

Recipe Unlimited Corporation

Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 27, 2020 and September 29, 2019

Recipe Unlimited Corporation

Condensed Consolidated Interim Statements of Earnings and Comprehensive Income

For the 13 and 39 weeks ended September 27, 2020 and September 29, 2019

| (in thousands of Canadian dollars, except where otherwise indicated) | For the 13 weeks ended | | For the 39 weeks ended | |
|--|------------------------|--------------------|------------------------|--------------------|
| | September 27, 2020 | September 29, 2019 | September 27, 2020 | September 29, 2019 |
| Sales (note 6)..... | \$ 207,726 | \$ 262,703 | \$ 557,990 | \$ 786,739 |
| Franchise revenues (note 7)..... | 35,622 | 46,256 | 95,652 | 138,724 |
| Total gross revenue | \$ 243,348 | \$ 308,959 | \$ 653,642 | \$ 925,463 |
| Cost of inventories sold..... | (97,949) | (111,829) | (267,384) | (331,763) |
| Selling, general and administrative expenses (note 8)..... | (113,302) | (168,474) | (346,937) | (497,016) |
| Operating income (loss) before impairment and restructuring | 32,097 | 28,656 | 39,321 | 96,684 |
| Net reversal of (Impairment of) restaurant assets and lease receivables (notes 13, 14, 15 and 26)..... | 2,220 | (5,695) | (61,465) | (9,656) |
| Restructuring and other (note 9)..... | (5,424) | (2,595) | (6,180) | (3,070) |
| Operating income (loss) | \$ 28,893 | \$ 20,366 | \$ (28,324) | \$ 83,958 |
| Net interest expense and other financing charges (note 10)..... | (7,935) | (4,886) | (23,802) | (16,857) |
| Share of gain (loss) from investment in joint ventures (note 15)..... | 814 | (527) | 1,015 | (1,218) |
| Earnings (loss) before change in fair value and income taxes | \$ 21,772 | \$ 14,953 | \$ (51,111) | \$ 65,883 |
| Change in fair value of Exchangeable Keg Partnership units and Keg Royalty Income Fund units..... | (12,079) | (3,066) | (41,974) | 855 |
| Earnings (loss) before income taxes | \$ 9,693 | \$ 11,887 | \$ (93,085) | \$ 66,738 |
| Current income tax expense (note 11)..... | (94) | (5,465) | (6,973) | (18,887) |
| Deferred income tax recovery (expense) (note 11)..... | (4,429) | 308 | 23,388 | (2,067) |
| Net earnings (loss) | \$ 5,170 | \$ 6,730 | \$ (76,670) | \$ 45,784 |
| Net earnings (loss) attributable to Shareholders of the Company..... | 5,092 | 6,844 | (76,214) | 46,162 |
| Non-controlling interest..... | 78 | (114) | (456) | (378) |
| | \$ 5,170 | \$ 6,730 | \$ (76,670) | \$ 45,784 |
| Statement of comprehensive income | | | | |
| Net earnings (loss)..... | 5,170 | 6,730 | (76,670) | 45,784 |
| Other comprehensive income/ (loss)..... | (1,658) | 200 | (1,562) | (443) |
| Total comprehensive income (loss) | \$ 3,512 | \$ 6,930 | \$ (78,232) | \$ 45,341 |
| Net earnings (loss) per share attributable to the Common Shareholders of the Company (note 23) (in dollars) | | | | |
| Basic earnings (loss) per share..... | \$ 0.09 | \$ 0.11 | \$ (1.35) | \$ 0.75 |
| Diluted earnings (loss) per share..... | \$ 0.09 | \$ 0.11 | \$ (1.35) | \$ 0.73 |

Recipe Unlimited Corporation
Condensed Consolidated Interim Statements of Total Equity
For the 13 and 39 weeks ended September 27, 2020 and September 29, 2019

| Attributable to the Common Shareholders of the Company | | | | | | | |
|--|---------------------------------|-------------------------|--------------------|---------------------|--------------------------------------|---------------------|-------------------|
| (in thousands of Canadian dollars, except where otherwise indicated) | Number of shares (in thousands) | Share capital (note 23) | Merger reserve | Contributed surplus | Accumulated other comprehensive loss | Deficit | Total equity |
| Balance at December 29, 2019 | 56,378 | \$617,126 | \$(216,728) | \$ 10,617 | \$ (3,404) | \$ (62,625) | \$ 344,986 |
| Net loss | — | — | — | — | — | (76,214) | (76,214) |
| Other comprehensive income | — | — | — | — | (1,562) | — | (1,562) |
| Dividends | — | — | — | — | — | (6,634) | (6,634) |
| Share re-purchase (note 22) | (26) | (312) | — | — | — | — | (312) |
| Stock-based compensation (note 21) | — | — | — | 964 | — | — | 964 |
| | (26) | (312) | — | 964 | (1,562) | (82,848) | (83,758) |
| Balance at September 27, 2020 | 56,352 | \$616,814 | \$(216,728) | \$ 11,581 | \$ (4,966) | \$ (145,473) | \$ 261,228 |

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

Recipe Unlimited Corporation
Condensed Consolidated Interim Balance Sheets
For the 13 and 39 weeks ended September 27, 2020 and September 29, 2019

(in thousands of Canadian dollars)

| | September 27 2020 | December 29 2019 | September 29 2019 |
|--|------------------------------|-----------------------------|------------------------------|
| Assets | | | |
| Current Assets | | | |
| Cash..... | \$ 48,585 | \$ 40,351 | \$ 33,920 |
| Accounts receivable (note 26)..... | 76,349 | 117,279 | 71,260 |
| Inventories (note 12)..... | 43,649 | 39,804 | 42,338 |
| Current taxes receivable..... | 4,946 | — | — |
| Prepaid expenses and other assets..... | 7,015 | 6,536 | 6,179 |
| Current portion of long-term receivables (note 13)..... | 65,504 | 80,347 | 80,987 |
| Total Current Assets | \$ 246,048 | \$ 284,317 | \$ 234,684 |
| Long-term receivables (note 13)..... | 356,269 | 400,883 | 433,022 |
| Property, plant and equipment (note 14)..... | 564,787 | 602,914 | 622,504 |
| Investment in the Keg Limited Partnership (note 27)..... | 92,593 | 128,640 | 128,175 |
| Brands and other assets (note 15)..... | 611,930 | 611,490 | 612,735 |
| Goodwill (note 16)..... | 198,313 | 198,313 | 202,697 |
| Deferred tax asset (note 11)..... | 62,027 | 37,509 | 26,183 |
| Total Assets | \$ 2,131,967 | \$ 2,264,066 | \$ 2,260,000 |
| Liabilities | | | |
| Current Liabilities | | | |
| Accounts payable and accrued liabilities..... | \$ 150,841 | \$ 124,590 | \$ 125,361 |
| Provisions (note 17)..... | 2,346 | 4,721 | 3,439 |
| Gift card liability..... | 122,514 | 167,585 | 94,299 |
| Income taxes payable..... | 12,256 | 12,015 | 10,646 |
| Current portion of long-term debt (note 18)..... | 4,724 | — | 4,000 |
| Current portion of lease liabilities (note 19)..... | 121,500 | 121,847 | 121,090 |
| Total Current Liabilities | \$ 414,181 | \$ 430,758 | \$ 358,835 |
| Long-term debt (note 18)..... | 495,117 | 475,742 | 513,639 |
| Note payable to The Keg Royalties Income Fund..... | 57,000 | 57,000 | 57,000 |
| Provisions (note 17)..... | 7,100 | 3,589 | 4,643 |
| Lease liabilities (note 19)..... | 592,012 | 646,602 | 652,598 |
| Other long-term liabilities (note 20)..... | 62,015 | 66,973 | 79,207 |
| Deferred gain on sale of The Keg Rights (note 27)..... | 143,797 | 139,315 | 138,182 |
| Deferred tax liability (note 11)..... | 99,517 | 99,101 | 97,871 |
| Total Liabilities | \$ 1,870,739 | \$ 1,919,080 | \$ 1,901,975 |
| Shareholders' Equity | | | |
| Common share capital (note 22)..... | \$ 616,814 | \$ 617,126 | \$ 616,376 |
| Contributed surplus..... | 11,581 | 10,617 | 16,042 |
| Merger reserve..... | (216,728) | (216,728) | (216,728) |
| Accumulated other comprehensive loss..... | (4,966) | (3,404) | (2,999) |
| Deficit..... | (145,473) | (62,625) | (54,666) |
| Total Shareholders' Equity | \$ 261,228 | \$ 344,986 | \$ 358,025 |
| Total Liabilities and Equity | \$ 2,131,967 | \$ 2,264,066 | \$ 2,260,000 |

Commitments, contingencies and guarantees (note 25)
Subsequent events (note 29)

Recipe Unlimited Corporation
Condensed Consolidated Interim Statements of Cash Flows
For the 13 and 39 weeks ended September 27, 2020 and September 29, 2019

| | For the 13 weeks ended | | For the 39 weeks ended | |
|--|------------------------|-----------------------|------------------------|-----------------------|
| | September 27 2020 | September 29, 2019 | September 27 2020 | September 29, 2019 |
| (in thousands of Canadian dollars) | | | | |
| Cash from (used in) | | | | |
| Operating Activities | | | | |
| Net earnings (loss) | \$ 5,170 | \$ 6,730 | \$ (76,670) | \$ 45,784 |
| Depreciation and amortization | 26,461 | 28,800 | 80,622 | 86,536 |
| Amortization of deferred gain | (446) | (423) | (1,337) | (1,269) |
| Net loss (gain) on disposal of property, plant and equipment | (4,265) | 463 | (3,579) | 923 |
| Net (gain) loss on early buyout/cancellation of equipment rental contracts | (139) | 1,582 | (425) | 1,692 |
| Net (reversal of) impairment of restaurant assets and lease receivables (notes 13, 14, and 15) | (8,389) | 5,696 | 42,751 | 9,656 |
| (Gain) loss on settlement of lease liabilities (note 19) | (54) | — | 369 | — |
| Net interest expense on long-term debt (note 10) | 6,350 | 4,540 | 18,638 | 12,291 |
| Interest expense on lease liabilities (note 10) | 2,991 | 3,227 | 9,071 | 10,147 |
| Stock based compensation | 92 | 1,418 | 964 | 5,132 |
| Income taxes paid | 2,717 | (4,008) | (11,734) | (14,009) |
| Change in restructuring provision | 3,347 | 1,433 | 1,299 | (536) |
| Change in deferred tax (note 11) | 3,934 | (334) | (24,102) | 2,132 |
| Change in fair value of exchangeable Keg Partnership units | 12,079 | 3,066 | 41,974 | (855) |
| Other non-cash items | 2,932 | 7,796 | (5,713) | 5,155 |
| Net change in non-cash operating working capital (note 24) | 15,070 | (12,636) | 22,924 | (25,065) |
| Cash flows from operating activities | \$ 67,850 | \$ 47,350 | \$ 95,052 | \$ 137,714 |
| Investing Activities | | | | |
| Business acquisitions, net of cash assumed (note 5) | \$ (10,343) | \$ 357 | \$ (11,552) | \$ (8,446) |
| Purchase of property, plant and equipment | (8,837) | (12,024) | (25,095) | (35,157) |
| Proceeds on disposal of property, plant and equipment | 4,451 | (300) | 4,531 | 630 |
| Proceeds on early buyout of equipment rental contracts | — | 105 | 1,688 | 175 |
| Investment in joint ventures | — | — | 580 | — |
| Share of loss from investment in joint ventures | (814) | 527 | (1,015) | 1,218 |
| Additions to other assets | (59) | (124) | (1,150) | (124) |
| Lease payments received or receivable (note 13) | 22,769 | 24,845 | 68,113 | 71,176 |
| Change in long-term receivables | 154 | (8,559) | (6,552) | (9,209) |
| Cash flows (used in) investing activities | \$ 7,321 | \$ 4,827 | \$ 29,548 | \$ 20,263 |
| Financing Activities | | | | |
| Issuance of long-term debt (note 18) | \$ 7,721 | \$ 125,000 | \$ 307,721 | \$ 390,000 |
| Repayment of long-term debt (note 18) | (222,997) | (1,000) | (283,999) | (259,700) |
| Deferred financing costs (note 18) | — | (78) | (266) | (2,963) |
| Issuance of subordinated voting common shares (note 22) | — | 2,920 | — | 4,785 |
| Share re-purchase (note 22) | — | (141,954) | (312) | (160,707) |
| Lease liabilities paid or payable (note 19) | (36,916) | (37,983) | (105,910) | (114,159) |
| Change in lease liabilities (note 19) | (1,851) | — | (8,667) | — |
| Interest paid on long-term debt and note payable | (3,731) | (951) | (18,145) | (10,206) |
| Dividends paid on subordinate and multiple voting common shares | — | (6,827) | (6,634) | (20,609) |
| Cash flows (used in) from financing activities | \$ (257,774) | \$ (60,873) | \$ (116,212) | \$ (173,559) |
| Change in cash during the period | \$ (182,603) | \$ (8,696) | \$ 8,388 | \$ (15,582) |
| Foreign currency translation adjustment | 103 | (91) | (154) | 230 |
| Cash - Beginning of period | 231,085 | 42,707 | 40,351 | 49,272 |
| Cash - End of period | \$ 48,585 | \$ 33,920 | \$ 48,585 | \$ 33,920 |

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 September 27, 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

The COVID-19 pandemic has impacted Canadians and economies around the world. The restaurant and food services industry have experienced significant business disruptions since March 2020, as a result of mandated restaurant closures and other restrictive measures. While the length of this pandemic is uncertain and government-imposed restrictions continue to evolve, the Company remains focused on the health and safety of our customers, employees and franchise partners. In March 2020, the Company swiftly 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. For all corporate and franchise restaurants and central leases, the Company is continuing to negotiate rent deferrals or reductions for the COVID-19 disruption and recovery periods and is applying for government rent subsidies with landlords where applicable.

In June 2020, the Company began to gradually re-open its Canadian restaurants at a reduced capacity to adhere to social distancing guidelines and implemented company-wide health and safety protocols across all of its restaurant locations. Our associates and franchise partners have operated effectively over the COVID-19 disruption periods, while executing industry leading safety measures and the Company reported a steady sales increase during the third quarter compared to the second quarter.

Since March 2020, the Company has taken a number of initiatives to provide direct support to its franchise partners. The 2020 full year cost of these initiatives is expected to be approximately \$44.4 million, of which \$26.5 million has been realized year to date. These initiatives include:

- The Company introduced a rent certainty program to assist its franchise partners with direct rent support through to the end of 2020. The full year cost estimate of the rent certainty program was recorded in the second quarter. The 2020 estimated cost of the rent certainty program is approximately \$35.0 million, of which \$22.0 million of direct rent support has been provided since the start of this program. The full cost of the rent certainty program is expected to be partially reduced by savings from the CECRA government rent assistance program for qualifying restaurants, these savings will be realized subsequent to the third quarter once government approvals are obtained; and
- The Company introduced a royalty reduction program to provide direct support to its franchise partners through to the end of 2020. The 2020 estimated cost of the royalty reduction program is approximately \$7.5 million, of which \$4.5 million of royalty reduction has been provided since the inception of this program.

The government of Canada has announced additional assistance programs available to the Company and franchise partners. These government assistance programs include:

- The Canada Emergency Wage Subsidy program (CEWS) was made available to the Company and its franchise partners. During the 13 weeks ended September 27, 2020, the Company realized \$34.2 million of wage subsidies for salaries paid to employees in corporate restaurants, food manufacturing and head office locations;
- The Canada Emergency Commercial Rent Assistance program (CECRA) was made available to certain franchise locations. The benefit of the government rent assistance program will be realized subsequent to the third quarter for franchise restaurants that qualify, where landlords have agreed to participate in the program and government approvals are obtained; and
- Subsequent to the third quarter, the government of Canada introduced the new Canada Emergency Rent Subsidy ("CERS") program, which will provide direct rent relief to tenants and will replace the CECRA program, which expired at the end of September 2020. The Company is assessing its eligibility for the CERS program and intends to participate if eligible.

The Company has taken various actions to provide sufficient liquidity for the foreseeable future, including:

- On March 17, 2020 the Company drew \$300.0 million on its revolving credit facility to provide liquidity during the COVID-19 period, and the Company subsequently repaid \$276.0 million on its revolving credit facility in the second and third quarters. For franchise restaurants, the Company continues to work with franchisees to arrange lender accommodations and expanded credit facilities where necessary;
- On May 7, 2020, the Company amended its lending covenants with its banking syndicate and Private Noteholders to provide additional liquidity and covenant flexibility. The covenant amendments are effective through the third quarter of 2021;
- The Company suspended its NCIB share buyback program;
- The Company suspended dividend payments for the balance of 2020; and
- The Company suspended many central, new store development and corporate store renovation and capital expenditure plans.

As a result of these actions and careful working capital management, the Company had positive cash flows of \$40.4 million in the third quarter before debt repayments. The Company finished the quarter with a \$48.6 million cash balance, after total debt repayments of \$223.0 million in the quarter.

While the actions taken 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 duration and extent of the new mandated restaurant closures, the financial solutions achieved with government, lenders, franchisees, and landlords, post COVID-19 consumer dining behaviors, 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, as well as 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 November 5, 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 39 weeks ended September 27, 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.

COVID-19-Related Rent Concessions (Amendment to IFRS 16)

On May 28, 2020, the IASB issued COVID-19-Related Rent Concessions (Amendments to IFRS 16). The amendments permits lessees, as a practical expedient, to not assess whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to COVID-19-related rent concessions that reduce lease payments due on or before June 30, 2021. The Company has early adopted this amendment in its financial statements for all rent concessions beginning on December 30, 2019. For the 13 and 39 weeks ended September 27, 2020, the Company recorded \$0.5 million and \$1.2 million of rent concessions, respectively, (in the form of rent reduction from landlords) as a reduction to selling, general and administrative expenses.

Government Grant

In response to the negative economic impact of COVID-19, the Government of Canada announced the CEWS program in April 2020. CEWS provides wage subsidy on eligible remuneration, subject to limits per employee, to eligible employees based on certain criteria, including demonstration of revenue declines as the result of COVID-19. This subsidy is retroactive to March 15, 2020.

The Company recognizes government grants when there is reasonable assurance that it will comply with the conditions required to qualify for the grant, and that the grant will be received. The Company recognizes government grants as a reduction to the related expense that the grant is intended to offset. The Company has recognized \$34.2 million and \$69.7 million of CEWS for the 13 and 39 weeks ended September 27, 2020, and has recorded it as a reduction to the eligible remuneration expense incurred by the Company during this period.

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.

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

On January 23, 2020, the IASB issued amendments to IAS 1 *Presentation of Financial Statements*, to clarify the classification of liabilities as current or non-current. The amendments removed the requirement for a right to defer settlement or roll over of a liability for at least twelve months to be unconditional. Instead, such a right must have substance and exist at the end of the reporting period. The amendments also clarify how a company classifies a liability that includes a counterparty conversion option. The amendments state that: (i). settlement of a liability includes transferring a company's own equity instruments to the counterparty, and (ii). when classifying liabilities as current or non-current a company can ignore only those conversion options that are

recognized as equity. The Company intends to adopt these amendments for annual periods beginning on or after January 1, 2023. The Company is currently assessing whether this will have a material impact on the consolidated financial statements.

Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)

On May 14, 2020, the IASB issued *Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)*. The amendments specifies which costs are to be included as a cost of fulfilling a contract when determining whether a contract is onerous. The Company intends to adopt this amendment for annual periods beginning on or after January 1, 2022. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

Property, Plant and Equipment - Proceeds before Intended Use (Amendments to IAS 16)

On May 14, 2020, the IASB issued *Property, Plant and Equipment - Proceeds before Intended Use (Amendments to IAS 16)*. The amendments provide guidance on the accounting for sale proceeds and the related production costs for items a company produces and sells in the process of making an item of property, plant and equipment available for its intended use. Specifically, proceeds from selling items before the related item of property, plant and equipment is available for use should be recognized in profit or loss. The Company intends to adopt this amendment for annual periods beginning on or after January 1, 2022. The Company does not expect the amendments to have a material impact on the consolidated financial statements

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.

Causeway Restaurants Limited

On June 29, 2020, the Company purchased the remaining 50% interest in Causeway Restaurants Limited for an immaterial amount.

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.

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.

Re-acquired franchise locations

In the normal course of business, the Company may acquire franchise restaurants and convert them into corporate restaurants. During the 13 and 39 weeks ended September 27, 2020, 9 and 14 franchise locations (September 29, 2019 – 2 and 11 locations) were re-acquired by the Company, respectively.

Recipe Unlimited Corporation

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 27, 2020 and September 29, 2019

| (in thousands of Canadian dollars) | For the 13 weeks ended | | For the 39 weeks ended | |
|--|-------------------------------|---------------------------|-------------------------------|---------------------------|
| | September 27, 2020 | September 29, 2019 | September 27, 2020 | September 29, 2019 |
| Consideration | | | | |
| Cash..... | \$ 5,622 | \$ 28 | \$ 6,831 | \$ 3,416 |
| Assumption of long-term debt | 4,721 | — | 4,721 | — |
| Total Consideration..... | \$ 10,343 | \$ 28 | \$ 11,552 | \$ 3,416 |
| Net assets acquired | | | | |
| Inventories..... | \$ 168 | \$ 28 | \$ 177 | \$ 223 |
| Property, plant and equipment..... | 4,110 | — | 4,110 | 187 |
| Brands and other assets..... | 6,065 | — | 7,265 | 1,971 |
| Total Assets..... | 10,343 | 28 | 11,552 | 2,381 |
| Liabilities | | | | |
| Accounts payable, accrued liabilities..... | — | — | — | 256 |
| Total liabilities..... | — | — | — | 256 |
| Goodwill..... | — | — | — | 1,291 |
| Total..... | \$ 10,343 | \$ 28 | \$ 11,552 | \$ 3,416 |

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 | | For the 39 weeks ended | |
|--|-------------------------------|---------------------------|-------------------------------|---------------------------|
| | September 27, 2020 | September 29, 2019 | September 27, 2020 | September 29, 2019 |
| Sales at corporate restaurants..... | \$ 118,093 | \$ 184,510 | \$ 303,599 | \$ 557,918 |
| Food processing and distribution sales ... | 85,328 | 68,887 | 239,303 | 206,759 |
| Catering sales..... | 1,217 | 6,847 | 5,590 | 14,074 |
| Call centre service charge revenues..... | 3,088 | 2,459 | 9,498 | 7,988 |
| | \$ 207,726 | \$ 262,703 | \$ 557,990 | \$ 786,739 |

Recipe Unlimited Corporation

Notes to the Condensed Consolidated Interim Financial

For the 13 and 39 weeks ended September 27, 2020 and September 29, 2019**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 | | For the 39 weeks ended | |
|---|------------------------|--------------------|------------------------|--------------------|
| | September 27, 2020 | September 29, 2019 | September 27, 2020 | September 29, 2019 |
| Royalty revenue | \$ 18,567 | \$ 27,406 | \$ 51,618 | \$ 81,699 |
| Marketing fund contributions | 14,329 | 16,156 | 36,571 | 47,451 |
| Other rental income | 2,071 | 2,234 | 5,600 | 6,667 |
| Franchise fees on new and renewal licenses | 381 | 450 | 973 | 1,981 |
| Income on equipment finance leases | 227 | 337 | 724 | 1,093 |
| Amortization of unearned conversion fees income | 47 | (327) | 166 | (167) |
| | \$ 35,622 | \$ 46,256 | \$ 95,652 | \$ 138,724 |

8 Selling, general and administrative expenses

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

| (in thousands of Canadian dollars) | For the 13 weeks ended | | For the 39 weeks ended | |
|---|------------------------|--------------------|------------------------|--------------------|
| | September 27, 2020 | September 29, 2019 | September 27, 2020 | September 29, 2019 |
| Corporate restaurant expenses | \$ 70,559 | \$ 112,295 | \$ 207,972 | \$ 335,903 |
| Advertising fund transfers | 14,329 | 15,970 | 36,571 | 47,265 |
| The Keg royalty expense | 4,296 | 6,225 | 10,754 | 19,047 |
| Franchise assistance and bad debt | 1,887 | 1,151 | 3,365 | 2,776 |
| Depreciation of property, plant and equipment (note 14) | 24,371 | 26,347 | 74,315 | 78,845 |
| Amortization of other assets (note 15) | 1,066 | 1,498 | 3,214 | 4,822 |
| Net (gain) loss on disposal of property, plant and equipment | (4,265) | 463 | (3,579) | 923 |
| Net (gain) loss on settlement of lease liabilities (note 19) | (54) | — | 369 | — |
| Losses on early buyout/cancellation of equipment rental contracts | — | 1,582 | — | 1,692 |
| Other | 1,113 | 2,943 | 13,956 | 5,743 |
| | \$ 113,302 | \$ 168,474 | \$ 346,937 | \$ 497,016 |

For the 13 and 39 weeks ended September 27, 2020, \$1.0 million and \$3.1 million (September 29, 2019 - \$1.0 million and \$2.9 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

For the 13 and 39 weeks ended September 27, 2020 and September 29, 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 September 27, 2020:

| (in thousands of Canadian dollars) | For the 13 weeks ended | | For the 39 weeks ended | |
|---|------------------------|--------------------|------------------------|--------------------|
| | September 27, 2020 | September 29, 2019 | September 27, 2020 | September 29, 2019 |
| Net liability, beginning of period | \$ 8,058 | \$ 9,467 | \$ 13,707 | \$ 11,524 |
| Adjustments | 4,291 | — | 690 | — |
| Cost recognized | | | | |
| Employee termination benefits..... | 2,340 | 320 | 4,756 | 671 |
| Site closing costs and other..... | 3,084 | 2,275 | 1,424 | 2,399 |
| | \$ 5,424 | \$ 2,595 | 6,180 | \$ 3,070 |
| Cash payments | | | | |
| Employee termination benefits..... | 2,077 | 316 | 3,860 | 1,371 |
| Site closing costs and other..... | — | 758 | 1,021 | 2,235 |
| | \$ 2,077 | \$ 1,074 | \$ 4,881 | \$ 3,606 |
| Net liability, end of period | \$ 15,696 | \$ 10,988 | \$ 15,696 | \$ 10,988 |

Recorded in the consolidated balance sheets as follows:

| (in thousands of Canadian dollars) | September 27, 2020 | December 29, 2019 | September 29, 2019 |
|--|--------------------|-------------------|--------------------|
| Employee termination benefits: | | | |
| Accounts payable and accrued liabilities..... | \$ 2,903 | \$ 1,561 | \$ 1,235 |
| Site closing costs and other are recorded as a reduction to: | | | |
| Long-term receivable..... | — | 3,010 | 2,695 |
| Provisions..... | 3,264 | 1,705 | — |
| Property, plant and equipment..... | 9,529 | 7,431 | 7,058 |
| | \$ 15,696 | \$ 13,707 | \$ 10,988 |

Recipe Unlimited Corporation

Notes to the Condensed Consolidated Interim Financial

For the 13 and 39 weeks ended September 27, 2020 and September 29, 2019**10 Net interest expense and other financing charges**

| (in thousands of Canadian dollars) | For the 13 weeks ended | | For the 39 weeks ended | |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | September 27, 2020 | September 29, 2019 | September 27, 2020 | September 29, 2019 |
| Interest expense on long-term debt | \$ 6,349 | \$ 4,540 | \$ 18,638 | \$ 12,291 |
| Interest expense on note payable to The Keg Royalties Income Fund | 1,069 | 1,069 | 3,206 | 3,206 |
| Financing costs | 229 | (709) | 745 | 736 |
| Interest expense - other | 256 | 31 | 595 | 153 |
| Interest income on Partnership units and KRIF units | (2,272) | (2,807) | (6,187) | (8,322) |
| Interest income | (687) | (465) | (2,266) | (1,354) |
| Interest on lease obligations (note 19) | 7,162 | 8,020 | 22,156 | 24,460 |
| Interest income on lease receivable (note 13) | (4,171) | (4,793) | (13,085) | (14,313) |
| | \$ 7,935 | \$ 4,886 | \$ 23,802 | \$ 16,857 |

Recipe Unlimited Corporation

Notes to the Condensed Consolidated Interim Financial

For the 13 and 39 weeks ended September 27, 2020 and September 29, 2019**11 Income taxes**

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

| (in thousands of Canadian dollars) | For the 13 weeks ended | | For the 39 weeks ended | |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | September 27, 2020 | September 29, 2019 | September 27, 2020 | September 29, 2019 |
| Current income tax expense | | | | |
| Current period | \$ 4,576 | \$ 5,502 | \$ 11,455 | \$ 18,924 |
| Adjustments for prior years | (4,482) | (37) | (4,482) | (37) |
| | \$ 94 | \$ 5,465 | \$ 6,973 | \$ 18,887 |
| Deferred income tax expense (recovery) | | | | |
| Benefit from previously unrecognized tax asset | \$ (19) | \$ (14) | \$ (19) | \$ — |
| Origination and reversal of temporary differences | 50 | (294) | (27,767) | 1,136 |
| Adjustments for prior years | 4,398 | — | 4,398 | 931 |
| | \$ 4,429 | \$ (308) | \$ (23,388) | \$ 2,067 |
| Net income tax expense (recovery) | \$ 4,523 | \$ 5,157 | \$ (16,415) | \$ 20,954 |

Recognized deferred tax assets and liabilities

| (in thousands of Canadian dollars) | September 27, 2020 | December 29, 2019 | September 29, 2019 |
|---|-------------------------------|------------------------------|-------------------------------|
| Opening balance | \$ (61,592) | \$ (70,420) | \$ (70,420) |
| Deferred income tax expense/ (recovery) | 23,388 | 7,980 | (2,067) |
| Income taxes recognized in other comprehensive income | 530 | 76 | — |
| Other | 184 | (92) | (65) |
| IFRS 16 adjustment to opening balance | — | 864 | 864 |
| | \$ (37,490) | \$ (61,592) | \$ (71,688) |

Deferred tax assets and liabilities are attributable to the following:

| (in thousands of Canadian dollars) | September 27, 2020 | December 29, 2019 | September 29, 2019 |
|--|-------------------------------|------------------------------|-------------------------------|
| Classified in the consolidated balance sheets as follows: | | | |
| Deferred tax asset | \$ 62,027 | \$ 37,509 | \$ 26,183 |
| Deferred tax liability | (99,517) | (99,101) | (97,871) |
| | \$ (37,490) | \$ (61,592) | \$ (71,688) |

12 Inventories

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

| (in thousands of Canadian dollars) | September 27 2020 | December 29 2019 | September 29 2019 |
|------------------------------------|------------------------------|-----------------------------|------------------------------|
| Raw materials..... | \$ 7,568 | \$ 6,937 | \$ 7,764 |
| Work in progress..... | 1,100 | 921 | 1,077 |
| Finished goods..... | 23,425 | 19,035 | 21,552 |
| Food and beverage supplies..... | 11,556 | 12,911 | 11,945 |
| | <u>\$ 43,649</u> | <u>\$ 39,804</u> | <u>\$ 42,338</u> |

13 Long-term receivables

| (in thousands of Canadian dollars) | September 27, 2020 | December 29 2019 | September 29, 2019 |
|---|-------------------------------|-----------------------------|-------------------------------|
| Lease receivable..... | \$ 395,466 | \$ 455,245 | \$ 481,549 |
| Franchise receivable..... | 8,007 | 11,189 | 13,264 |
| Due from related parties (note 27)..... | 17,830 | 14,170 | 18,475 |
| Promissory notes..... | 470 | 626 | 721 |
| | <u>\$ 421,773</u> | <u>\$ 481,230</u> | <u>\$ 514,009</u> |

Recorded in the consolidated balance sheets as follows:

| (in thousands of Canadian dollars) | September 27, 2020 | December 29 2019 | September 29, 2019 |
|---|-------------------------------|-----------------------------|-------------------------------|
| Current portion of long-term receivables..... | \$ 65,504 | \$ 80,347 | \$ 80,987 |
| Long-term receivables..... | 356,269 | 400,883 | 433,022 |
| | <u>\$ 421,773</u> | <u>\$ 481,230</u> | <u>\$ 514,009</u> |

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.

Recipe Unlimited Corporation

Notes to the Condensed Consolidated Interim Financial

For the 13 and 39 weeks ended September 27, 2020 and September 29, 2019

For the 13 and 39 weeks ended September 27, 2020, the Company recorded an impairment recovery of \$10.2 million and an impairment loss of \$16.7 million (13 and 39 weeks ended September 29, 2019 - impairment loss of \$0.4 million and \$0.9 million) 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 4.3%.

| (in thousands of Canadian dollars) | <u>September 27, 2020</u> | <u>December 29 2019</u> | <u>September 29, 2019</u> |
|---|-------------------------------|-----------------------------|-------------------------------|
| Balance, beginning of the year | \$ 455,245 | \$ — | \$ — |
| IFRS 16 inception adjustment | — | 504,439 | 504,439 |
| Additions | 1,833 | 27,609 | 32,977 |
| Lease renewals and modifications, terminations and other adjustments | 10,107 | 19,884 | 1,905 |
| Interest income | 13,085 | 19,132 | 14,313 |
| Impairment loss | (16,691) | (19,875) | (909) |
| Payments and amounts receivable | (68,113) | (95,944) | (71,176) |
| | <u><u>\$ 395,466</u></u> | <u><u>\$ 455,245</u></u> | <u><u>\$ 481,549</u></u> |

Franchise receivable

In prior years, the Company converted certain corporate restaurants to franchises 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 \$8.0 million (September 29, 2019 - \$13.3 million) relates primarily to the long-term obligation of the franchisees to pay the Company over the term of the rental agreement which is equal to the term of the license agreement or the term to the expected buyout date assuming that the franchisee is more likely than not to acquire the rented assets from the Company.

Long-term franchise receivables are reviewed for impairment based on expected losses at each balance sheet date. An impairment loss is recorded when the credit risk is assessed to have increased for the lease receivables. For the 13 and 39 weeks ended September 27, 2020, the Company recorded \$nil (13 and 39 weeks ended September 29, 2019 - \$nil) of impairment loss 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%.

Recipe Unlimited Corporation

Notes to the Condensed Consolidated Interim Financial

For the 13 and 39 weeks ended September 27, 2020 and September 29, 2019
Provision for impairment

The Company has recorded a provision for impairment against long-term receivables of \$45.6 million as at September 27, 2020:

| (in thousands of Canadian dollars) | September 27 2020 | December 29 2019 | September 29, 2019 |
|---|----------------------|---------------------|-----------------------|
| Balance, beginning of year | \$ 29,616 | \$ — | \$ — |
| IFRS 16 inception adjustment | — | 7,438 | 7,438 |
| Additions related to lease receivable | 16,691 | 19,875 | 909 |
| Additions related to due from related parties | 577 | 4,741 | — |
| Write-offs | (722) | — | — |
| Adjustments | (567) | (2,438) | — |
| Provision for impairment | \$ 45,595 | \$ 29,616 | \$ 8,347 |

14 Property, plant and equipment

| (in thousands of Canadian dollars) | As at September 27, 2020 | | | | | | | |
|---|--------------------------|-------------------|-------------------|------------------------|----------------------------|---------------------|--------------------------|-------------------|
| | 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 | — | 36 | 5,232 | 598 | — | 13,365 | 15,119 | 34,350 |
| Acquisitions and buybacks (note 5) | — | — | 1,451 | 2,659 | — | — | — | 4,110 |
| Lease renewals and modifications | — | — | — | — | — | 22,365 | — | 22,365 |
| Foreign exchange translation | — | — | 333 | 817 | — | 333 | — | 1,483 |
| Disposals and adjustments | (177) | — | (3,892) | (4,312) | 20 | (4,503) | — | (12,864) |
| Transfer to/(from) construction-in-progress | — | 16 | 7,712 | 4,932 | — | — | (12,660) | — |
| Balance as at September 27, 2020 | \$ 35,789 | \$ 115,708 | \$ 249,700 | \$ 243,234 | \$ — | \$ 336,064 | \$ 11,037 | \$ 991,532 |
| Accumulated depreciation and impairment losses | | | | | | | | |
| Balance, beginning of year | \$ — | \$ 15,301 | \$ 149,587 | \$ 111,556 | \$ (20) | \$ 62,750 | \$ — | \$ 339,174 |
| Depreciation expense | — | 2,807 | 20,686 | 21,895 | — | 32,020 | — | 77,408 |
| Impairment loss | — | — | 3,558 | 10,884 | — | 10,086 | — | 24,528 |
| Reversal of impairment losses | — | — | (44) | (2,152) | — | (5,347) | — | (7,543) |
| Foreign exchange translation | — | — | 276 | 691 | — | 72 | — | 1,039 |
| Disposals and adjustments | — | — | (3,963) | (3,918) | 20 | — | — | (7,861) |
| Balance as at September 27, 2020 | \$ — | \$ 18,108 | \$ 170,100 | \$ 138,956 | \$ — | \$ 99,581 | \$ — | \$ 426,745 |
| Carrying value as at September 27, 2020 | \$ 35,789 | \$ 97,600 | \$ 79,600 | \$ 104,278 | \$ — | \$ 236,483 | \$ 11,037 | \$ 564,787 |
| December 29, 2019 | \$ 35,966 | \$ 100,355 | \$ 89,277 | \$ 126,984 | \$ — | \$ 241,754 | \$ 8,578 | \$ 602,914 |
| September 29, 2019 | \$ 36,089 | \$ 99,633 | \$ 91,386 | \$ 132,818 | \$ — | \$ 246,231 | \$ 16,347 | \$ 622,504 |

Impairment losses

For the 39 weeks ended September 27, 2020, the Company recorded \$24.5 million (39 weeks ended September 29, 2019 - \$8.6 million) of impairment losses on property, plant and equipment in respect of 76 cash generating units (“CGUs”) (39 weeks ended September 29, 2019 - 17 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 46% (September 29, 2019 - 59%) of impaired CGUs had carrying values greater than their FVLCS. The remaining 54% (September 29, 2019 - 41%) of impaired CGUs had carrying values greater than their VIU.

For the 39 weeks ended September 27, 2020, the Company recorded \$7.5 million of impairment reversals (39 weeks ended September 29, 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 (at 0%). The estimate of the VIU of the relevant CGUs was determined using an after-tax discount rate of 3.7% to 12.0% at September 27, 2020 (September 29, 2019 - 4.0% to 18.5%).

Recipe Unlimited Corporation

Notes to the Condensed Consolidated Interim Financial

For the 13 and 39 weeks ended September 27, 2020 and September 29, 2019
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.

| | As at September 27, 2020 | | | |
|---|---------------------------------|---------------------|-------------------------------------|-------------------|
| (in thousands of Canadian dollars) | Brands | Other assets | Investment in joint ventures | Total |
| Cost | | | | |
| Balance, beginning of year | \$ 530,456 | \$ 82,611 | \$ 18,139 | \$ 631,206 |
| Additions from business acquisitions | — | 1,387 | (1,124) | 263 |
| Additions | — | 828 | — | 828 |
| Share of gain | — | — | 113 | 113 |
| Balance as at March 29, 2020 | \$ 530,456 | \$ 84,826 | \$ 17,128 | \$ 632,410 |
| Additions from business acquisitions (Note 5) | — | 1,200 | — | 1,200 |
| Share of gain | — | — | 88 | 88 |
| Adjustments and transfers | — | (199) | — | (199) |
| Balance as at June 28, 2020 | \$ 530,456 | \$ 85,827 | \$ 17,216 | \$ 633,499 |
| Additions from business acquisitions (Note 5) | — | 6,065 | — | 6,065 |
| Additions | 59 | — | — | 59 |
| Share of gain | — | — | 814 | 814 |
| Adjustments and transfers | — | 199 | — | 199 |
| Balance as at September 27, 2020 | \$ 530,515 | \$ 92,091 | \$ 18,030 | \$ 640,636 |
| Accumulated amortization | | | | |
| Balance, beginning of year | \$ — | \$ 19,716 | \$ — | \$ 19,716 |
| Amortization | — | 1,123 | — | 1,123 |
| Impairment | — | 866 | — | 866 |
| Other | — | 81 | — | 81 |
| Balance as at March 29, 2020 | \$ — | \$ 21,786 | \$ — | \$ 21,786 |
| Amortization | — | 1,025 | — | 1,025 |
| Impairment | — | 548 | — | 548 |
| Other | — | 85 | — | 85 |
| Balance as at June 28, 2020 | \$ — | \$ 23,444 | \$ — | \$ 23,444 |
| Amortization | — | 1,066 | — | 1,066 |
| Impairment | — | 3,860 | — | 3,860 |
| Other | — | 336 | — | 336 |
| Balance as at September 27, 2020 | \$ — | \$ 28,706 | \$ — | \$ 28,706 |
| Carrying amount as at September 27, 2020 | \$ 530,515 | \$ 63,385 | \$ 18,030 | \$ 611,930 |
| December 29, 2019 | \$ 530,456 | \$ 62,895 | \$ 18,139 | \$ 611,490 |
| September 29, 2019 | \$ 526,072 | \$ 68,725 | \$ 17,938 | \$ 612,735 |

Recipe Unlimited Corporation

Notes to the Condensed Consolidated Interim Financial

For the 13 and 39 weeks ended September 27, 2020 and September 29, 2019**16 Goodwill**

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

| (in thousands of Canadian dollars) | <u>September 27 2020</u> | <u>December 29 2019</u> | <u>September 29 2019</u> |
|---|------------------------------|-----------------------------|------------------------------|
| Cost | | | |
| Balance, beginning of period | \$ 198,313 | \$ 196,638 | \$ 196,638 |
| Additions from business acquisitions (note 5) | — | 1,291 | 5,675 |
| Additions resulting from change in Preliminary Purchase Equation | — | 384 | 384 |
| Balance, end of period | <u>\$ 198,313</u> | <u>\$ 198,313</u> | <u>\$ 202,697</u> |

17 Provisions

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

As at September 27, 2020

| (in thousands of Canadian dollars) | <u>Asset retirement obligations</u> | <u>Other</u> | <u>Total</u> |
|--|---|------------------------|------------------------|
| Balance, beginning of year | \$ 4,340 | \$ 3,970 | \$ 8,310 |
| Additions | 178 | 3,218 | 3,396 |
| Accretion | 174 | — | 174 |
| Payments | (23) | — | (23) |
| Adjustments | (62) | (2,349) | (2,411) |
| Balance as at September 27, 2020 .. | <u>\$ 4,607</u> | <u>\$ 4,839</u> | <u>\$ 9,446</u> |
| December 29, 2019 | \$ 4,340 | \$ 3,970 | \$ 8,310 |
| September 29, 2019 | \$ 5,744 | \$ 2,338 | \$ 8,082 |

Recorded in the consolidated balance sheets as follows:

| (in thousands of Canadian dollars) | <u>September 27 2020</u> | <u>December 29 2019</u> | <u>September 29 2019</u> |
|------------------------------------|------------------------------|-----------------------------|------------------------------|
| Provisions-current | \$ 2,346 | \$ 4,721 | \$ 3,439 |
| Provisions-long-term | 7,100 | 3,589 | 4,643 |
| | <u>\$ 9,446</u> | <u>\$ 8,310</u> | <u>\$ 8,082</u> |

18 Long-term debt

| (in thousands of Canadian dollars) | <u>September 27 2020</u> | <u>December 29 2019</u> | <u>September 29 2019</u> |
|------------------------------------|------------------------------|-----------------------------|------------------------------|
| Private debt | \$ 250,000 | \$ 250,000 | \$ 250,000 |
| Term credit facility - revolving | 229,323 | 210,325 | 253,325 |
| The Keg credit facilities | 23,724 | 19,000 | 18,000 |
| | <u>503,047</u> | <u>479,325</u> | <u>521,325</u> |
| Less: financing costs | 3,206 | 3,583 | 3,686 |
| | <u>\$ 499,841</u> | <u>\$ 475,742</u> | <u>\$ 517,639</u> |

Recorded in the consolidated balance sheets as follows:

| (in thousands of Canadian dollars) | <u>September 27 2020</u> | <u>December 29 2019</u> | <u>September 29 2019</u> |
|---|------------------------------|-----------------------------|------------------------------|
| Current portion of long-term debt | \$ 4,724 | \$ — | \$ 4,000 |
| Long-term portion of long-term debt | 495,117 | 475,742 | 513,639 |
| | <u>\$ 499,841</u> | <u>\$ 475,742</u> | <u>\$ 517,639</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”), are secured on a first lien basis on the assets that secure the Company’s New Credit Facility, and are 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. On May 7, 2020, the Company amended its lending covenants with its private lenders, which resulted in a temporary increase in the interest rate by 0.85% per annum, until December 27, 2020. From December 28, 2020 until September 26, 2021, the additional interest rate will vary, subject to quarterly leverage ratio levels. As at September 27, 2020, there were \$250.0 million (December 29, 2019 - \$250.0 million; September 29, 2019 - \$250.0 million) of Notes outstanding.

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. The Company then repaid \$56.0 million during the second quarter, and \$220.0 million in the third quarter. On May 7, 2020, the Company amended its lending covenants with its syndicated lenders. As at September 27, 2020, \$229.3 million (December 29, 2019 - \$210.3 million; September 29, 2019 - \$253.3 million) was drawn under the amended and extended credit facilities. For the 39 weeks ended September 27, 2020, the effective interest rate was 3.47% representing bankers acceptance rate of 0.75% plus 2.30% borrowing spread, standby fees and the amortization of deferred financing fees of 0.42%. As at September 27, 2020, the effective interest rate was 3.24%, representing bankers acceptance rate of 0.48% plus 2.30% borrowing spread, standby fees and the amortization of deferred financing fees of 0.46%. As a result of the covenant amendments, and included in the aforementioned rates, the borrowing spread interest rate increased by 0.85% and standby fees interest rate increased by 0.17%.

The Company is also required to pay a standby fee of between 0.20% and 0.46% per annum on the undrawn portion of the \$550.0 million revolving facility. The standby fee, like the interest rate, is based on the Company's total funded net debt to EBITDA ratio. As of September 27, 2020 the standby fee rate was 0.46%.

Under the amended covenants for 2020, the Company is subject to certain capital restrictions and must maintain minimum liquidity of at least \$100 million, which is defined by cash plus credit availability under the Term Credit facilities.

As at September 27, 2020, the Company was in compliance with all covenants and has not exceeded any covenant levels requiring early repayments. On May 7, 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 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 October 1, 2020 to July 4, 2022.

On June 26, 2020, KRL entered in to an amended and re-stated credit agreement with its Canadian banking syndicate. The amendment eliminates certain financial covenants and revises others until September 26, 2021. A new financial covenant that requires KRL's liquidity (the sum of cash on hand and available but undrawn credit) to not be less than certain specified values until December 27, 2020, tested on a quarterly basis. The interest rate on the bank debt will be increased from its existing level of bank prime to bank prime plus 0.75% effective June 29, 2020 until December 27, 2020.

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For the 13 and 39 weeks ended September 27, 2020 and September 29, 2019

On July 6, 2020, in connection with the acquisition of two franchised Keg restaurant locations, KRL assumed the existing bank loan at each location in the total amount of \$4,721,000. On August 14, 2020, KRL made a draw of \$3,000,000 from its existing credit facility by way of bankers' acceptance, bearing an effective interest rate of 2.47%, maturing on December 11, 2020. On August 20, 2020, KRL repaid one of these loans in the amount of \$2,974,000. The remaining bank loan is due to LBC capital (the "LBC Loan"), bears interest at the greater of 90-day banker's acceptance rate plus 3.61% or 4.20%, matures November 2021 and is repayable in blended monthly installments of \$25,000. As at September 27, 2020, \$1,724,000 remains outstanding on the LBC Loan. KRL subsequently repaid the LBC Loan in full on October 21, 2020.

As at September 27, 2020, \$22.0 million of KRL's existing credit facility has been drawn (December 29, 2019 - \$19.0 million; September 29, 2019 - \$18.0 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 September 27, 2020, KRL was in compliance with all bank covenants associated with these facilities.

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Notes to the Condensed Consolidated Interim Financial

For the 13 and 39 weeks ended September 27, 2020 and September 29, 2019

The movement in long-term debt from December 29, 2019 to September 27, 2020 is as follows:

| (in thousands of Canadian dollars) | Private Debt | Term Credit Facility | Keg Credit Facilities | Total |
|--|---------------------|-----------------------------|------------------------------|-------------------|
| 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 |
| Addition to deferred financing costs | — | — | — | — |
| 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 | \$ 248,419 | \$ 503,722 | \$ 18,833 | \$ 770,974 |
| Repayment of borrowings | — | (56,002) | — | (56,002) |
| Issuance of borrowings | — | — | — | — |
| Addition to deferred financing costs | (100) | (166) | — | (266) |
| Balance due to changes from financing cash flows as at June 28, 2020 | \$ 248,319 | \$ 447,554 | \$ 18,833 | \$ 714,706 |
| Non-cash movements | | | | |
| Amortization of deferred financing costs .. | 45 | 175 | (51) | 169 |
| Balance at June 28, 2020 | \$ 248,364 | \$ 447,729 | \$ 18,782 | \$ 714,875 |
| Repayment of borrowings | — | (220,000) | (2,997) | (222,997) |
| Issuance of borrowings | — | — | 3,000 | 3,000 |
| Assumption of long-term debt on franchise acquisition (Note 5) | — | — | 4,721 | 4,721 |
| Balance due to changes from financing cash flows as at September 27, 2020 | \$ 248,364 | \$ 227,729 | \$ 23,506 | \$ 499,599 |
| Non-cash movements | | | | |
| Amortization of deferred financing costs .. | 46 | 178 | 18 | 242 |
| Balance at September 27, 2020 | \$ 248,410 | \$ 227,907 | \$ 23,524 | \$ 499,841 |

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Notes to the Condensed Consolidated Interim Financial

For the 13 and 39 weeks ended September 27, 2020 and September 29, 2019

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

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

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For the 13 and 39 weeks ended September 27, 2020 and September 29, 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) | September 27 2020 | December 29 2019 | September 29 2019 |
|--|------------------------------|-----------------------------|------------------------------|
| Balance, beginning of year..... | \$ 768,449 | \$ 26,016 | \$ 26,016 |
| IFRS 16 inception adjustment..... | — | 782,857 | 782,857 |
| Additions..... | 12,652 | 41,361 | 27,016 |
| Lease renewals and modifications..... | 28,052 | 60,681 | 39,216 |
| Lease terminations..... | (3,546) | (13,168) | (5,619) |
| (Gain)/Loss on settlement of lease liability..... | 369 | (1,400) | — |
| Change in lease liability due to rent concessions..... | (8,667) | — | — |
| Other adjustments..... | (333) | (6,983) | (5,690) |
| Interest expense..... | 22,156 | 32,212 | 24,461 |
| Foreign translation adjustment..... | 290 | (559) | (410) |
| Payments and amounts payable..... | (105,910) | (152,568) | (114,159) |
| Balance, end of year..... | \$ 713,512 | \$ 768,449 | \$ 773,688 |

Recorded in the consolidated balance sheets as follows:

| (in thousands of Canadian dollars) | September 27 2020 | December 29 2019 | September 29 2019 |
|---|------------------------------|-----------------------------|------------------------------|
| Current portion of lease liabilities..... | \$ 121,500 | \$ 121,847 | \$ 121,090 |
| Lease liabilities..... | 592,012 | 646,602 | 652,598 |
| | \$ 713,512 | \$ 768,449 | \$ 773,688 |

As part of the Company's rent certainty program, the Company has agreed to provide rent assistance to certain franchisees, where the franchisee is on the real estate head lease. As at September 27, 2020, total estimated rent assistance payable to franchisees, where the franchisee is on the real estate head lease, was \$3.2 million and was recorded as part of accounts payable and accrued liabilities.

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Notes to the Condensed Consolidated Interim Financial

For the 13 and 39 weeks ended September 27, 2020 and September 29, 2019**20 Other long-term liabilities**

| (in thousands of Canadian dollars) | <u>September 27 2020</u> | <u>December 29 2019</u> | <u>September 29 2019</u> |
|---|------------------------------|-----------------------------|------------------------------|
| Non-controlling interest liability | \$ 22,483 | \$ 22,483 | \$ 23,011 |
| Accrued pension and other benefit plans | 23,003 | 21,640 | 21,523 |
| Deferred income | 9,056 | 12,193 | 12,440 |
| Contingent liability | 7,000 | 7,023 | 19,778 |
| Deferred rental income | 2,718 | 4,721 | 5,239 |
| Other long-term liabilities | 680 | 1,783 | 3,717 |
| Deferred share units | 799 | 1,237 | 1,539 |
| Restricted share units | 745 | 543 | — |
| | <u>\$ 66,484</u> | <u>\$ 71,623</u> | <u>\$ 87,247</u> |

Recorded in the consolidated balance sheets as follows:

| (in thousands of Canadian dollars) | <u>September 27 2020</u> | <u>December 29 2019</u> | <u>September 29 2019</u> |
|--|------------------------------|-----------------------------|------------------------------|
| Accounts payable and accrued liabilities | \$ 4,469 | \$ 4,650 | \$ 8,040 |
| Other long-term liabilities | 62,015 | 66,973 | 79,207 |
| | <u>\$ 66,484</u> | <u>\$ 71,623</u> | <u>\$ 87,247</u> |

Accrued pension and other benefit plans

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

For the 13 and 39 weeks ended September 27, 2020, the Company recorded expenses of \$0.2 million and \$0.6 million (13 and 39 weeks ended September 29, 2019 - \$0.2 million and \$0.5 million) related to pension benefits, respectively.

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.

As at September 27, 2020, the Company's non-controlling interest liability was \$22.5 million (December 29, 2019 - \$22.5 million, September 29, 2019 - \$23.0 million).

Contingent liability

In connection with The Keg and the Marigolds and Onions acquisitions, a contingent liability in the amount of \$7.0 million has been recorded as at September 27, 2020 (December 29, 2019 - \$7.0 million; September 29, 2019 - \$19.8 million), representing amounts payable to the former shareholders contingent on certain targets and conditions being met.

Deferred income*Unearned franchise and conversion fee income*

At September 27, 2020, the Company had deferred \$3.1 million (December 29, 2019 - \$3.3 million; September 29, 2019 - \$3.6 million) of initial franchise fees and conversion fees received from franchisees that will be recognized over the remaining term of the respective franchise agreements.

Sale-leaseback transactions

At September 27, 2020, the Company had deferred \$1.8 million (December 29, 2019 - \$2.2 million; September 29, 2019 - \$2.4 million) related to previous gains realized on sale-leaseback transactions.

Covenancy fees

The Company collects covenancy fees from franchisees on subtenant leases. At September 27, 2020, the Company had unearned covenancy fees of \$4.0 million (December 29, 2019 - \$4.4 million; September 29, 2019 - \$4.3 million) in connection with recording a lease receivable on transition to IFRS 16 (see note 13).

Unearned Revenue

The Company earns sales incentives which includes rebates and promotional programs based on achievement of specified volume or growth in volume levels and other agreed promotional activities. At September 27, 2020, the Company had unearned revenue of \$0.2 million (December 29, 2019 - \$2.3 million; September 29, 2019 - \$2.1 million).

Deferred rental income

In prior years, the Company converted certain restaurants from corporate 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 \$2.7 million balance at September 27, 2020 (December 29, 2019 - \$4.7 million; September 29, 2019 - \$5.2 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 and 39 weeks ended September 27, 2020, the Company recognized an expense of \$0.2 million and a recovery of \$0.4 million, respectively (13 and 39 weeks ended September 29, 2019 - expense of \$0.1 million and \$0.4 million) and a liability was recorded as part of Other Long-Term Liabilities in the amount of \$0.8 million as at September 27, 2020 (December 29, 2019 - \$1.2 million; September 29, 2019 - \$1.5 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 and 39 weeks ended September 27, 2020, the Company recognized an expense of \$0.1 million and \$0.2 million (13 and 39 weeks ended September 29, 2019 - \$nil) and a liability was recorded as part of Other Long-Term Liabilities in the amount of \$0.7 million as at September 27, 2020 (December 29, 2019 - \$0.5 million; September 29, 2019 - \$nil).

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Notes to the Condensed Consolidated Interim Financial

For the 13 and 39 weeks ended September 27, 2020 and September 29, 2019**21 Long-term incentive plans**

Under the various stock option plans, the Company may grant options to buy up to 15% of its total Subordinate and Multiple Voting Shares outstanding, a total of 8.5 million shares, a guideline the Company has set on the number of stock option grants. As at September 27, 2020, approximately 6.4 million stock options were granted and outstanding.

Stock options outstanding as at September 27, 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 39 weeks ended September 27, 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..... | — | \$ — | (90,639) | \$ 28.44 | (90,639) | \$ 28.44 |
| Outstanding options, end of period..... | 2,749,355 | \$ 10.75 | 3,653,338 | \$ 33.02 | 6,402,693 | \$ 23.46 |
| Options exercisable, end of period..... | 2,569,355 | \$ 9.60 | 503,333 | \$ 22.92 | 3,072,688 | \$ 11.78 |

| | For the 39 weeks ended September 29, 2019 | | | | | |
|---|---|---------------------------------------|----------------------------|---------------------------------------|----------------------------|---------------------------------------|
| | CEO stock option plan | | Employee stock option plan | | Total | |
| | Options (number of shares) | Weighted average exercise price/share | Options (number of shares) | Weighted average exercise price/share | Options (number of shares) | Weighted average exercise price/share |
| Outstanding options, December 30, 2018..... | 2,899,355 | \$ 11.61 | 4,495,106 | \$ 29.63 | 7,394,461 | \$ 22.56 |
| Granted..... | — | \$ — | — | \$ — | — | \$ — |
| Exercised..... | — | \$ — | (535,716) | \$ 8.93 | (535,716) | \$ 8.93 |
| Forfeited..... | — | \$ — | (81,394) | \$ 24.97 | (81,394) | \$ 24.97 |
| Outstanding options, end of period..... | 2,899,355 | \$ 11.61 | 3,877,996 | \$ 32.64 | 6,777,351 | \$ 23.64 |
| Options exercisable, end of period..... | 2,419,355 | \$ 8.51 | 495,814 | \$ 24.73 | 2,915,169 | \$ 11.27 |

CEO stock option plan

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

During the 13 and 39 weeks ended September 27, 2020 and September 29, 2019, no stock options were granted, exercised or forfeited under the CEO Plan.

For the 13 and 39 weeks ended September 27, 2020, the Company recognized stock-based compensation costs of \$0.1 million and \$0.3 million (13 and 39 weeks ended September 29, 2019 - \$0.2 million and \$0.8 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 3,473,338 at an average exercise price of \$33.32.

During the 13 and 39 weeks ended September 27, 2020 and September 29, 2019, the Company granted no stock options.

During the 13 and 39 weeks ended September 27, 2020, no stock options were exercised (13 and 39 weeks ended September 29, 2019 – 316,473 and 535,716 stock options with a weighted average exercise price of \$8.51 and \$8.93, respectively).

During the 13 and 39 weeks ended September 27, 2020, 84,946 and 90,639 stock options with a weighted average exercise price of \$28.22 and \$28.44 were forfeited (13 and 39 weeks ended September 29, 2019 – 51,144 and 81,394 stock options with a weighted average exercise price of \$24.82 and \$24.97 were forfeited, respectively).

For the 13 and 39 weeks ended September 27, 2020, the Company recognized a stock-based compensation recovery of \$0.5 million and \$0.4 million (13 and 39 weeks ended September 29, 2019 - expense of \$0.7 million and \$2.7 million, respectively) related to the Employee Plan with a corresponding increase in 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.

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For the 13 and 39 weeks ended September 27, 2020 and September 29, 2019

| | For the 13 weeks ended | | For the 39 weeks ended | |
|---|------------------------|----------------------|------------------------|----------------------|
| | September 27 2020 | September 29 2019 | September 27 2020 | September 29 2019 |
| RSUs earned and outstanding | | | | |
| RSUs outstanding, beginning of period..... | 197,949 | 280,700 | 200,736 | 256,470 |
| RSUs granted and earned in the period..... | — | — | — | 38,164 |
| RSUs forfeited..... | (916) | (1,947) | (3,703) | (15,881) |
| RSUs outstanding, end of period..... | 197,033 | 278,753 | 197,033 | 278,753 |
| RSUs vested, end of period..... | — | — | — | — |

During the 13 and 39 weeks ended September 27, 2020, 916 and 3,703 RSUs were forfeited, respectively (13 and 39 weeks ended September 29, 2019 - nil and 38,164 RSUs were granted and earned and 1,947 and 15,881 RSUs were forfeited, respectively). For the 13 and 39 weeks ended September 27, 2020, the Company recognized a stock-based compensation expense of \$0.3 million and \$1.0 million, respectively (13 and 39 weeks ended September 29, 2019 - \$0.4 million and \$1.7 million, respectively) 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 September 27, 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 and 39 weeks ended September 27, 2020, the Company recognized a stock-based compensation expense of \$nil (13 and 39 weeks ended September 29, 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 was permitted to 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 were made at market prices and any Subordinate Voting Shares purchased through the NCIB were cancelled. During the 39 weeks ended September 27, 2020, the Company purchased and

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For the 13 and 39 weeks ended September 27, 2020 and September 29, 2019

cancelled 25,518 Subordinate Voting Shares for \$0.3 million (39 weeks ended September 29, 2019 – 1,322,871 Subordinate Voting Shares for \$35.2 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 September 27, 2020, there were 34,054,824 Multiple Voting Shares and 22,298,083 Subordinate Voting Shares issued and outstanding (September 29, 2019 - 34,054,824 Multiple Voting Shares and 22,283,986 Subordinate Voting Shares).

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 | — | 535 | 535 | — | 7,421 | 7,421 |
| Share re-purchase under NCIB and SIB | (341) | (5,611) | (5,952) | (9,251) | (151,456) | (160,707) |
| Balance at September 29, 2019 | 34,055 | 22,283 | 56,338 | \$183,297 | \$433,079 | \$616,376 |
| Shares issued under stock option plan | — | 40 | 40 | \$ — | \$ 698 | \$ 698 |
| Share re-purchase under NCIB | — | — | — | — | — | — |
| Share re-purchase under SIB | — | — | — | — | 52 | 52 |
| Balance at December 29, 2019 | 34,055 | 22,323 | 56,378 | \$183,297 | \$ 433,829 | \$ 617,126 |
| Shares issued under stock option plan | — | — | — | \$ — | \$ — | \$ — |
| 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 |
| Shares issued under stock option plan | — | — | — | \$ — | \$ — | \$ — |
| Share re-purchase under NCIB | — | — | — | — | — | — |
| Balance at June 28, 2020 | 34,055 | 22,297 | 56,352 | \$183,297 | \$ 433,517 | \$ 616,814 |
| Shares issued under stock option plan | — | — | — | \$ — | \$ — | \$ — |
| Share re-purchase under NCIB | — | — | — | — | — | — |
| Share re-purchase under SIB | — | — | — | — | — | — |
| Balance at September 27, 2020 | 34,055 | 22,297 | 56,352 | \$183,297 | \$433,517 | \$616,814 |

Recipe Unlimited Corporation

Notes to the Condensed Consolidated Interim Financial

For the 13 and 39 weeks ended September 27, 2020 and September 29, 2019**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 including the effect of stock options issued.

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

| 13 weeks ended September 27, 2020 | | | | 13 weeks ended September 29, 2019 | | | |
|--|--|-----------------------------------|---------|--|--|-----------------------------------|---------|
| | Net earnings attributable to shareholders of the Company | Weighted average number of shares | EPS | | Net earnings attributable to shareholders of the Company | Weighted average number of shares | EPS |
| Basic..... | \$ 5,092 | 56,353 | \$ 0.09 | | 6,844 | 60,651 | \$ 0.11 |
| Diluted.. | \$ 5,092 | 56,908 | \$ 0.09 | | 6,844 | 62,728 | \$ 0.11 |

| 39 weeks ended September 27, 2020 | | | | 39 weeks ended September 29, 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..... | \$ (76,214) | 56,361 | \$ (1.35) | | \$ 46,162 | 61,217 | \$ 0.75 |
| Diluted.. | \$ (76,214) | 56,361 | \$ (1.35) | | \$ 46,162 | 63,279 | \$ 0.73 |

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

| | For the 13 weeks ended | | For the 39 weeks ended | |
|--|-------------------------------|---------------------------|-------------------------------|---------------------------|
| | September 27, 2020 | September 29, 2019 | September 27, 2020 | September 29, 2019 |
| Common shares..... | 56,352,907 | 60,651,488 | 56,361,413 | 61,216,670 |
| Effect of stock options issued ⁽¹⁾ .. | 555,056 | 2,076,839 | — | 2,062,814 |
| | 56,907,963 | 62,728,327 | 56,361,413 | 63,279,484 |

⁽¹⁾ 3,860,597 shares for the 13 weeks ended September 27, 2020, and all shares for the 39 weeks ended September 27, 2020, have been excluded because they are anti-dilutive (13 and 39 weeks ended September 29, 2019 - 3,995,083).

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Notes to the Condensed Consolidated Interim Financial

For the 13 and 39 weeks ended September 27, 2020 and September 29, 2019**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 | | For the 39 weeks ended | |
|--|------------------------|----------------------|------------------------|----------------------|
| | September 27 2020 | September 29 2019 | September 27 2020 | September 29 2019 |
| (in thousands of Canadian dollars) | | | | |
| Accounts receivable..... | \$ 1,574 | \$ 3,058 | \$ 40,465 | \$ 32,035 |
| Inventories..... | (2,853) | (2,342) | (3,668) | (5,530) |
| Income taxes payable..... | 2,617 | 3,951 | (4,705) | 4,949 |
| Prepaid expenses and other assets..... | 930 | 1,914 | (479) | 3,216 |
| Accounts payable and accrued liabilities..... | 26,784 | (5,878) | 25,141 | (8,920) |
| Gift card liability..... | (8,646) | (10,551) | (45,071) | (59,533) |
| Income taxes paid..... | (2,717) | 4,008 | 11,734 | 14,009 |
| Change in interest payable..... | (2,619) | (6,796) | (493) | (5,291) |
| Net change in non-cash operating working capital..... | \$ 15,070 | \$ (12,636) | \$ 22,924 | \$ (25,065) |

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 \$1.6 million (September 29, 2019 - \$0.5 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, and subsequently repaid \$276.0 million of its credit facility during the second and third quarters. Total long term debt repayments, including the Keg, was \$284.0 million year-to-date. 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.

The following is an aging of the Company's accounts receivable, net of the allowance for uncollectible accounts, as at September 27, 2020, December 29, 2019 and September 29, 2019:

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Notes to the Condensed Consolidated Interim Financial

For the 13 and 39 weeks ended September 27, 2020 and September 29, 2019

| (in thousands of Canadian dollars) | September 27, 2020 | | | |
|--|---------------------------|----------------------------------|----------------------------------|------------------|
| | Current | > 30 days past due | > 60 days past due | Total |
| Accounts receivable (net of allowance)..... | \$ 50,375 | \$ 19,636 | \$ 6,338 | \$ 76,349 |
| Balance at December 29, 2019..... | \$ 106,551 | \$ 7,250 | \$ 3,478 | \$ 117,279 |
| Balance at September 29, 2019..... | \$ 61,869 | \$ 5,853 | \$ 3,538 | \$ 71,260 |

As a result of COVID-19, 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. Additionally, the Company has agreed in the second quarter of 2020 to provide rent assistance to certain franchisees as part of the Company's rent certainty program, and as a result, an allowance of \$18.7 million was taken, representing the direct rent support that the Company provided in the 39 weeks ended September 27, 2020.

As at September 27, 2020, the Company believes that the \$34.7 million (December 29, 2019 - \$13.3 million; September 29, 2019 - \$13.9 million) allowance sufficiently covers any credit risk related to the receivable balances past due. The remaining amounts past due were not classified as impaired as the past due status was reasonably expected to be remedied.

Fair value of financial instruments

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

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

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

The following describes the fair value determinations of financial instruments:

Long-term debt

Fair value (Level 2) is based on the Company's current incremental borrowing rate for similar types of borrowing arrangements. The carrying amount of the debt associated with the Company's current financing would approximate its fair value as at September 27, 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 market interest rates.

27 Related parties

Shareholders

As at September 27, 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 the 39 weeks ended September 27, 2020, the Company paid a dividend of \$0.1177 per share (13 and 39 weeks ended September 29, 2019 - \$0.1121 and \$0.3363 per share) on the Subordinate and Multiple Voting Shares, which represents the dividend paid in the first quarter of 2020. The Company did not pay additional dividends in the second or third quarters of 2020. During the 39 weeks ended September 27, 2020, Fairfax received \$3.2 million (39 weeks ended September 29, 2019 - \$9.1 million) and Cara Holdings received \$1.5 million (39 weeks ended September 29, 2019 - \$4.3 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 the 39 weeks ended September 27, 2020 and September 29, 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 September 27, 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 and 39 weeks ended September 27, 2020, the Company purchased nil KRIF units (52 weeks ended December 29, 2019 - 250,000 shares for \$4.0 million, 13 and 39 weeks ended September 29, 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 September 27, 2020 was \$7.07. 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 September 27, 2020 was \$7.07 (December 29, 2019 - \$15.37, September 29, 2019 - \$16.48).

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Notes to the Condensed Consolidated Interim Financial

For the 13 and 39 weeks ended September 27, 2020 and September 29, 2019

| (in thousands of Canadian dollars) | September 27, 2020 | | December 29, 2019 | | September 29, 2019 | |
|--|--------------------|------------------|-------------------|-------------------|--------------------|-------------------|
| | # of units | Fair Value | # of units | Fair Value | # of units | Fair Value |
| Class A Partnership units..... | 905,944 | \$ 6,405 | 905,944 | \$ 13,924 | 905,944 | \$ 14,930 |
| Class B Partnership units..... | 176,700 | 1,249 | 176,700 | 2,716 | 176,700 | 2,912 |
| Class D Partnership units..... | 3,679,692 | 26,016 | 3,325,280 | 51,110 | 3,236,213 | 53,333 |
| Exchangeable unit investment in the Partnership..... | 4,762,336 | \$ 33,670 | 4,407,924 | \$ 67,750 | 4,318,857 | \$ 71,175 |
| 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 | \$ 90,670 | 10,107,924 | \$ 124,750 | 10,018,857 | \$ 128,175 |
| Investment in KRIF units..... | 250,000 | 1,768 | 250,000 | 3,843 | — | — |
| Distributions earned on KRIF units..... | — | 155 | — | 47 | — | — |
| | 10,712,336 | \$ 92,593 | 10,357,924 | \$ 128,640 | 10,018,857 | \$ 128,175 |

Other

As at September 27, 2020, long-term receivables include a non-interest bearing employee demand note in the amount \$0.8 million (December 29, 2019 - \$0.8 million, September 29, 2019 - \$0.8 million).

As at September 27, 2020, the Company has a \$2.0 million royalty fee payable, including GST, to the Fund (December 29, 2019 - \$2.9 million, September 29, 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 million, September 29, 2019 - \$0.4 million) included in accounts payable and accrued liabilities.

As at September 27, 2020, the Company has \$0.9 million in distributions receivable from the Partnership (December 29, 2019 - \$1.2 million, September 29, 2019 - \$1.1 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 and 39 weeks ended September 27, 2020, KRL earned \$30 thousand and \$90 thousand for these services (13 and 39 weeks ended September 29, 2019 - \$0.1 million and \$0.2 million).

The Company incurs royalty expense with respect to the license 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 \$4.3 million and \$10.8 million for the 13 and 39 weeks ended September 27, 2020 (13 and 39 weeks ended September 29, 2019 - \$6.2 million and \$19.0 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 and 39 weeks ended September 27, 2020, the Company recorded investment income of \$2.3 million and \$6.2 million respectively, related to these units (13 and 39 weeks ended September 29, 2019 - \$2.8 million and \$8.3 million).

Investment in Original Joe's joint venture companies

The Company has joint venture arrangements with certain Original Joe's franchises. The Company has an equity investment in these restaurants at varying ownership interests as well as term loans and demand loans related to new restaurant construction, renovation and working capital. As at September 27, 2020 there was a due from related party balance of \$15.5 million (December 29, 2019 - \$13.2 million, September 29, 2019 - \$12.3 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, 2021. 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, September 29, 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 and 39 weeks ended September 27, 2020, the Company charged interest in the amount of \$0.1 million (13 and 39 weeks ended September 29, 2019 - \$0.1 million and \$0.2 million) on the term loans and demand loans.

The Company charges Original Joe's joint venture franchises a royalty and marketing fee of 5% and 2%, respectively, on net sales. As at September 27, 2020 the accounts receivable balance included \$0.2 million (December 29, 2019 - \$0.1 million, September 29, 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 and 39 weeks ended September 27, 2020, an increase of \$0.2 million and \$0.1 million respectively (13 and 39 weeks ended September 29, 2019 - \$0.1 million and \$0.2 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 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 39 weeks ended September 27, 2020, there investment balance increased by \$0.6 million and \$0.9 million respectively (13 and 39 weeks ended September 29, 2019 - there was no change and a decrease of \$0.2 million, respectively). 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 September 27, 2020, the Company has invested \$5.5 million, recorded in long-term receivables (December 29, 2019 - \$4.7 million, September 29, 2019 - \$5.2 million). The loan receivable is unsecured, non-interest bearing and does not have defined repayment terms. As at September 27, 2020, an allowance of \$5.2 million (December 29, 2019 - \$4.7 million, September 29, 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 and 39 weeks ended September 27, 2020, there was \$0.2 million recorded in the long term receivable balance (13 and 39 weeks ended September 29, 2019 - a decrease of \$0.5 million and \$1.1 million respectively) was recorded in relation to the Company's proportionate share of gain for the period and included in share of gains 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 September 27, 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 | | For the 39 weeks ended | |
|---|------------------------|-----------------------|------------------------|----------------------|
| | September 27, 2020 | September 29, 2019 | September 27 2020 | September 29 2019 |
| Gross revenue | | | | |
| Sales..... | \$ 123,841 | \$ 191,262 | \$ 319,659 | \$ 580,089 |
| Proportionate share of equity accounted joint venture sales..... | (5,748) | (6,752) | (16,060) | (22,171) |
| Sales at corporate restaurants..... | \$ 118,093 | \$ 184,510 | \$ 303,599 | \$ 557,918 |
| Franchise revenues | 18,495 | 27,279 | 51,440 | 81,275 |
| Proportionate share of equity accounted joint venture royalty revenue..... | 72 | 127 | 178 | 424 |
| Royalty revenue..... | \$ 18,567 | \$ 27,406 | \$ 51,618 | \$ 81,699 |
| Retail & Catering..... | 86,545 | 75,734 | 244,893 | 220,833 |
| Central..... | 5,767 | 5,480 | 16,795 | 17,729 |
| Non-allocated revenue..... | 14,376 | 15,829 | 36,737 | 47,284 |
| Total gross revenue..... | \$ 243,348 | \$ 308,959 | \$ 653,642 | \$ 925,463 |
| Operating income (loss) | | | | |
| Corporate..... | \$ 3,574 | \$ 3,594 | \$ (32,238) | \$ 22,849 |
| Franchise..... | 17,109 | 26,128 | 48,075 | 78,499 |
| Retail & Catering..... | 11,169 | 6,046 | 30,907 | 18,755 |
| Central..... | (16,876) | (14,951) | (49,577) | (51,077) |
| Proportionate share equity accounted joint venture results included in corporate and franchise segment..... | 1,063 | (154) | 969 | (43) |
| Non-allocated costs..... | 12,854 | (297) | (26,460) | 14,975 |
| | \$ 28,893 | \$ 20,366 | \$ (28,324) | \$ 83,958 |
| Depreciation and amortization | | | | |
| Corporate..... | \$ 8,136 | \$ 13,335 | \$ 30,146 | \$ 32,829 |
| Retail & Catering..... | 1,446 | 1,932 | 4,354 | 4,616 |
| Central..... | 16,879 | 13,533 | 46,122 | 49,091 |
| | \$ 26,461 | \$ 28,800 | \$ 80,622 | \$ 86,536 |
| Capital expenditures | | | | |
| Corporate..... | \$ 6,221 | \$ 7,512 | \$ 18,490 | \$ 22,825 |
| Retail & Catering..... | 397 | 1,382 | 657 | 2,904 |
| Central..... | 2,219 | 3,130 | 5,948 | 9,428 |
| | \$ 8,837 | \$ 12,024 | \$ 25,095 | \$ 35,157 |

29 Subsequent Events

Subsequent to September 27, 2020, the Quebec, Ontario and Manitoba provincial governments announced the mandated closures of dining rooms for restaurants in certain areas within those provinces, in response to regional COVID-19 outbreaks. As a result, 454 of our locations were closed for in-restaurant dining. The Company will continue to take the necessary safety measures and operate in accordance with public health guidance.

On October 9, 2020, the government of Canada announced the extension of the Canada Emergency Wage Subsidy ("CEWS") program until June 2021. The government of Canada also introduced the new Canada Emergency Rent Subsidy ("CERS") program, which will provide direct rent relief to tenants and will replace the Canada Emergency Rent Assistance ("CECRA") program, which expired at the end of September 2020. In addition to applying for eligible government assistance programs, the Company has continued a number of cost reduction measures, including overhead cost reductions, reductions to planned capital expenditures, suspension of dividends and the suspension of share repurchases. The Company also continues to work with its landlord partners to complete short term lease modifications in response to COVID-19.

The Company continues to review its portfolio of restaurants to maximize site potential, the quality of sales and profitability to the Company and franchisees. In some instances, the Company may buy back previously franchised restaurants to operate corporately or to permanently close. Subsequent to September 27, 2020, the Company successfully exited and closed 9 locations.