the credit risk is assessed to have increased for the lease receivables. For the 13 weeks ended March 29, 2020, the Company recorded an impairment loss of \$4.0 million (March 31, 2019 - \$nil) on long-term lease receivables using the expected credit loss model.

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

(in thousands of Canadian dollars)	March 29 2020	December 29 2019	March 31 2019
Balance, beginning of period	\$ 455,245	\$ —	\$ —
IFRS 16 inception adjustment		504,439	504,439
Additions	1,138	27,609	—
Lease renewals and modifications, terminations and other adjustments	9,759	19,884	(6,072)
Interest income	4,526	19,132	4,734
Impairment gain/(loss)	(4,048)	(19,875)	—
Payments	(22,977)	(95,944)	(23,641)
	\$ 443,643	\$ 455,245	\$ 479,460

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Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 29, 2020 and March 31, 2019**Franchise receivable**

In prior years, the Company converted certain corporate restaurants to franchise and sold the restaurants to independent operators (“franchisees”). As part of these conversion agreements, certain franchisees entered into rental agreements to rent certain restaurant assets from the Company. Franchise receivables of \$9.8 million (March 31, 2019 - \$17.4 million) relates primarily to the long-term obligation of the franchisees to pay the Company over the term of the rental agreement which is equal to the term of the license agreement or the term to the expected buyout date assuming that the franchisee is more likely than not to acquire the rented assets from the Company.

Long-term franchise receivables are reviewed for impairment based on expected losses at each balance sheet date. An impairment loss is recorded when the credit risk is assessed to have increased for the lease receivables. For the 13 weeks ended March 29, 2020, the Company recorded \$nil (March 31, 2019 - \$nil) of impairment losses on long-term franchise receivables.

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

Provision for impairment

The Company has recorded a provision for impairment against long-term receivables of \$32.9 million as at March 29, 2020:

(in thousands of Canadian dollars)	March 29 2020	December 29 2019	March 31 2019
Balance, beginning of period	\$ 29,616	\$ —	\$ —
IFRS 16 inception adjustment	—	7,438	7,438
Additions related to lease receivable	4,048	19,875	—
Additions related to due from related parties	500	4,741	—
Write-offs	(722)	—	—
Adjustments	(567)	(2,438)	—
Provision for impairment	\$ 32,875	\$ 29,616	\$ 7,438

14 Property, plant and equipment

	As at March 29, 2020							
(in thousands of Canadian dollars)	Land	Buildings	Equipment	Leasehold improvements	Assets under finance lease	Right-of-Use Assets	Construction-in-progress	Total
Cost								
Balance, beginning of year	\$ 35,966	\$ 115,656	\$ 238,864	\$ 238,540	\$ (20)	\$ 304,504	\$ 8,578	\$ 942,088
Additions	—	23	1,607	413	—	5,265	6,795	14,103
Lease renewals and modifications	—	—	—	—	—	11,413	—	11,413
Foreign exchange translation	—	—	1,024	2,515	—	1,037	—	4,576
Disposals and adjustments	—	—	28	(3,640)	20	808	—	(2,784)
Transfer to/(from) construction-in-progress	—	9	4,301	5,069	—	—	(9,379)	—
Balance, end of year	\$ 35,966	\$ 115,688	\$ 245,824	\$ 242,897	\$ —	\$ 323,027	\$ 5,994	\$ 969,396
Accumulated depreciation and impairment losses								
Balance, beginning of year	\$ —	\$ 15,301	\$ 149,587	\$ 111,556	\$ (20)	\$ 62,750	\$ —	\$ 339,174
Depreciation expense	—	949	6,966	7,713	—	10,690	—	26,318
Impairment loss	—	—	2,964	5,362	—	4,820	—	13,146
Reversal of impairment losses	—	—	(44)	(2,152)	—	(82)	—	(2,278)
Foreign exchange translation	—	—	865	2,174	—	334	—	3,373
Disposals and adjustments	—	—	(201)	(3,303)	20	—	—	(3,484)
Balance, end of year	\$ —	\$ 16,250	\$ 160,137	\$ 121,350	\$ —	\$ 78,512	\$ —	\$ 376,249
Carrying amount as at March 29, 2020	\$ 35,966	\$ 99,438	\$ 85,687	\$ 121,547	\$ —	\$ 244,515	\$ 5,994	\$ 593,147
December 29, 2019	\$ 35,966	\$ 100,355	\$ 89,277	\$ 126,984	\$ —	\$ 241,754	\$ 8,578	\$ 602,914
March 31, 2019	\$ 36,241	\$ 101,583	\$ 96,664	\$ 137,018	\$ —	\$ 264,337	\$ 11,852	\$ 647,695

Impairment losses

For the 13 weeks ended March 29, 2020, the Company recorded \$13.1 million (13 weeks ended March 31, 2019 - \$nil) of impairment losses on property, plant and equipment in respect of 34 cash generating units (“CGUs”) (13 weeks ended March 31, 2019 - nil CGUs). An impairment loss is recorded when the carrying amount of the restaurant location exceeds its recoverable amount. The recoverable amount is based on the greater of the CGU’s fair value less costs to sell (“FVLCS”) and its value in use (“VIU”). Approximately 50% (March 31, 2019 - nil) of impaired CGUs had carrying values greater than their FVLCS. The remaining 50% (March 31, 2019 - nil) of impaired CGUs had carrying values greater than their VIU.

For the 13 weeks ended March 29, 2020, the Company recorded \$2.3 million of impairment reversals (13 weeks ended March 31, 2019 - nil).

When determining the VIU of a restaurant location, the Company employs a discounted cash flow model for each CGU. The duration of the cash flow projections for individual CGUs varies based on the remaining useful life of the significant asset within the CGU or the remaining lease term of the location. Sales forecasts for cash flows are based on actual operating results, operating budgets and long-term growth rates that were consistent with strategic plans presented to the Company’s Board and ranged between 0% and 3%. The estimate of the VIU of the relevant CGUs was determined using an after-tax discount rate of 3.7% to 14.5% at March 29, 2020 (March 31, 2019 - nil).

15 Brands and other assets

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

(in thousands of Canadian dollars)	As at March 29, 2020			
	Brands	Other assets	Investment in joint ventures (note 29)	Total
Cost				
Balance, beginning of year.....	\$ 530,456	\$ 82,611	\$ 18,139	\$ 631,206
Additions from business acquisitions (note 5).....	—	1,387	(1,124)	263
Additions.....	—	828	—	828
Disposal.....	—	—	—	—
Share of gain.....	—	—	113	113
Balance as at March 29, 2020.....	\$ 530,456	\$ 84,826	\$ 17,128	\$ 632,410
Accumulated amortization				
Balance, beginning of year.....	\$ —	\$ 19,716	\$ —	\$ 19,716
Amortization.....	—	1,123	—	1,123
Disposal.....	—	—	—	—
Impairment.....	—	866	—	866
Other.....	—	81	—	81
Balance as at March 29, 2020.....	\$ —	\$ 21,786	\$ —	\$ 21,786
Carrying amount as at March 29, 2020.....	\$ 530,456	\$ 63,040	\$ 17,128	\$ 610,624
December 29, 2019.....	\$ 530,456	\$ 62,895	\$ 18,139	\$ 611,490
March 31, 2019.....	\$ 526,072	\$ 72,045	\$ 18,357	\$ 616,474

16 Goodwill

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

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Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 29, 2020 and March 31, 2019

(in thousands of Canadian dollars)	March 29 2020	December 29 2019	March 31 2019
Cost			
Balance, beginning of period	\$ 198,313	\$ 196,638	\$ 196,638
Additions from business acquisitions (note 5).....	—	1,291	1,291
Additions resulting from change in Preliminary Purchase Equation	—	384	384
Balance, end of period	\$ 198,313	\$ 198,313	\$ 198,313

17 Provisions

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

(in thousands of Canadian dollars)	As at March 29, 2020		
	Asset retirement obligations	Other	Total
Balance, beginning of period	\$ 4,340	\$ 3,970	\$ 8,310
Additions	37	—	37
Accretion	57	—	57
Adjustments	(58)	(1,701)	(1,759)
Balance as at March 29, 2020	\$ 4,376	\$ 2,269	\$ 6,645
December 29, 2019	\$ 4,340	\$ 3,970	\$ 8,310
March 31, 2019	\$ 5,631	\$ 2,481	\$ 8,112

Recorded in the consolidated balance sheets as follows:

(in thousands of Canadian dollars)	March 29 2020	December 29 2019	March 31 2019
Provisions-current	\$ 2,994	\$ 4,721	\$ 3,908
Provisions-long-term	3,651	3,589	4,204
	\$ 6,645	\$ 8,310	\$ 8,112

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Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 29, 2020 and March 31, 2019**18 Long-term debt**

(in thousands of Canadian dollars)	March 29 2020	December 29 2019	March 31 2019
Private debt	\$ 250,000	\$ 250,000	\$ —
Term credit facility - revolving	505,325	210,325	220,025
Term credit facility - non-revolving	—	—	150,000
The Keg credit facilities	19,000	19,000	20,000
	<u>774,325</u>	<u>479,325</u>	<u>390,025</u>
Less: financing costs	3,351	3,583	1,263
	<u>\$ 770,974</u>	<u>\$ 475,742</u>	<u>\$ 388,762</u>

Recorded in the consolidated balance sheets as follows:

(in thousands of Canadian dollars)	March 29 2020	December 29 2019	March 31 2019
Current portion of long-term debt.....	\$ —	\$ —	\$ 154,000
Long-term portion of long-term debt.....	770,974	475,742	234,762
	<u>\$ 770,974</u>	<u>\$ 475,742</u>	<u>\$ 388,762</u>

Private debt

On May 1, 2019, the Company issued \$250.0 million First Lien 10 year Senior Secured Notes by way of a private placement (the “Notes”). The Notes rank pari passu in right of payment with the lenders under the Company’s amended and restated credit agreement (“New Credit Facility”), is secured on a first lien basis on the assets that secure the Company’s New Credit Facility, and is guaranteed by all material subsidiaries and holding companies of the Company on the same basis as the New Credit Facility. The Notes bear interest from their date of issue at a rate of 4.72% per annum, payable semi-annually and maturing on May 1, 2029. As at March 29, 2020, \$250.0 million (December 29, 2019 - \$250.0 million; March 31, 2019 - \$ 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 and a \$150.0 million tranche that matures on May 1, 2022. 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.

On March 17, 2020, the Company drew \$300.0 million from its credit facility in response to covid-19 shut-down measures to provide the Company additional liquidity. As at March 29, 2020, \$505.3 million (December 29, 2019 - \$210.3 million; March 31, 2019 - \$370.0 million) was drawn under the amended and extended credit facilities. The effective interest rate for the 13 weeks ended March 29, 2020 was 4.54% representing bankers acceptance rate of 2.32% plus 1.45% borrowing spread, standby fees and the amortization of deferred financing fees of 0.77%.

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Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 29, 2020 and March 31, 2019

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 March 29, 2020 the standby fee rate was 0.29%.

As at March 29, 2020, the Company was in compliance with all covenants and has not exceeded any covenant levels requiring early repayments. Subsequent to March 29, 2020, the Company amended its lending covenants with both its syndicated lenders and private note holders. The covenant amendments are effective through Q3 2021 and are expected to be responsive to the financial impacts from continued dining room closures and gradual System Sales recoveries as guests return to restaurants. In return for the covenant amendments, the Company will incur higher interest costs subject to quarterly leverage ratio levels.

The Keg Credit Facilities

On September 28, 2013, Keg Restaurants Ltd. ("KRL") entered into an amended multi-option credit agreement with its 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. On November 29, 2019, the Company renegotiated the terms of its credit agreement with its existing banking syndicate to modify it from a revolving credit/term loan facility to an all revolving facility, increased the size of the facility to \$60.0 million, reduced the interest rate and extended the maturity date. The credit facility is now comprised of a \$55.0 million revolving facility with no set term of repayments and a \$5.0 million revolving demand operating facility. The Company's credit facility now bears interest at a rate between bank prime plus 0% to bank prime plus 0.75%, based on certain financial criteria, rather than at bank prime plus 0.25% to bank prime plus 1.0%. The maturity date was extended from July 2, 2020 to July 4, 2022.

As at March 29, 2020, \$19.0 million of this facility has been drawn (December 29, 2019 - \$19.0 million; March 31, 2019 - \$20.0 million).

The above credit facilities are secured by a general security agreement and hypothecation over KRL's Canadian and US assets and a pledge of all equity interests in the Partnership. As at March 29, 2020, KRL was in compliance with all bank covenants associated with these facilities.

The movement in long-term debt from December 29, 2019 to March 29, 2020 is as follows:

(in thousands of Canadian dollars)	<u>Private Debt</u>	<u>Term Credit Facility</u>	<u>Keg Credit Facilities</u>	<u>Total</u>
Balance at December 29, 2019	\$ 250,000	\$ 210,325	\$ 19,000	\$ 479,325
Less Financing costs	(1,625)	(1,771)	(187)	(3,583)
	<u>\$ 248,375</u>	<u>\$ 208,554</u>	<u>\$ 18,813</u>	<u>\$ 475,742</u>
Changes from financing cash flows				
Repayment of borrowings	—	(5,000)	—	(5,000)
Issuance of borrowings	—	\$ 300,000	—	\$ 300,000
Balance due to changes from financing cash flows as at March 29, 2020	\$ 248,375	\$ 503,554	\$ 18,813	\$ 770,742
Non-cash movements				
Amortization of deferred financing costs ..	44	168	20	232
Balance at March 29, 2020	<u>\$ 248,419</u>	<u>\$ 503,722</u>	<u>\$ 18,833</u>	<u>\$ 770,974</u>

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Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 29, 2020 and March 31, 2019

The movement in long-term debt from December 30, 2018 to March 31, 2019 is as follows:

(in thousands of Canadian dollars)	<u>Private Debt</u>	<u>Term Credit Facility</u>	<u>Keg Credit Facilities</u>	<u>Total</u>
Balance at December 30, 2018	\$ —	\$ 370,025	\$ 21,000	\$ 391,025
Less Financing costs	—	(1,306)	(153)	(1,459)
	<u>\$ —</u>	<u>\$ 368,719</u>	<u>\$ 20,847</u>	<u>\$ 389,566</u>
Changes from financing cash flows				
Repayment of borrowings	—	—	(1,000)	(1,000)
Balance due to changes from financing cash flows as at March 31, 2019	\$ —	\$ 368,719	\$ 19,847	\$ 388,566
Non-cash movements				
Amortization of deferred financing costs	—	171	25	196
Balance at March 31, 2019	<u>\$ —</u>	<u>\$ 368,890</u>	<u>\$ 19,872</u>	<u>\$ 388,762</u>

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Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 29, 2020 and March 31, 2019**19 Leases**

At the initial commencement date, the Company's lease liabilities are measured at the present value of the future lease payments using the Company's incremental borrowing rate. After initial recognition, the lease liabilities are measured at amortized cost using the effective interest method.

Lease liabilities

(in thousands of Canadian dollars)	March 29 2020	December 29 2019	March 31 2019
Balance, beginning of period	768,449	26,016	26,016
IFRS 16 inception adjustment (Note 3)	—	782,857	782,857
Additions	6,675	41,361	3,268
Lease renewals and modifications	21,214	60,681	—
Lease terminations	(2,825)	(13,168)	—
Gain on settlement of lease liability	118	(1,400)	—
Other adjustments	282	(6,983)	—
Interest expense	7,564	32,212	7,621
Foreign translation adjustment	796	(559)	(362)
Payments	(37,742)	(152,568)	(37,433)
Balance, end of period	\$ 764,531	\$ 768,449	\$ 781,967

Recorded in the consolidated balance sheets as follows:

(in thousands of Canadian dollars)	March 29 2020	December 29 2019	March 31 2019
Current portion of lease liabilities	\$ 121,559	\$ 121,847	\$ 120,510
Lease liabilities	642,972	646,602	661,457
	\$ 764,531	\$ 768,449	\$ 781,967

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Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 29, 2020 and March 31, 2019**20 Other long-term liabilities**

(in thousands of Canadian dollars)	March 29 2020	December 29 2019	March 31 2019
Non-controlling interest liability	\$ 22,483	\$ 22,483	\$ 23,011
Accrued pension and other benefit plans (note 21)	21,389	21,640	21,901
Deferred income	12,657	12,193	13,636
Contingent liability	7,000	7,023	19,778
Deferred rental income	4,208	4,721	6,605
Other long-term liabilities	2,527	1,783	3,495
Deferred share units	580	1,237	1,329
Restricted share units	368	543	—
	\$ 71,212	\$ 71,623	\$ 89,755

Recorded in the consolidated balance sheets as follows:

(in thousands of Canadian dollars)	March 29 2020	December 29 2019	March 31 2019
Accounts payable and accrued liabilities	\$ 6,227	\$ 4,650	\$ 7,698
Other long-term liabilities	64,985	66,973	82,057
	\$ 71,212	\$ 71,623	\$ 89,755

Accrued pension and other benefit plans

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

For the 13 weeks ended March 29, 2020, the Company recorded expenses of \$0.2 million (13 weeks ended March 31, 2019 - \$0.2 million) related to pension benefits.

Non-controlling interest liability

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

For the 13 weeks ended March 29, 2020, the Company recorded \$nil (13 weeks ended March 31, 2019 - \$nil million) related to non-controlling interest liability.

Contingent liability

In connection with The Keg and the Marigolds and Onions acquisitions, a contingent liability in the amounts of \$7.0 million has been recorded as at March 29, 2020 (December 29, 2019 - \$7.0 million; March 31, 2019 - \$19.8 million), representing amounts payable to the former shareholders contingent on certain targets and conditions being met.

For the 13 weeks ended March 29, 2020, the Company recorded a recovery of \$nil (13 weeks ended March 31, 2019 - \$nil) related to the contingent liability.

Deferred income*Unearned franchise and conversion fee income*

At March 29, 2020, the Company had deferred \$3.1 million (December 29, 2019 - \$3.3 million; March 31, 2019 - \$3.9 million) of initial franchise fees and conversion fees received from franchisees that will be recognized over the remaining term of the respective franchise agreements.

Sale-leaseback transactions

At March 29, 2020, the Company had deferred \$2.1 million (December 29, 2019 - \$2.2 million; March 31, 2019 - \$2.7 million) related to gains realized on sale-leaseback transactions.

Covenancy fees

The Company collects covenancy fees from franchisees on subtenant leases. At March 29, 2020, the Company had unearned covenancy fees of \$4.4 million (December 29, 2019 - \$ 4.4 million; March 31, 2019 - \$3.5 million) in connection with recording a lease receivable on transition to IFRS 16 (see note 3 and 13).

Unearned Revenue

The Company earns sales incentives which includes rebates and promotional programs based on achievement of specified volume or growth in volume levels and other agreed promotional activities. At March 29, 2020, the Company had unearned revenue of \$3.1 million (December 29, 2019 - \$2.3 million; March 31, 2019 - \$3.5 million).

Deferred rental income

In prior years, the Company converted certain corporate restaurants to franchise and sold the restaurants to independent operators ("franchisees"). As part of these conversion agreements, certain franchisees entered into rental agreements to rent certain restaurant assets from the Company. The \$4.2 million balance at March 29, 2020 (December 29, 2019 - \$4.7 million; March 31, 2019 - \$6.6 million) represents the unearned revenue associated with the rental agreements calculated as the present value of the minimum lease payments using an interest rate implicit in the rental agreement.

Deferred share units ("DSU")

The non-employee board members receive DSUs as compensation for their participation on the board. These DSUs are settled for cash when members cease to participate on the board of directors and are remeasured at fair value through profit or loss at each balance sheet date. For the 13 weeks ended March 29, 2020, the Company recognized a recovery of \$0.6 million (13 weeks ended March 31, 2019 - expense of \$0.2 million) and a liability was recorded as part of Other Long-Term Liabilities in the amount of \$0.6 million as at March 29, 2020 (December 29, 2019 - \$1.2 million; March 31, 2019 - \$1.3 million).

Restricted share units ("RSU")

RSUs are granted at the beginning of each year and are earned only if certain performance conditions are met. RSUs vest after 3 years and will be settled for cash. For the 13 weeks ended March 29, 2020, the Company recognized a recovery of \$0.2 million (13 weeks ended March 31, 2019 - \$nil) and a liability was recorded as part of Other Long-Term Liabilities in the amount of \$0.4 million as at March 29, 2020 (December 29, 2019 - \$0.5 million; March 31, 2019 - \$nil).

21 Long-term incentive plans

Under the various stock option plans, the Company may grant options to buy up to 15% of its total Subordinate and Multiple Voting Shares outstanding, a total of 8.5 million shares, a guideline the Company has set on the number of stock option grants. As at March 29, 2020, approximately 6.5 million stock options were granted and outstanding.

Stock options outstanding as at March 29, 2020 have a term of up to eight years from the initial grant date. Each stock option is exercisable into one Subordinate Voting Share at the price specified in the terms of the option agreement. There were no accelerated vesting features upon the initial public offering under any of the plans described below.

The following table summarizes the options granted:

	For the 13 weeks ended March 29, 2020					
	CEO stock option plan		Employee stock option plan		Total	
	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share
Outstanding options, December 29, 2019	2,749,355	\$ 10.75	3,743,977	\$ 32.91	6,493,332	\$ 23.53
Granted	—	\$ —	—	\$ —	—	\$ —
Exercised	—	\$ —	—	\$ —	—	\$ —
Forfeited	—	\$ —	(5,693)	\$ (31.81)	(5,693)	\$ (31.81)
Outstanding options, end of period	2,749,355	\$ 10.75	3,738,284	\$ 32.90	6,487,639	\$ 23.52
Options exercisable, end of period	2,509,355	\$ 9.18	586,601	\$ 23.68	3,095,956	\$ 11.93

	For the 13 weeks ended March 31, 2019					
	CEO stock option plan		Employee stock option plan		Total	
	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share
Outstanding options, December 30, 2018	2,899,355	\$ 11.61	4,495,106	\$ 29.63	7,394,461	\$ 22.56
Granted	—	\$ —	—	\$ —	—	\$ —
Exercised	—	\$ —	(125,040)	\$ (10.31)	(125,040)	\$ (10.31)
Forfeited	—	\$ —	(30,250)	\$ (25.21)	(30,250)	\$ (25.21)
Outstanding options, end of period	2,899,355	\$ 11.61	4,339,816	\$ 30.21	7,239,171	\$ 22.76
Options exercisable, end of period	2,419,355	\$ 8.51	811,181	\$ 15.61	3,230,536	\$ 10.29

CEO stock option plan

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

During the 13 weeks ended March 29, 2020 and March 31, 2019, no stock options were granted, exercised or forfeited under the CEO Plan.

For the 13 weeks ended March 29, 2020, the Company recognized stock-based compensation costs of \$0.1 million (13 weeks ended March 31, 2019 - \$1.1 million) related to the CEO Plan with a corresponding increase to contributed surplus.

Employee stock option plan

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

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

Under this plan, the CFO has 180,000 options at an average exercise price of \$27.36 and the Company’s management team has 3,558,284 at an average exercise price of \$33.20.

During the 13 weeks ended March 29, 2020 and March 31, 2019, the Company granted no stock options.

During the 13 weeks ended March 29, 2020, no stock options were exercised (13 weeks ended March 31, 2019 – 125,040 stock options with a weighted average exercise price of \$10.31).

During the 13 weeks ended March 29, 2020, 5,693 stock options with a weighted average exercise price of \$31.81 were forfeited (13 weeks ended March 31, 2019 – 30,250 stock options with a weighted average exercise price of \$25.21 were forfeited).

For the 13 weeks ended March 29, 2020, the Company recognized a stock-based compensation expense of less than \$0.1 million (13 weeks ended March 31, 2019 - \$0.1 million) related to the Employee Plan with a corresponding decrease to contributed surplus.

Restricted share units (“RSU”)

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

	For the 13 weeks ended	
	March 29 2020	March 31 2019
RSUs earned and outstanding		
RSUs outstanding, beginning of period	200,736	256,470
RSUs granted and earned in the period	—	38,164
RSUs forfeited	(687)	(3,327)
RSUs outstanding, end of period	200,049	291,307
RSUs vested, end of period	—	—

During the 13 weeks ended March 29, 2020, nil RSUs were granted and earned and 687 RSUs were forfeited (13 weeks ended March 31, 2019 - 38,164 RSUs were granted and earned and 3,327 RSUs were forfeited). For the 13 weeks ended March 29, 2020, the Company recognized a stock-based compensation expense of \$0.3 million (13 weeks ended March 31, 2019 - \$0.8 million) related to RSUs with a corresponding increase to contributed surplus.

Performance Share Units ("PSU")

PSUs are granted at the beginning of each year and are earned when certain long-term performance targets are achieved. The total number of PSUs earned can increase if maximum performance targets are met. PSUs are earned only if the performance target is achieved at the end of the 3-year period from grant date, vest 5 years from the grant date and expire 10 years from the grant date. As at March 29, 2020, there were 123,928 PSUs granted but not yet earned or vested that can increase to 227,857 PSUs if maximum 3 year performance targets are achieved. PSUs will be settled for subordinate voting shares. For the 13 weeks ended March 29, 2020, the Company recognized a stock-based compensation expense of \$nil (13 weeks ended March 31, 2019 - \$nil) related to PSUs.

22 Share capital

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

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

On June 20, 2019, the Company announced its notice of intention to continue its normal course issuer bid ("NCIB") for its Subordinate Voting Shares. The Company may purchase up to 1,822,329 Subordinate Voting Shares during the period from June 24, 2019 to June 23, 2020. Purchases of the Subordinate Voting Shares are made at market prices and any Subordinate Voting Shares purchased through the NCIB will be cancelled. During the 13 weeks ended March 29, 2020, the Company purchased and cancelled 25,518 Subordinate Voting Shares for \$0.3 million (13 weeks ended March 31, 2019 - 266,197 Subordinate Voting Shares for \$7.1 million).

On August 14, 2019, the Company announced its notice of intention to make a substantial issuer bid ("SIB") to purchase for cancellation its Subordinate Voting and Multiple Voting Shares. On September 25, 2019, the Company completed the repurchase and cancellation of 4,629,629 Subordinate Voting Shares at a price of \$27.00 per share under the SIB for an aggregate purchase price of \$125.4 million.

As at March 29, 2020, there were 34,054,824 Multiple Voting Shares and 22,298,083 Subordinate Voting Shares issued and outstanding (March 31, 2019 - 34,396,284 Multiple Voting Shares and 27,218,153 Subordinate Voting Shares).

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

	Number of Common Shares (in thousands)			Share Capital (in thousands of dollars)		
	Multiple voting common shares	Subordinate voting common shares	Total Common Shares	Multiple voting common shares	Subordinate voting common shares	Total Share Capital
Balance at December 31, 2018	34,396	27,359	61,755	\$192,548	\$ 577,114	\$769,662
Shares issued under stock option plan	—	125	125	—	2,222	2,222
Share re-purchase under NCIB	—	(266)	(266)	—	(7,079)	(7,079)
Balance at March 31, 2019	34,396	27,218	61,614	\$192,548	\$ 572,257	\$764,805
Shares issued under stock option plan	—	450	450	\$ —	\$ 5,897	\$ 5,897
Share re-purchase under NCIB	—	(1,057)	(1,057)	—	(28,150)	(28,150)
Share re-purchase under SIB	(341)	(4,288)	(4,629)	(9,251)	(116,175)	(125,426)
Balance at December 29, 2019	34,055	22,323	56,378	\$183,297	\$ 433,829	\$617,126
Share re-purchase under NCIB	—	(26)	(26)	\$ —	\$ (312)	\$ (312)
Balance at March 29, 2020	34,055	22,297	56,352	\$183,297	\$ 433,517	\$616,814

23 Earnings per share

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

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

	13 weeks ended March 29, 2020			13 weeks ended March 31, 2019		
	Net loss attributable to shareholders of the Company	Weighted average number of shares	EPS	Net earnings attributable to shareholders of the Company	Weighted average number of shares	EPS
Basic....	\$ (40,974)	56,378	\$ (0.73)	\$ 22,469	61,630	\$ 0.36
Diluted.	\$ (40,974)	56,378	\$ (0.73)	\$ 22,469	63,662	\$ 0.35

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

	For the 13 weeks ended	
	March 29 2020	March 31 2019
Common shares	56,378,425	61,630,219
Effect of stock options issued ⁽¹⁾	—	2,031,687
	56,378,425	63,661,906

⁽¹⁾ All shares have been excluded from March 29, 2020 because they are anti-dilutive (March 31, 2019 - 3,994,490 shares)

24 Cash flows

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

	For the 13 weeks ended	
	March 29 2020	March 31 2019
(in thousands of Canadian dollars)		
Accounts receivable	\$ 41,337	\$ 32,319
Inventories	2,633	3,332
Income taxes payable	(12,022)	4
Prepaid expenses and other assets	(1,874)	2,742
Accounts payable and accrued liabilities	(8,512)	(20,159)
Gift card liability	(38,974)	(42,238)
Income taxes paid	14,451	4,810
Change in interest payable	(1,895)	1,063
Net change in non-cash operating working capital	\$ (4,856)	\$ (18,127)

25 Commitments, contingencies and guarantees

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

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

The Company has outstanding letters of credit amounting to \$0.6 million (March 31, 2019 - \$0.6 million) primarily for various utility companies that provide services to corporate owned or franchised locations and support for certain franchisees' external financing used to fund their initial franchise fees and conversion fees, if applicable, payable to the Company. The probability of the letters of credit being drawn as a result of default by a franchisee is low.

Indemnification provisions

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

26 Financial instruments and risk management

Market risk

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

Interest rate risk

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

Commodity price risk

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

Liquidity and capital availability risk

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

Should the Company's financial performance and condition deteriorate, the Company's ability to obtain funding from external sources may be restricted. In addition, credit and capital markets are subject to inherent global risks that may negatively affect the Company's access and ability to fund its long-term debt as it matures. The Company mitigates these risks by maintaining appropriate availability under the credit facilities and varying maturity dates of long-term obligations and by actively monitoring market conditions. On March 17, 2020, the Company drew \$300.0 million from its credit facility in response to COVID-19 shut-down measures to provide the Company additional liquidity. The Company has completed various cash flow forecast scenarios as a result of COVID-19 and believe that the Company has sufficient liquidity to meet its cash obligations for an extended period of time.

Credit risk

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

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

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The following is an aging of the Company's accounts receivable, net of the allowance for uncollectible accounts, as at March 29, 2020 and March 31, 2019:

	March 29, 2020			
	Current	> 30 days past due	> 60 days past due	Total
(in thousands of Canadian dollars)				
Accounts receivable (net of allowance).....	\$ 63,878	\$ 9,028	\$ 2,868	\$ 75,774
Balance at December 29, 2019.....	\$ 106,551	\$ 7,250	\$ 3,478	\$ 117,279
Balance at March 31, 2019.....	\$ 62,391	\$ 4,697	\$ 4,107	\$ 71,195

As a result of COVID-19, the Company has suspended collections of all fees from franchisees including April 1st rent. The Company is working with each franchisee to arrange lender accommodations and expanded credit facilities and the Company is working with each franchise landlord to arrange rent deferrals or reductions for the COVID-19 disruption period.

There are no significant impaired receivables that have not been provided for in the allowance. As at March 29, 2020, the Company believes that the \$14.8 million (December 29, 2019 - \$13.3 million; March 31, 2019 - \$16.5 million) allowance sufficiently covers any credit risk related to the receivable balances past due. The remaining amounts past due were not classified as impaired as the past due status was reasonably expected to be remedied.

Fair value of financial instruments

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

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

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

The following describes the fair value determinations of financial instruments:

Long-term debt

Fair value (Level 2) is based on the Company's current incremental borrowing rate for similar types of borrowing arrangements. The carrying amount of the debt associated with the Company's current financing would approximate its fair value as at March 29, 2020.

Other financial instruments

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

27 Related parties

Shareholders

As at March 29, 2020, the Principal Shareholders hold 70.7% of the total issued and outstanding shares and have 98.1% of the voting control attached to all the shares. Cara Holdings holds 22.6% of the total issued and outstanding shares, representing 36.5% voting control. Fairfax holds 48.1% of the total issued and outstanding shares, representing 61.7% voting control.

During 13 weeks ended March 29, 2020, the Company declared a dividend of \$0.1177 per share (13 weeks ended March 31, 2019 - \$0.1121 per share) on the Subordinate and Multiple Voting Shares of which Fairfax received \$3.2 million (13 weeks ended March 31, 2019 - \$3.0 million) and Cara Holdings received \$1.5 million (13 weeks ended March 31, 2019 - \$1.6 million), respectively on April 15, 2020.

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 weeks ended March 29, 2020 and March 31, 2019.

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 March 29, 2020, no payments were outstanding.

Investment in The Keg Partnership (the "Partnership") and The Keg Royalties Income Fund ("KRIF")

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

Investment in The Keg Royalties Income Fund

During the 13 weeks ended March 29, 2020, the Company purchased nil KRIF units (52 weeks ended December 29, 2019 - 250,000 shares for \$4.0 million, 13 weeks ended March 31, 2019 - nil). The KRIF units held by the Company are measured at fair value through profit or loss. The closing market price of a Fund unit as at March 29, 2020 was \$8.85. Distributions on KRIF units are recorded as interest income on Partnership and Fund units in the consolidated statement of earnings.

Exchangeable Unit Investment in the Partnership

The Exchangeable unit investment in the Partnership is comprised of the Exchangeable Partnership units held by the Company, and measured at fair value through profit or loss. The closing market price of a Fund unit as at March 29, 2020 was \$8.85 (December 29, 2019 - \$15.37, March 31, 2019 - \$17.40).

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(in thousands of Canadian dollars)	March 29, 2020		December 29, 2019		March 31, 2019	
	# of units	Fair Value	# of units	Fair Value	# of units	Fair Value
Class A Partnership units.....	905,944	\$ 8,018	905,944	\$ 13,924	905,944	\$ 15,763
Class B Partnership units.....	176,700	1,564	176,700	2,716	176,700	3,075
Class D Partnership units.....	3,679,692	32,565	3,325,280	51,110	3,236,213	56,310
Exchangeable unit investment in the Partnership.....	4,762,336	\$ 42,147	4,407,924	\$ 67,750	4,318,857	\$ 75,148
Class C unit investment in the Partnership.....	5,700,000	57,000	5,700,000	57,000	5,700,000	57,000
Investment in the Partnership.....	10,462,336	\$ 99,147	10,107,924	\$ 124,750	10,018,857	\$ 132,148
Investment in KRIF units.....	250,000	2,213	250,000	3,843	—	—
Distributions earned on KRIF units.....	—	120	—	47	—	—
	10,712,336	\$ 101,480	10,357,924	\$ 128,640	10,018,857	\$ 132,148

Other

As at March 29, 2020, long-term receivables include a non-interest bearing employee demand note in the amount \$0.8 million (December 29, 2019 - \$0.8 million, March 31, 2019 - \$0.8 million).

As at March 29, 2020, the Company has a \$1.4 million royalty fee payable, including GST, to the Fund (December 29, 2019 - \$2.9 million, March 31, 2019 - \$2.5 million) and a \$0.3 million interest payable amount due to the Fund on the Keg Loan (December 29, 2019 - \$0.3, March 31, 2019 - \$0.4 million) included in accounts payable and accrued liabilities.

As at March 29, 2020, the Company has \$0.7 million in distributions receivable from the Partnership (December 29, 2019 - \$1.2 million March 31, 2019 - \$1.0 million) related to its ownership of the Class C and Exchangeable Partnership units. These amounts were received from the Partnership when due, subsequent to the above periods.

The Company performs accounting services for a company owned by a director. For 13 weeks ended March 29, 2020, KRL earned \$nil for these services (13 weeks ended March 31, 2019 – \$0.1 million), which has been recognized by the Company as other income, net of the costs to provide these services.

The Company incurs royalty expense with respect to the licence and royalty agreement between the Company and the Partnership. As a result of the common directors on the board of the Company and on the board of The Keg GP, the general partner of the Partnership, the royalty expense is treated as a related party transaction. The Company incurred royalty expense of \$5.7 million for the 13 weeks ended March 29, 2020 (13 weeks ended March 31, 2019 – \$6.7 million).

The Company also records investment income on its investment in Exchangeable units of the Partnership, Class C units of the Partnership, and investment in The Keg Royalties Income Fund units which is presented as interest income on Partnership and Fund units in the statements of earnings and comprehensive income. During 13 weeks ended March 29, 2020, the Company recorded investment income of \$2.7 million related to these units (13 weeks ended March 31, 2019 – \$2.8 million).

Investment in Original Joe's joint venture companies

The Company has joint venture arrangements with certain Original Joe's franchises. The Company has an equity investment in these restaurants at varying ownership interests as well as term loans and demand loans related to new restaurant construction, renovation and working capital. As at March 29, 2020 there was a due from related party balance of \$14.7 million (December 29, 2019 - \$13.0 million, March 31, 2019 - \$10.5 million) which consists of term loans and demand loans secured by restaurant assets of the joint venture company which has been recorded at fair value and will be accreted up to the recoverable value over the remaining term of the loans. The term loans bear interest at rates ranging from 7.75% to 9.76% and all mature September 21, 2020. The term loans are reviewed and renewed on an annual basis. The expected current portion of these loans is \$1.0 million (December 29, 2019 - \$1.0 million, March 31, 2019 - \$1.0 million). The demand loans bear interest at 5% and have no specific terms of repayment. Pooling arrangements between the joint venture companies to share costs and repay the loans exist such that restaurants within a certain restaurant pool of common ownership agree that available cash from restaurants can be used to apply against balances outstanding among the group. For the 13 weeks ended March 29, 2020, the Company charged interest in the amount of \$37 thousand (13 weeks ended March 31, 2019 - \$0.1 million) on the term loans and demand loans.

The Company charges Original Joe's joint venture franchises a royalty and marketing fee of 5% and 2%, respectively, on net sales. As at March 29, 2020 the accounts receivable balance included \$0.2 million (December 29, 2019 - \$0.1 million, March 31, 2019 - \$0.1 million) due from related parties in relation to these royalty and marketing payments. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties in accordance with the franchise agreement.

The Company's investment in joint ventures are increased by the proportionate share of income earned. For the 13 weeks ended March 29, 2020, a decrease of \$0.1 million (13 weeks ended March 31, 2019 - \$38.0 thousand increase) to the investment balance was recorded in relation to the Company's proportionate share of income or loss for the period and included in share of income from investment in joint ventures on the 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 for the 13 weeks ended March 29, 2020, there was a \$0.2 million increase to the investment balance (13 weeks ended March 31, 2019 - decrease of \$0.2 million). The changes were recorded in relation to the Company's proportionate share of income for the period and included in share of loss from investment in joint ventures on the statement of earnings.

Investment in 1909 Taverne Moderne joint venture

The Company has an investment in a joint venture to operate two 1909 Taverne Moderne restaurants with a third party. As at March 29, 2020, the Company has invested \$5.2 million, recorded in long-term receivables (December 29, 2019 - \$4.7 million, March 31, 2019 - \$4.2 million). The loan receivable is unsecured, non-interest bearing and does not have defined repayment terms. As at March 29, 2020, an allowance of \$5.2 million (December 29, 2019 - \$4.7 million, March 31, 2019 - \$nil) has been provided against the long-term receivable. The Company and the third party each have a 50% ownership interest in the joint venture. Both parties have joint control and all relevant activities require the unanimous consent from both parties. The Company has accounted for the investment by using the equity method.

The Company's investment is increased by the proportionate share of income earned. For the 13 weeks ended March 29, 2020, there was \$nil recorded in the long term receivable balance (13 weeks ended March 31, 2019 - \$0.3 million decrease) was recorded in relation to the Company's proportionate share of loss for the period and included in share of losses 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 had a 50% ownership interest in Rose Reisman Catering and is considered a joint venture arrangement as both parties have joint control and all relevant activities require the unanimous consent from both parties.

On January 31, 2020, the Company purchased the remaining 50% interest in Rose Reisman Catering for an immaterial amount. The results of the business is 100% included in the consolidated financial statements from February 1, 2020 to March 29, 2020.

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

Significant subsidiaries

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

28 Segmented information

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

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

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

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

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The CEO and the CFO are the chief operating decision makers and they regularly review the operations and performance by segment. The CEO 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.

(in thousands of Canadian dollars)	For the 13 weeks ended	
	March 29 2020	March 31 2019
Gross revenue		
Sales	\$ 158,149	\$ 192,610
Proportionate share of equity accounted joint venture sales	(6,345)	(7,518)
Sales at corporate restaurants	\$ 151,804	\$ 185,092
Franchise revenues	22,849	26,579
Proportionate share of equity accounted joint venture royalty revenue	79	300
Royalty revenue	\$ 22,928	\$ 26,879
Retail & Catering	75,225	71,504
Central	5,414	5,913
Non-allocated revenue	14,551	15,259
Total gross revenue	\$ 269,922	\$ 304,647
Operating income (loss)		
Corporate	\$ (11,072)	\$ 9,138
Franchise	21,886	25,489
Retail & Catering	6,433	3,022
Central	(23,967)	(15,748)
Proportionate share equity accounted joint venture results included in corporate and franchise segment	(256)	(209)
Non-allocated costs	(3,749)	9,824
	\$ (10,725)	\$ 31,516
Depreciation and amortization		
Corporate	\$ 10,676	\$ 9,441
Franchise	—	—
Retail & Catering	1,446	1,523
Central	15,319	17,404
	\$ 27,441	\$ 28,368
Capital expenditures		
Corporate	\$ 7,166	\$ 6,304
Franchise	—	—
Retail & Catering	71	327
Central	18,279	2,995
	\$ 25,516	\$ 9,626

29 Subsequent Events

Subsequent to March 29, 2020, the government of Canada announced various assistance programs available to the Company and its franchise partners in response to COVID-19, including tax payment deferrals, wage subsidy program, and assistance with rent (for which Recipe's eligibility is still being assessed). In addition to applying for these assistance programs, the Company has implemented a number of cost reduction measures, including salary and overhead cost reductions, reductions to planned capital expenditures, suspension of dividends, suspension of share repurchases and board compensation. The impact of these subsidies and cost reduction measures implemented by the Company will be reflected in the second quarter results.

Subsequent to March 29, 2020, the Company has been actively working with its landlord partners to complete short term lease modifications in response to COVID-19.

In response to the first quarter reduction in Operating EBITDA and the expected continuation of EBITDA challenges in the second quarter, the Company has amended its lending covenants with both its syndicated lenders and private note holders. The covenant amendments are effective through Q3 2021 and are expected to be responsive to the financial impacts from continued dining room closures and gradual System Sales recoveries as guests return to restaurants. While market conditions are difficult to predict and there is no assurance these amendments will not require further change, Management believes these amendments will be sufficient in the short to medium term. The Company will continue to carefully monitor and adjust its forecasts to reflect the changing market conditions and the impact on its liquidity and compliance with all covenants. In return for the covenant amendments, the Company will incur higher interest costs subject to quarterly leverage ratio levels.