

Recipe Unlimited Corporation

Consolidated Financial Statements

For the 52 weeks ended December 27, 2020 and December 29, 2019



KPMG LLP
100 New Park Place, Suite 1400
Vaughan, ON L4K 0J3
Tel 905-265 5900
Fax 905-265 6390
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Recipe Unlimited Corporation

Opinion

We have audited the consolidated financial statements of Recipe Unlimited Corporation (the "Entity"), which comprise:

- the consolidated balance sheets as at December 27, 2020 and December 29, 2019
- the consolidated statements of earnings or losses for the 52 weeks then ended
- the consolidated statements of comprehensive income or loss for the 52 weeks then ended
- the consolidated statements of total equity for the 52 weeks then ended
- the consolidated statements of cash flows for the 52 weeks then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 27, 2020 and December 29, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 27, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Evaluation of Impairment of Property, Plant and Equipment

Description of the matter

We draw attention to Note 2, 3 and 14 to the financial statements. At each balance sheet date, the Entity reviews the carrying amounts of its non-financial assets, including property, plant and equipment for any indication of impairment or a reversal of previously recorded impairment. If any such indication of impairment exists, the recoverable amount of the cash generating unit (CGU) is estimated in order to determine the extent of the impairment loss, if any. The Entity has determined each individual restaurant is a separate CGU for impairment testing. The balance of property, plant and equipment is \$538,276 thousand which is net of \$39,250 thousand and \$9,414 thousand of impairment loss and impairment reversal respectively. The Entity determines the recoverable amount of the CGU as the higher of fair value less costs to sell or its value in use. The determination of each of these amounts is subject to estimation uncertainty. The Entity's significant assumptions include:

- Projected future sales and earnings, and discount rates for value in use
- Vacancy period and market rental rates for fair value less cost to sell.

Why the matter is a key audit matter

We identified the evaluation of impairment of property, plant and equipment as a key audit matter. This matter represented an area of significant risk of material misstatement given the magnitude of property, plant and equipment and the high degree of estimation uncertainty in assessing the Entity's significant assumptions. Significant auditor judgment and the involvement of professionals with specialized skills and knowledge was required to evaluate the evidence supporting the Entity's significant assumptions due to the sensitivity of the recoverable amount to minor changes in significant assumptions.

How the matter was addressed

The primary procedures we performed to address this key audit matter included the following:

For a selection of restaurants, we evaluated the:

- Projected future sales and earnings assumptions used in determining the VIU by comparing to the actual historical sales and earnings generated by the restaurant. We took into account changes in conditions and events affecting the restaurant to



assess the adjustments or lack of adjustments made in arriving at the projected future sales and earnings assumptions

- Vacancy period and market rental rates used in determining the FVLCS by comparing them to comparable transactions.

For a selection of restaurants, we involved valuation professionals with specialized skills and knowledge, who assisted in assessing the discount rate used in determining the VIU by comparing it against a discount rate range that was independently developed using publicly available market data for comparable entities.

Evaluation of Impairment of Goodwill and Indefinite Life Intangible Assets

Description of the matter

We draw attention to Note 2, 3, 15 and 16 to the financial statements. At each balance sheet date, the Entity reviews the carrying amounts of its non-financial assets, including goodwill and brands, for any indication of impairment. In addition, goodwill and indefinite life brands are tested for impairment at least annually. The Entity has determined that its cash generating units (CGUs) comprise of individual restaurants. For indefinite life intangible assets, the Entity allocates the brand assets to the group of CGUs, being brands that are considered to generate independent cash inflows from other assets. Goodwill is assessed for impairment at the brand level on the group of CGUs expected to benefit from the synergies of the business combination. Any potential brand impairment is identified by comparing the recoverable amount of the groups of CGUs that includes the indefinite life asset to its carrying amount. Any potential goodwill impairment is identified by comparing the recoverable amount of the CGU grouping to which the goodwill is allocated to its carrying value. The balances of goodwill and indefinite life intangibles are \$198,313 thousand and \$526,677 thousand, respectively after recording impairment of \$3,839 thousand. The Entity determines the recoverable amount using the following significant assumptions:

- Projected future sales and earnings, terminal growth rates, and discount rates for testing the value in use (VIU) of CGU groups with allocated goodwill
- Projected future sales, terminal growth rates, royalty rates and discount rates for testing the fair value less costs to sell (FVLCS) of indefinite life intangible assets.

Why the matter is a key audit matter

We identified the evaluation of impairment of goodwill and indefinite life intangible assets as a key audit matter. This matter represented an area of significant risk of material misstatement given the magnitude of goodwill and indefinite life intangibles and the high degree of estimation uncertainty in assessing the Entity's significant assumptions. Significant auditor judgement and the involvement of professionals with specialized skills and knowledge was required to evaluate the evidence supporting the Entity's significant assumptions due to the sensitivity of the recoverable amounts to minor changes in significant assumptions.



How the matter was addressed

The primary procedures we performed to address this key audit matter included the following:

We evaluated the design and tested the operating effectiveness of certain controls over the Entity's goodwill and indefinite life intangibles impairment process. These controls related to the approval of the budget used in determining the projected future sales, and earnings and effective royalty rates.

For a selection of CGU groups, we evaluated the:

- Projected future sales and earnings by comparing to the actual historical sales and earnings generated by the CGU groups. We took into account changes in conditions and events affecting each CGU group to assess the adjustments or lack of adjustments made in arriving at the projected future sales and earnings assumptions
- Royalty rates used to determine FVLCS by comparing these assumptions to the actual historical royalty rates generated by the CGU group. We further examined the rates against the Entity's peer companies' third-party analyst reports.

For a selection of CGU groups, we involved valuation professionals with specialized skills and knowledge, who assisted in assessing:

- The discount rate by comparing it against a discount rate range that was independently developed using publicly available market data for comparable entities
- Terminal growth rates by comparing to overall macro-economic conditions.

Evaluation of Impairment of Lease Receivables

Description of the matter

We draw attention to Note 2, 3 and 13 to the financial statements. The Entity has recorded lease receivables of \$354,455 thousand and an impairment loss of \$5,834 thousand. The Entity applies the expected credit loss ("ECL") model to assess for impairment at each balance sheet date. An impairment loss is recorded when the credit risk is assessed to have increased for the lease receivables. The Entity utilizes a three-stage approach to recognizing the ECL which is intended to reflect the deterioration in credit quality of the lease receivables. There is significant judgment used in determining the staging including assessing changes in credit risks, forecasts of future economic conditions and historical information to ascertain the credit risk of the financial asset. In determining the ECL, management uses significant assumptions such as probability of default, loss given default and exposure at default.

Why the matter is a key audit matter

We identified the evaluation of impairment of lease receivables as a key audit matter. This matter represented an area of significant risk of material misstatement given the magnitude of lease receivables and the high degree of estimation uncertainty in assessing



the Entity's significant assumptions. Significant auditor judgment was required to evaluate the evidence supporting the Entity's significant assumptions due to the sensitivity of the expected credit loss to minor changes in significant assumptions.

How the matter was addressed

The primary procedures we performed to address this key audit matter included the following:

For a selection of lease receivables, we evaluated the:

- Movement between the three stages of the ECL model by assessing the inputs of the increase in credit risk due to significant changes in gross rent and occupancy costs as a percentage of sales
- Probability of default, loss given default and exposure at default, by evaluating historical results, subsidies provided, and remediation programs established as well as consideration of forward looking macro-economic factors. We took into account changes in conditions and events affecting the franchise locations made in arriving at the probability of default, loss given default and exposure at default.

For forward looking macro-economic factors we compared the key inputs to published reports of financial institutions. We assessed the probability weighting of macroeconomic scenarios assigned in the ECL model by considering alternative inputs of certain variables.

We involved professionals with specialized skills and knowledge, who assisted in assessing the appropriateness of the ECL model in accordance with IFRS 9 Financial Instruments.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Ontario Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Ontario Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.



Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Recipe Unlimited Corporation to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Recipe Unlimited Corporation

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is William J. Stephen.

Vaughan, Canada,

March 4, 2021

Recipe Unlimited Corporation
Consolidated Statements of Earnings or Losses
For the 52 weeks ended December 27, 2020 and December 29, 2019

	For the 52 weeks ended	
	December 27, 2020	December 29, 2019
(in thousands of Canadian dollars, except where otherwise indicated)		
Sales (note 6).....	\$ 737,888	\$ 1,065,928
Franchise revenues (note 7).....	126,689	186,523
Total gross revenue	\$ 864,577	\$ 1,252,451
Cost of inventories sold.....	(358,636)	(452,222)
Selling, general and administrative expenses (note 8).....	(448,511)	(656,871)
Impairment, net of reversals, of restaurant assets and lease receivables (notes 13, 14, 15, and 28).....	(79,204)	(57,243)
Restructuring and other (note 9).....	(5,600)	(6,644)
Operating income (loss)	\$ (27,374)	\$ 79,471
Net interest expense and other financing charges (note 10).....	(31,440)	(23,241)
Share of gain (loss) from investment in joint ventures.....	1,621	(1,442)
Earnings (losses) before change in fair value and income taxes	\$ (57,193)	\$ 54,788
Change in fair value of non-controlling interest liability (note 20).....	2,119	277
Change in fair value of contingent liability (note 20).....	5,023	10,000
Change in fair value of Exchangeable Keg Partnership units and Keg Royalty Income Fund units.....	(19,185)	(4,286)
Earnings (losses) before income taxes	\$ (69,236)	\$ 60,779
Current income tax expense (note 11).....	(1,067)	(24,847)
Deferred income tax recovery (note 11).....	17,275	7,980
Net earnings (losses)	\$ (53,028)	\$ 43,912
Net earnings (losses) attributable to Shareholders of the Company.....	(52,087)	44,519
Non-controlling interest.....	(941)	(607)
	\$ (53,028)	\$ 43,912
Net earnings (losses) per share attributable to the Common Shareholders of the Company (note 24) (in dollars)		
Basic earnings (losses) per share.....	\$ (0.92)	\$ 0.74
Diluted earnings (losses) per share.....	\$ (0.92)	\$ 0.72

Recipe Unlimited Corporation
 Consolidated Statements of Comprehensive Income or Loss
 For the 52 weeks ended December 27, 2020 and December 29, 2019

(in thousands of Canadian dollars, except where otherwise indicated)	<u>December 27, 2020</u>	<u>December 29, 2019</u>
Net earnings (losses)	\$ (53,028)	\$ 43,912
Items that will not be reclassified to profit or loss:.....		
Net defined benefit plan actuarial loss, net of income taxes (note 21).....	(3,213)	(215)
Cumulative translation adjustment.....	(621)	(633)
Other comprehensive loss, net of income taxes	(3,834)	(848)
Total comprehensive income (loss)	<u>\$ (56,862)</u>	<u>\$ 43,064</u>

Recipe Unlimited Corporation
Consolidated Statements of Total Equity
For the 52 weeks ended December 27, 2020 and December 29, 2019

(in thousands of Canadian dollars, except where otherwise indicated)	Attributable to the Common Shareholders of the Company						Total equity
	Number of shares (in thousands)	Share capital (note 23)	Merger reserve	Contributed surplus	Accumulated other comprehensive loss	Deficit	
Balance at December 29, 2019	56,378	\$617,126	\$(216,728)	\$ 10,617	\$ (3,404)	\$ (62,625)	\$ 344,986
Net earnings (loss)	—	—	—	—	—	(52,087)	(52,087)
Other comprehensive loss	—	—	—	—	(3,834)	—	(3,834)
Dividends	—	—	—	—	—	(6,634)	(6,634)
Share re-purchase (note 23)	(25)	(312)	—	—	—	—	(312)
Stock options exercised (note 23)	10	84	—	—	—	—	84
Stock-based compensation (note 22)	—	—	—	1,333	—	—	1,333
	(15)	(228)	—	1,333	(3,834)	(58,721)	(61,450)
Balance at December 27, 2020	56,363	\$616,898	\$(216,728)	\$ 11,950	\$ (7,238)	\$(121,346)	\$ 283,536

(in thousands of Canadian dollars, except where otherwise indicated)	Attributable to the Common Shareholders of the Company						Total equity
	Number of shares (in thousands)	Share capital (note 23)	Merger reserve	Contributed surplus	Accumulated other comprehensive loss	Deficit	
Balance at December 30, 2018	61,755	\$769,662	\$(216,728)	\$ 13,546	\$ (2,556)	\$ (78,112)	\$ 485,812
Net earnings	—	—	—	—	—	44,519	44,519
Other comprehensive loss	—	—	—	—	(848)	—	(848)
IFRS 16 transition adjustment	—	—	—	—	—	(2,107)	(2,107)
Dividends	—	—	—	—	—	(26,925)	(26,925)
Share re-purchase	(5,952)	(160,655)	—	—	—	—	(160,655)
Stock options exercised (note 23)	575	8,119	—	(2,639)	—	—	5,480
Stock-based compensation (note 22)	—	—	—	(290)	—	—	(290)
	(5,377)	(152,536)	—	(2,929)	(848)	15,487	(140,826)
Balance at December 29, 2019	56,378	\$617,126	\$(216,728)	\$ 10,617	\$ (3,404)	\$ (62,625)	\$ 344,986

Recipe Unlimited Corporation
Consolidated Balance Sheets
As at December 27, 2020 and December 29, 2019

(in thousands of Canadian dollars)

	As at December 27, 2020	As at December 29, 2019
Assets		
Current Assets		
Cash.....	\$ 40,539	\$ 40,351
Accounts receivable (note 28).....	106,272	117,279
Inventories (note 12).....	44,921	39,804
Current taxes receivable.....	13,148	—
Prepaid expenses and other assets.....	7,184	6,536
Current portion of long-term receivables (note 13).....	66,297	80,347
Total Current Assets	\$ 278,361	\$ 284,317
Long-term receivables (note 13).....	314,793	400,883
Property, plant and equipment (note 14).....	538,276	602,914
Investment in the Keg Limited Partnership (note 29).....	116,874	128,640
Brands and other assets (note 15).....	606,807	611,490
Goodwill (note 16).....	198,313	198,313
Deferred tax asset (note 11).....	55,647	37,509
Total Assets	\$ 2,109,071	\$ 2,264,066
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities.....	\$ 137,957	\$ 124,590
Provisions (note 17).....	2,725	4,721
Gift card liability.....	160,769	167,585
Income taxes payable.....	6,722	12,015
Current portion of lease liabilities (note 19).....	119,754	121,847
Total Current Liabilities	\$ 427,927	\$ 430,758
Long-term debt (note 18).....	488,834	475,742
Note payable to The Keg Royalties Income Fund.....	57,000	57,000
Provisions (note 17).....	3,733	3,589
Lease liabilities (note 19).....	544,969	646,602
Other long-term liabilities (note 20).....	58,906	66,973
Deferred gain on sale of The Keg Rights (note 29).....	144,806	139,315
Deferred tax liability (note 11).....	99,360	99,101
Total Liabilities	\$ 1,825,535	\$ 1,919,080
Shareholders' Equity		
Common share capital (note 23).....	\$ 616,898	\$ 617,126
Contributed surplus.....	11,950	10,617
Merger reserve (note 29).....	(216,728)	(216,728)
Accumulated other comprehensive loss.....	(7,238)	(3,404)
Deficit.....	(121,346)	(62,625)
Total Shareholders' Equity	\$ 283,536	\$ 344,986
Total Liabilities and Equity	\$ 2,109,071	\$ 2,264,066
Commitments, contingencies and guarantees (note 27)		
Subsequent events (note 31)		

Recipe Unlimited Corporation
Consolidated Statements of Cash Flows
For the 52 weeks ended December 27, 2020 and December 29, 2019

(in thousands of Canadian dollars)	December 27, 2020	December 29, 2019
Cash from (used in)		
Operating Activities		
Net earnings (losses).....	\$ (53,028)	\$ 43,912
Depreciation and amortization.....	107,057	116,409
Amortization of deferred gain.....	(1,783)	(1,692)
Net gain on disposal of property, plant and equipment and other assets.....	(515)	(359)
(Gain) loss on early buyout/cancellation of equipment rental contracts.....	(423)	3,228
Impairment, net of reversals, of restaurant assets and lease receivables (notes 13, 14, 15, 28, and 29).....	73,121	57,243
Loss (gain) on settlement of lease liabilities (note 19).....	1,149	(1,400)
Net interest expense on long-term debt and note payable to the Keg Royalties Income Fund (note 10).....	28,592	22,089
Interest expense on lease liabilities (note 10).....	12,159	13,079
Stock based compensation.....	1,333	(290)
Income taxes paid.....	(19,694)	(18,579)
Change in restructuring provision.....	1,368	1,203
Change in deferred tax (note 11).....	(17,879)	(7,964)
Change in fair value of exchangeable Keg Partnership units.....	19,185	4,286
Change in fair value of non-controlling interest liability and contingent liability.....	(7,142)	(10,277)
Other non-cash items.....	(2,782)	(5,213)
Net change in non-cash operating working capital (note 26).....	11,830	11,362
Cash flows from operating activities	\$ 152,548	\$ 227,037
Investing Activities		
Business acquisitions, net of cash (note 5).....	\$ (6,831)	\$ (8,476)
Purchase of property, plant and equipment.....	(28,277)	(49,040)
Proceeds on disposal of property, plant and equipment.....	4,588	875
Proceeds on early buyout of equipment rental contracts.....	1,688	190
Investment in joint ventures.....	580	(1,800)
Investment in Keg Royalties Income Fund units (note 29).....	—	(4,003)
Share of loss (gain) from investment in joint ventures.....	(1,621)	1,442
Additions to brands and other assets.....	(2,254)	(125)
Lease payments received.....	58,724	98,788
Change in long-term receivables.....	7,444	(5,047)
Cash flows from investing activities	\$ 34,041	\$ 32,804
Financing Activities		
Issuance of long-term debt (note 18).....	\$ 318,500	\$ 411,000
Repayment of long-term debt (note 18).....	(310,723)	(322,700)
Deferred financing costs (note 18).....	(268)	(3,094)
Issuance of subordinated voting common shares (note 23).....	84	5,480
Share re-purchase (note 23).....	(312)	(160,655)
Lease liabilities paid or payable (note 19).....	(142,025)	(152,568)
Change in lease liability due to rent concessions (note 19).....	(16,171)	—
Interest paid on long-term debt and note payable.....	(28,846)	(19,602)
Dividends paid on subordinate and multiple voting common shares.....	(6,634)	(26,925)
Cash flows (used in) from financing activities	\$ (186,395)	\$ (269,064)
Change in cash during the period	\$ 194	\$ (9,223)
Foreign currency translation adjustment.....	(6)	302
Cash - Beginning of period.....	40,351	49,272
Cash - End of period	\$ 40,539	\$ 40,351

Recipe Unlimited Corporation

Notes to the Consolidated Financial Statements

For the 52 weeks ended December 27, 2020 and December 29, 2019

1 Nature and description of the reporting entity

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

The Company's subordinate voting shares are listed on the Toronto Stock Exchange under the stock symbol "RECP". As part of the Company's initial public offering ("IPO") during fiscal 2015, the Company issued multiple voting shares to Fairfax Financial Holdings Limited and its affiliates ("Fairfax") and to the Phelan family through Cara Holdings Limited and its affiliates ("Cara Holdings", and together with Fairfax, the "Principal Shareholders"). As at December 27, 2020, the Principal Shareholders hold 70.7% of the total issued and outstanding shares and have 98.2% of the voting control attached to all the shares.

The Company's registered office is located at 199 Four Valley Drive, Vaughan, Canada L4K 0B8. Recipe Unlimited Corporation and its controlled subsidiaries are together referred to in these consolidated 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 due to mandated restaurant closures and other evolving restrictive measures. Locations that were permitted to open its dining rooms, operated at a reduced capacity to adhere to physical distancing guidelines and company-wide health and safety protocols. The Company's Retail and Catering divisions remained opened throughout the pandemic as an essential service continuing to supply branded and private label products to grocery customers.

In response to the COVID-19 pandemic, 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 two new "Ultimate Kitchens" locations to offer multi-brand off-premise choices for delivery to customers from a single kitchen. While the length of this pandemic is uncertain and government-imposed restrictions continue to evolve, our associates and franchise partners continue to operate effectively over the COVID-19 disruption periods, while executing industry leading safety measures. The Company will remain focused on the health and safety of our customers, employees and franchise partners.

The Company has taken a number of initiatives to provide direct support to its franchise partners during the COVID-19 disruption period, including:

- The introduction of a rent certainty program in May 2020 to provide franchise partners with direct rent support, effective April 1, 2020 through to the end of September 2020. In the wake of the second wave of the pandemic, the Company swiftly introduced a COVID support program, which extends financial support to franchise partners through to the end of March 2021.
- The Company introduced a royalty reduction program to provide direct support to its franchise partners through to the end of 2020. The total cost of the royalty reduction program for the year was \$7.5 million.

The Canadian Federal and Provincial governments have 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.
- The Canada Emergency Commercial Rent Assistance program (CECRA) was made available to certain franchise locations. The benefit of the government rent assistance program of \$5.4 million was realized in the year, as a reduction in the cost of the rent certainty program, which ended in September 2020, for qualifying restaurants and where government approvals were obtained;

- The Canada Emergency Rent Subsidy (CERS) program was introduced at the end of September 2020 as a replacement to the CECRA program.
- The Ontario property tax and energy rebate program was introduced and made available to the Company and franchise partners in November 2020.

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 government mandated restaurant closures, the speed of COVID-19 vaccination rollouts across Canada, 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and using the accounting policies described herein.

The consolidated financial statements were authorized for issue by the Board of Directors (“Board”) on March 4, 2021.

Basis of preparation

The consolidated 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.

Fiscal year

The fiscal year of the Company ends on the last Sunday of December for the current year. As a result, the Company’s fiscal year is usually 52 weeks in duration but includes a 53rd week every five to six years. The years ended December 27, 2020 and December 29, 2019 contained 52 weeks. The Company’s next fiscal year end will be December 26, 2021 and will contain 52 weeks.

Critical accounting judgements and estimates

The preparation of the consolidated 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 consolidated financial statements and accompanying notes.

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 consolidated 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.

The following are the accounting policies that are subject to judgements and estimates.

Business combinations

Accounting for business combinations requires judgments and estimates to be made in order to determine the fair values of the consideration transferred, assets acquired and the liabilities assumed. The Company uses all available information, including external valuations and appraisals where appropriate, to determine these fair values. Changes in estimates of fair value due to additional information related to facts and circumstances that existed at the acquisition date would impact the amount of goodwill recognized. If necessary, the Company has up to one year from the acquisition date to finalize the determinations of fair value for business combinations.

Accounting for joint ventures and associates

Joint ventures represent separately incorporated entities for which joint control exists. This requires judgement to determine if in fact joint control exists in each circumstance. Entities are considered to be under joint control when the Company has the ability to exercise significant influence but not control. Management has assessed the nature of its joint venture agreements with the respective other joint venture parties and using judgement determined where joint control does in fact exist. While the Company will also have a franchise agreement with certain joint venture restaurants, the rights included in these franchise agreements are considered to be protective in nature and, therefore, do not allow for any additional substantive control over the other party.

Depreciation and amortization

The Company's property, plant and equipment and definite life intangible assets are depreciated and amortized on a straight-line basis. Management uses judgment in determining the estimated useful lives of the assets and residual values. Changes to these estimates may affect the carrying value of these assets, net earnings/ (losses), and comprehensive income/ (losses) in future periods.

Valuation of investments

For equity investments in other companies where the underlying investment shares are not traded publicly, in order to determine the value of the common shares, estimates are required to determine the fair value of the underlying investment shares. Accordingly, those amounts are subject to measurement uncertainty and judgement.

Impairment of non-financial assets

Management is required to use judgement in determining the grouping of assets to identify their cash generating units ("CGUs") for the purposes of testing property, plant and equipment for impairment. Judgement is further required to determine appropriate groupings of CGUs, for the level at which goodwill and intangible assets are tested for impairment. In addition, judgement is used to determine whether a triggering

event has occurred requiring an impairment test to be completed for property, plant and equipment and definite life intangible assets.

The Company determines the recoverable amount of the CGU as the higher of fair value less costs to sell ("FVLCS") or its value in use ("VIU"). The determination of each of these amounts is subject to estimation uncertainty. The significant assumptions for FVLCS include vacancy period and market rental rates, and for VIU include projected future sales and earnings, and discount rates

The Company determines the FVLCS of its brands using the "Relief from Royalty Method", a discounted cash flow model, using significant assumptions such as projected future sales, terminal growth rates, royalty rates and discount rates.

The Company determines the recoverable amount of goodwill based on its VIU, using significant assumptions such as projected future sales and earnings, terminal growth rates and discount rates.

Projected future sales and earnings are consistent with strategic plans provided to the Company's Board. Discount rates are based on an estimate of the Company's weighted average cost of capital taking into account external industry information reflecting the risk associated with the specific cash flows.

When determining the VIU of a restaurant location, the Company employs a discounted cash flow model for each CGU. The duration of the cash flow projections for individual CGUs varies based on the remaining useful life of the significant asset within the CGU or the remaining lease term of the location. Sales forecasts for cash flows are based on actual operating results, operating budgets and long-term growth rates that were consistent with strategic plans presented to the Company's Board and ranged between 0% and 3%.

Impairment of financial assets

In accordance with IFRS 9, Management applies the 'expected credit loss' ("ECL") model to assess for impairment on its accounts receivables, franchise receivables, lease receivables and amounts due from related party joint ventures at each balance sheet date. There is significant judgment used in determining the staging, including assessing changes in credit risks, forecasts of future economic conditions and historical information to ascertain the credit risk of the financial asset.

The Company applies the ECL model to assess for impairment on its long-term receivables at each balance sheet date. The ECL is determined using assumptions such as the probability of default ("PD") incorporating loss given default and exposure at default. PD estimates represent a point in time PD, updated quarterly based on the Company's historical experience, current conditions, relevant forward-looking expectations over the expected life of the exposure to determine the PD curve. Forward-looking expectations include relevant macroeconomic variables. Expected life is the maximum contractual period the Company is exposed to credit risk. The ECL is measured over the period the Company is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

Definition of default

The Company considers a financial asset to be in default when a lease receivable is no longer collectible.

Incorporation of forward-looking information

The Company incorporates forward-looking information into its measurement of ECL. Based on statistical results, business experience and interpretability of the model behaviour in relation to the inputs, the Company uses Canada's GDP as the forward-looking macro-economic factor. The Company formulates a "base case" view of the future direction of Canada's GDP as well as a representative range of other possible forecast scenarios. This process involves developing two additional economic scenarios and considers the relative probabilities of each outcome. The Company uses the consensus GDP rate forecasts published by the major Canadian Chartered Banks and the International Monetary Fund.

The base case represents a most-likely outcome and is aligned with the consensus GDP rate forecasts and information. The other scenarios represent optimistic and pessimistic outcomes.

Leases

In determining the carrying amount of the right-of-use asset or lease receivable and corresponding lease liabilities, assumptions include the non-cancellable term of the lease plus periods covered by an option to renew the leases and incremental borrowing rate. Renewal options are only included in the lease term if management is reasonably certain to renew. Management considers factors such as investments in major leaseholds, store performance and available renewal options. The Company is also required to estimate the incremental borrowing rate specific to each portfolio of leased assets with similar characteristics if the interest rate in the lease is not readily determined. Management determines the incremental borrowing rate using the Government of Canada bond yield with an adjustment that reflects the Company's credit rating, security adjustment plus a risk premium over leases with similar terms.

Income and other taxes

The calculation of current and deferred income taxes requires management to make certain judgements regarding the tax rules in jurisdictions where the Company performs activities. Application of judgements is required regarding classification of transactions and in assessing probable outcomes of tax exposures, claimed deductions including expectations of future operating results, the timing and reversal of temporary differences, the likelihood of utilizing deferred tax assets and possible audits of income tax and other tax filings by the tax authorities.

Employee future benefits

Accounting for the costs of defined benefit pension plans is based on using a number of assumptions including estimates of rates of compensation increase, retirement ages of plan members and mortality assumptions. The discount rate used to value the accrued pension benefit obligation is based on high quality corporate bonds in the same currency in which the benefits are expected to be paid and with terms to maturities that on average match the terms of the defined benefit obligations. Other key assumptions for pension obligations are based on actuarial determined data and current market conditions.

Gift cards

Management is required to make certain assumptions on the likelihood of gift card redemptions based on historical redemption patterns. The impact of these assumptions result in a reduction to the costs of administering and fulfilling the liability associated with the gift card program when it can be determined that the likelihood of the gift card being redeemed, or a portion thereof, is remote based on several facts including historical redemption patterns and any changes to the gift card program.

Provisions

Management reviews provisions at each balance sheet date utilizing judgements to determine the probability that an outflow of economic benefit will result from the legal or constructive obligation and an estimate of the

associated obligation. Due to the judgemental nature of these items, future settlements may differ from amounts recognized.

Stock-based compensation

The accounting for equity-settled stock-based compensation requires management to make an estimate of the fair value of the stock options when granted based on the enterprise value and share price of the Company at the time of the grant as well as estimates around volatility, risk free interest rates and forfeitures of vested and unvested options.

Comparative information

Certain of the Company's prior year information was reclassified to conform with the current year's presentation.

3 Significant accounting policies

The significant accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and other entities that the Company controls. Control exists when the Company is exposed to or has the rights to variable returns from its involvement in the entity and has the ability to direct the activities that significantly affect the entities' returns through its power over the entity. The Company reassesses control at each reporting date. Transactions and balances between the Company and its consolidated entities have been eliminated on consolidation.

Non-controlling interests

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity. Their share of net earnings and comprehensive earnings are recognized directly in equity. Changes in the parent company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions. Therefore, no goodwill is recognized as a result of such transactions. When the Company ceases to have control or significant influence, any retained interest in the entity is adjusted to its fair value, with the change in the carrying amount recognized in net earnings. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

If the Company was to purchase the remaining non-controlling interest from outside parties, the non-controlling interest on the consolidated balance sheet would be eliminated, and any difference between the consideration paid and the carrying amount of the non-controlling interest would be recorded directly to equity.

Certain non-controlling interests are measured at fair value given the outside party has certain put rights that require the Company to purchase the remaining non-controlling interest when specific criteria or events occur.

Investments in joint ventures and associates

Investments over which the Company has joint control, and meets the definition of a joint venture under IFRS 11, *Joint Arrangements*, are accounted for using the equity method.

Investments over which the Company exercises significant influence, and which are neither subsidiaries nor joint ventures, are associates. Investments in associates are accounted for using the equity method.

The equity method involves the recording of the initial investment at cost and the subsequent adjusting of the carrying value of the investment for the proportionate share of the income or loss and any other changes in the associates' or joint ventures' net assets.

The Company's proportionate share of the associate's or joint ventures' income or loss is based on its most recent financial statements. If the Company's share of the associate's or joint venture's losses equals or exceeds its investment in the associate or joint venture, recognition of further losses is discontinued. The Company's investment in the associate or joint venture for purposes of loss recognition is comprised of the investment balance plus the unsecured portion of any related party note receivable. After the Company's interest is reduced to zero, additional losses will be provided for and a liability recognized, only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. If the associate subsequently reports income, the Company resumes recognizing its share of that income only after the Company's share of the income equals the share of losses not recognized. At each balance sheet date, the Company assesses its investments for indicators of impairment.

Foreign currency translation

Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars which is the Company's functional currency.

Foreign currency transactions

Foreign currency transactions are translated into the functional currency of the Company and its subsidiaries using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of earnings. Non-monetary items carried at cost are translated using the exchange rate at the date of the transaction. Non-monetary items carried at fair value are translated at the date the fair value is determined.

Revenue recognition

Gross revenues include revenue from the Company's food service activities. These activities consist primarily of food and beverage sales at restaurants operated by the Company, food product sales related to the sale of manufactured products to grocery retailers and certain franchisees, franchise revenues earned as part of the license agreements between the Company and its franchisees, and advertising fund payments received from franchisees, including payments from Recipe corporate restaurants. Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control, at a point in time or over time, requires judgement.

Corporate sales

Corporate sales are made up of the direct sale of prepared food and beverage to customers at company-owned restaurants, its catering division, and revenue from processing off-premise phone, web and mobile orders for franchised restaurants.

Food product sales

The Company recognizes revenue from food product sales at the fair value of the consideration received or receivable and an estimate of sales incentives provided to customers. Revenue is recognized when the customer takes ownership of the product, title has transferred, all the risks and rewards of ownership have transferred to the customer, recovery of the consideration is probable, the Company has satisfied its performance obligations under the arrangement, and has no ongoing involvement with the sold product. The value of sales incentives provided to customers are estimated using historical trends and are recognized at the time of sale as a reduction of revenue. Sales incentives include rebates and promotional programs provided to the Company's customers. These rebates are based on achievement of specified volume or growth in volume levels and other agreed promotional activities. In subsequent periods, the Company monitors the performance of customers against agreed upon obligations related to sales incentive programs and makes any adjustments to both revenue and sales incentive accruals as required.

Franchise revenues

The Company grants license agreements to independent operators ("franchisees"). As part of the license agreements, the franchisees pay initial and renewal franchise fees, conversion fees for established locations, royalties based on franchisee sales, and other payments, which may include payments for equipment usage and property rents. Franchise fees and conversion fees, if applicable, are substantially collected at the time the license agreement is entered into.

Royalties, based on a percentage of sales, are recognized as revenue and are recorded when earned. Most rental agreements are based on fixed payments including the recovery of operating costs, while other rental agreements are contingent on certain sales levels. Rental revenue from fixed rental leases are recognized on a straight-line basis over the term of the related lease while variable rental agreements based on a percentage of sales are accrued based on the actual sales of the restaurant.

Finance costs

Finance costs are primarily comprised of interest expense on long-term debt including the recognition of transaction costs over the expected life of the underlying borrowing using the effective interest rate at the initial recognition of the debt. All finance costs are recognized in the consolidated statements of earnings on an accrual basis (using the effective interest method), net of amounts capitalized as part of the costs of purchasing qualifying property, plant and equipment.

Finance costs directly attributable to the acquisition, construction or development of an asset that takes a substantial period of time (greater than six months), to prepare for their intended use, are recognized as part of the cost of that asset. All other finance costs are recognized in the consolidated statements of earnings in the period in which they are incurred. The Company capitalizes finance costs at the weighted average interest rate of borrowings outstanding for the period.

Income taxes

Income tax provision comprises of current and deferred income tax. Current income tax and deferred income tax are recognized in the consolidated statements of earnings or losses except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income or losses.

Current income taxes is the expected tax payable or receivable on the Company's taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is not recognized for the following temporary differences; the initial recognition of assets or liabilities in a

transaction that is not a business combination and that affects neither accounting nor taxable earnings or loss, and taxable temporary differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred income tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current income tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current income tax liabilities and assets on a net basis or their income tax assets and liabilities will be realized simultaneously.

A deferred income tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related income tax benefit will be realized or increased to the extent that it is probable that the related income tax benefit will be realized.

Financial Instruments

The classification and measurement approach for financial assets reflect the business model in which assets are managed and their cash flow characteristics.

Under IFRS 9, a financial asset is classified and initially measured at: amortized cost; fair value through OCI (“FVOCI”) - debt investment; FVOCI - equity investment; or fair value through profit and loss (“FVTPL”). For the Company, FVTPL is equivalent to fair value through statement of earnings or losses.

The following table and the accompanying notes below explain the measurement categories under under IFRS 9 for each class of the Company’s financial assets.

Financial assets	Notes	IFRS 9 Classification
Cash		Amortized cost
Accounts receivables		Amortized cost
Lease receivables		Amortized cost
Long-term receivables - franchise receivable and promissory notes		Amortized cost
Long-term receivables - due from related parties	(a)	Amortized cost
Long-term receivables -due from related party receivables	(b)	Fair value through statement of earnings

(a) Some due from related party receivables relate to joint venture term loans and demand loans which bear interest and are reviewed and renewed on an annual basis. These are classified as amortized cost under IFRS 9.

(b) Some due from related party receivables relate to joint venture loans for business purposes of which collection of the loan principal is contingent on the financial performance of the joint venture. These receivables are classified at fair value through statement of earnings under IFRS 9.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL;

- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding; and
- It is held within a business model whose objective is to hold assets to collect contractual cash flows.

A financial asset, unless it is a trade receivable without a significant financing component that is initially measured at the transaction price, is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following accounting policies apply to the subsequent measurement of financial assets of the Company.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in the statement of earnings or losses.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in the statement of earnings or losses. Any gain or loss on de-recognition is recognized in the statement of earnings or losses.

2. *Impairment of financial assets*

The financial assets at amortized cost consist of cash, accounts receivable, franchise receivables, lease receivables, promissory notes and some due from related parties' balances.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company applies the ECL model to assess for impairment on its financial assets at each balance sheet date. This impacts long term receivables, including promissory notes, franchise receivables, lease receivables, due from related parties' balances and trade accounts receivables.

IFRS 9 outlines a three stage approach to recognizing Expected Credit Losses ("ECL") which is intended to reflect the deterioration in credit quality of a financial instrument, which includes the following categories that are not measured at FVTPL: amortized cost financial assets.

- Stage 1 is comprised of all financial instruments that have not deteriorated significantly in credit quality since initial recognition or has low credit risk at the reporting date.
- Stage 2 is comprised of all financial instruments that have deteriorated significantly in credit quality since initial recognition but do not have objective evidence of a credit loss event at the reporting date.
- Stage 3 is comprised of all financial instruments that have objective evidence of impairment at the reporting date.

For all stages of financial instruments, the impairment is recognized based on the expected losses over the expected remaining life of the instrument arising from loss events that could occur over the expected life. The Company is required to recognize impairment based on a lifetime ECL for all stages of financial instruments.

For trade receivables, the standard provides a simplified impairment model for trade receivables without significant financing components such as the Company's trade receivables. In this model, only life-time ECL's are recognized.

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.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Presentation of impairment

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Inventories

Inventories consist of food and beverage items for use at the Company's corporately-owned locations, catering division, Company-branded retail products and food and packaging materials used in St-Hubert's food processing and distribution division. Inventories are stated at the lower of cost and estimated net realizable value. Costs consist of the cost to purchase 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. The cost of inventory for products being manufactured by the Company includes direct product costs, direct labour and an allocation of variable and fixed manufacturing overheads, including depreciation. When circumstances that previously caused inventories to have a write-down below cost no longer exist, or when there is clear evidence of an increase in net realizable value, the amount of a write-down previously recorded is reversed through cost of inventories sold.

Property, plant and equipment

Recognition and measurement

Land other than through a finance lease is carried at cost and is not amortized.

Property, plant and equipment are stated at cost less accumulated depreciation and net accumulated impairment losses (refer to impairment of long-lived assets policy below). Cost includes expenditures directly attributable to the acquisition of the asset, including the costs of dismantling and removing the items and restoring the site on which they are located, and finance costs on qualifying assets less tenant inducements received from landlords.

Construction-in-progress assets are capitalized during construction and depreciation commences when the asset is available for use.

When significant component parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains or losses on disposal of an item of property, plant and equipment, are determined by comparing the proceeds from disposal with the net carrying amount of property, plant and equipment, and are recognized within selling, general and administrative expenses in the consolidated statements of earnings.

Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount, if any, of the replaced part is de-recognized and recorded within selling, general and administrative expenses in the consolidated statements of earnings or losses. The costs of repairs and maintenance of property, plant and equipment are recognized in the consolidated statements of earnings or losses as incurred.

Depreciation and Amortization

Depreciation is calculated based upon the depreciable amount, which is the cost of an asset less its residual value.

Depreciation commences when assets are available for use and is recognized on a straight-line basis to amortize the cost of these assets over their estimated useful lives, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Estimated useful lives range from 2 to 12 years for equipment. Buildings are depreciated over 20 to 40 years and leasehold improvements are depreciated over the shorter of their estimated useful lives or the term of the lease, including expected renewal terms to a maximum of 15 years. Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate on a prospective basis. Depreciation expense is recognized in selling, general and administrative expenses in the consolidated statements of earnings. Depreciation expense related to assets used to manufacture and process food are recognized in the cost of inventory and cost of inventory sold upon the sale of inventory.

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method at the acquisition date, which is the date that control is transferred to the Company.

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 CGUs 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 at the brand level for impairment at least annually and whenever there is an indication that the asset may be impaired. Refer to the impairment of long-lived assets policy below.

Brands and other assets

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

Other Intangible Assets

The Company has certain definite life intangible assets, primarily related to customer relationships, which are measured at fair value on the date of acquisition. These assets are subsequently measured at cost less accumulated amortization and less any net accumulated impairment losses. Amortization is recognized in selling, general and administrative expenses on a straight-line basis over their estimated useful lives as follows:

Customer Relationships

20 to 33 years

Customer relationships are tested for impairment whenever events or circumstances exist that suggest the carrying value is greater than the recoverable amount.

Impairment of long-lived assets

For the purpose of reviewing definite life non-financial assets for impairment, asset groups are reviewed at their lowest level for which identifiable cash inflows are largely independent of cash inflows of other assets or groups of assets. The Company has determined that its CGUs comprise of individual restaurants. For customer relationships, the Company has determined that its CGUs comprise of type of customer, being sales to franchise customers and retail grocery chains. For indefinite life intangible assets, the Company allocates the brand assets to the group of CGUs, being brands that are considered to generate independent cash inflows from other assets. Goodwill is assessed for impairment based at the brand level on the group of CGUs expected to benefit from the synergies of the business combination, and the lowest level at which management monitors the goodwill and cannot be at a higher level than an operating segment.

At each balance sheet date, the Company reviews the carrying amounts of its non-financial assets, including property, plant and equipment, goodwill, brands and other assets for any indication of impairment or a reversal of previously recorded impairment other than for goodwill as impairment for goodwill is not permitted to be reversed. In addition, goodwill and indefinite life brands are tested for impairment at least annually. If any such indication of impairment exists, the recoverable amount of the CGU is estimated in order to determine the extent of the impairment loss, if any.

An impairment loss is recognized if the net carrying amount of the CGU exceeds its recoverable amount. Impairment losses are recognized in the consolidated statements of earnings in the period in which they occur. When impairment subsequently reverses, the carrying amount of the asset is increased to the extent that the carrying value of the underlying assets does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment had been recognized. Impairment reversals are recognized in consolidated statements of earnings or losses in the period which they occur.

Any potential brand impairment is identified by comparing the recoverable amount of the groups of CGUs that includes the indefinite life asset to its carrying amount. If the recoverable amount, calculated as the higher of the fair value less costs to sell and the value in use, is less than its carrying value, an impairment loss is recognized in the consolidated statements of earnings or losses in the period in which they occur.

Any potential goodwill impairment is identified by comparing the recoverable amount of the CGU grouping to which the goodwill is allocated to its carrying value. If the recoverable amount, calculated as the higher of the fair value less costs to sell and the value in use, is less than its carrying amount, an impairment loss is recognized in the consolidated statements of earnings or losses in the period in which it occurs. Impairment losses on goodwill are not subsequently reversed if conditions change.

Gift cards

The Company's various branded restaurants, in addition to third party companies, sell gift cards to be redeemed at the Company's corporate and franchised restaurants for food and beverages only. Proceeds received from the

sale of gift cards are treated as gift card liability in current liabilities until redeemed by the gift card holder as a method of payment for food and beverage purchases.

Based on historical redemption patterns, the Company estimates the portion of gift cards that have a remote likelihood of being redeemed and recognizes the amount as a reduction in expenses on the operational statements of the marketing funds that the Company administers on behalf of franchisees and on the Company's consolidated statements of earnings or losses.

Due to the inherent nature of gift cards, it is not possible for the Company to determine what portion of the unearned revenue related to gift cards will be redeemed in the next 12 months and, therefore, the entire accrual balance is considered to be a current liability.

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 that 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 estimates. Due to the judgemental nature of these items, future settlements may differ from amounts recognized.

Employee future benefits

The cost of the Company's defined benefit pension plans are accrued as earned by the employees, based on actuarial valuations. The cost of defined benefit pension plans are determined using the projected unit credit benefit method pro-rated on service and management's best estimate, rates of compensation increase and retirement ages of plan members. Assets are recorded at fair value. The discount rate used to value the accrued benefit plan obligations are based on high quality corporate bonds in the same currency in which the benefits are expected to be paid and with terms to maturities that on average match the terms of the defined benefit obligations. An interest amount on plan assets is calculated by applying a prescribed discount rate used to value the accrued benefit obligations. Past service costs from plan amendments are recognized in operating income (loss) in the year that they arise.

For the plans that resulted in a net defined benefit asset, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to the plan. An economic benefit is available to the plan if it is realizable during the life of the plan, or on settlement of the plan liabilities.

At each balance sheet date, plan assets are measured at fair value and defined benefit plan obligations are measured using assumptions which approximate their values at the reporting date, with the resulting actuarial gains and losses from both of these measurements, net of taxes, are recognized in other comprehensive income or loss.

Multi-employer plan

The Company participates in a multi-employer defined benefit pension plan which is accounted for as a defined contribution plan. The Company does not administer this plan as the administration and investment of the assets are controlled by the plan's board of trustees consisting of union and employer representatives. The Company's responsibility to make contributions to the plan is established pursuant to collective bargaining agreements. The contributions made by the Company to the multi-employer plan are expensed when due.

Defined Contribution Plans

The Company's obligations for contributions to the employee defined contribution pension plan are recognized in the consolidated statement of earnings or losses in the periods during which services are rendered by employees.

Short-term employee benefits

Short-term employee benefits include wages, salaries, compensated absences and bonuses. Short-term employee benefit obligations are measured on an undiscounted basis and are recognized in operating income (loss) as the related service is provided or capitalized if the service rendered is in connection with the creation of a tangible asset. A liability is recognized for the amount expected to be paid under short-term cash bonus plans if the Company has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be estimated reliably.

Long-term incentive plans

The Company has equity-settled stock-based compensation plans for some of its employees.

The fair value of the option is expensed over the vesting period and is recognized in selling, general and administrative expenses, with a corresponding increase in contributed surplus over the period, at the end of which, the employees become unconditionally entitled to shares. Fair value of the option is measured based on the enterprise value of the Company at the time of the grant using a Black-Scholes model. The amount expensed is adjusted for changes to estimated forfeitures if subsequent information indicates that actual forfeitures differ significantly from the original estimate.

Upon exercise of the share options, the amount expensed to contributed surplus throughout the vesting period is moved to share capital, along with the consideration received for the options.

Leases***Definition of a lease***

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

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:
 - the Company has the right to operate the asset; or

- the Company designed the asset in a way that predetermines how and for what purpose it will be used.

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

As a lessee

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

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use-asset or the end of the lease term. The estimated useful lives of the right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. Right-of-use assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. Refer to the Impairment of long-lived assets policy.

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

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

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

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

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

Short term leases, leases of low-value assets and variable lease payments

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes these lease

payments and variable payments associated with these leases as an expense in selling, general and administrative expenses on the most systematic basis over the lease term.

As a lessor

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

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

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

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

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

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. For the 52 weeks ended December 27, 2020, the Company recorded \$1.5 million of rent concessions for eligible corporate restaurants (in the form of rent reduction from landlords) as a reduction to selling, general and administrative expenses.

Government Grant

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.

In response to the negative economic impact of COVID-19, the Government of Canada announced the CEWS (Canadian Emergency Wage Subsidy) program in April 2020 to provide wage subsidy on eligible remuneration subject to limits per employees, to eligible employees based on certain criteria, including demonstration of revenue declines as the result of COVID-19. This subsidy was retroactive to March 15, 2020. The Government of Canada also announced the CERS (Canada Emergency Rent Subsidy) and on the Ontario Property Tax and Energy Rebate programs to provide financial assistance for rent and utilities costs, to eligible companies that were impacted by the pandemic. Additionally, the US government also announced the PPP (Paycheck Protection Plan) loan forgiveness program to provide financial assistance eligible companies on payroll and other overhead costs.

The Company recognizes government grants as a reduction to the related expense that the grant is intended to offset. The Company has recognized \$84.3 million of CEWS, \$1.4 million of CERS, \$0.5 million of Ontario Property Tax and Rebates, and \$1.9 million of US government loan forgiveness for the 52 weeks ended December 27, 2020, and has recorded it as a reduction to the selling, general, and administrative expenses 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 December 25, 2022. 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 December 26, 2021. 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 December 26, 2021. The Company does not expect the amendments to have a material impact on the consolidated financial statements

5 Acquisitions and Buyouts

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

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.

The Company has completed the fair value determination of the identifiable assets acquired and liabilities assumed in connection with the acquisition of Anejo and Blanco Cantina.

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

Recipe Unlimited Corporation

Notes to the Consolidated Financial Statements

For the 52 weeks ended December 27, 2020 and December 29, 2019**Acquired franchise locations**

In the normal course of business, the Company may acquire franchise restaurants and convert them into corporate restaurants. During the year ended December 27, 2020, 17 franchise locations (December 29, 2019 – 13 locations) were acquired by the Company.

(in thousands of Canadian dollars)

	December 27, 2020	December 29, 2019
Consideration		
Cash	\$ 6,831	\$ 3,446
Assumption of long term debt	\$ 4,721	\$ —
Total Consideration	\$ 11,552	\$ 3,446
Net assets acquired		
Inventories	\$ 177	\$ 253
Property, plant and equipment	4,110	187
Brands and other assets	7,265	1,971
Total Assets	11,552	2,411
Liabilities		
Accounts payable and accrued liabilities	—	256
Total liabilities	—	256
Goodwill	—	1,291
Total	\$ 11,552	\$ 3,446

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.

	For the 52 weeks ended	
	December 27, 2020	December 29, 2019
(in thousands of Canadian dollars)		
Sales at corporate restaurants	\$ 387,013	\$ 743,037
Food processing and distribution sales	330,393	293,305
Catering sales	7,076	18,612
Call centre service charge revenues	13,406	10,974
	\$ 737,888	\$ 1,065,928

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.

Recipe Unlimited Corporation

Notes to the Consolidated Financial Statements

For the 52 weeks ended December 27, 2020 and December 29, 2019

	For the 52 weeks ended	
	December 27, 2020	December 29, 2019
(in thousands of Canadian dollars)		
Royalty revenue	\$ 67,806	\$ 109,426
Marketing fund contributions	48,990	64,318
Other rental income	7,347	8,792
Franchise fees on new and renewal licenses	1,403	2,748
Income on finance leases	949	1,373
Amortization of unearned conversion fees income	194	(134)
	\$ 126,689	\$ 186,523

8 Selling, general and administrative expenses

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

	For the 52 weeks ended	
	December 27, 2020	December 29, 2019
(in thousands of Canadian dollars)		
Corporate restaurant expenses	\$ 266,031	\$ 447,368
Advertising fund transfers	48,990	64,319
The Keg royalty expense	13,885	25,388
Franchise assistance and bad debt	2,779	3,825
Depreciation of property, plant and equipment (note 14)	98,642	106,257
Amortization of other assets (note 15)	4,275	6,278
Net gain on disposal of property, plant and equipment and other assets	(515)	(359)
Net (gain) loss on settlement of lease liabilities (note 19)	1,149	(1,400)
Net (gain) loss on early buyout/cancellation of equipment rental contracts	(423)	3,228
Other	13,698	1,967
	\$ 448,511	\$ 656,871

For the year ended December 27, 2020, \$4.1 million (December 29, 2019 - \$3.9 million) of depreciation related to property, plant and equipment has been included in cost of inventories sold as part of food processing and distribution.

Employee costs

Included in selling, general and administrative expenses are the following employee costs:

(in thousands of Canadian dollars)	For the 52 weeks ended	
	December 27, 2020	December 29, 2019
Short-term employee benefits	\$ 221,194	\$ 371,561
Post-employment benefits (note 21)	1,282	1,374
Long-term incentive plans (note 22)	1,333	(290)
	\$ 223,809	\$ 372,645

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.

Home office and brand reorganization

In conjunction with certain acquisitions, the Company approved the restructuring of certain home office and brand operations positions to consolidate with Recipe's existing infrastructure. During the year ended December 27, 2020, the Company recorded an expense of \$4.3 million (December 29, 2019 - \$1.4 million) comprised primarily of office closure costs, severance and other benefits.

Restaurant operations - repositioning of certain brands

During the year-ended December 30, 2018, the Company approved a plan to take-back certain under-performing restaurants with the intention to re-franchise certain locations to stronger franchisee partners and to permanently close locations that do not meet the Company's long-term strategic portfolio of restaurants. For the year ended December 27, 2020, the Company recorded an expense of \$1.3 million (December 29, 2019 - \$5.3 million) related to expected cost to settle and exit certain leases.

The following table provides a summary of the costs recognized and cash payments made, as well as the corresponding net liability as at December 27, 2020:

(in thousands of Canadian dollars)	For the 52 weeks ended	
	December 27, 2020	December 29, 2019
Net liability, beginning of period	\$ 13,707	\$ 11,523
Adjustments	(4,945)	981
Cost recognized		
Employee termination benefits	4,342	1,320
Site closing costs and other	1,258	5,324
	\$ 5,600	\$ 6,644
Cash payments		
Employee termination benefits	3,420	1,694
Site closing costs and other	812	3,747
	\$ 4,232	\$ 5,441
Net liability, end of period	\$ 10,130	\$ 13,707

Recipe Unlimited Corporation

Notes to the Consolidated Financial Statements

For the 52 weeks ended December 27, 2020 and December 29, 2019**Recorded in the consolidated balance sheets as follows:**

(in thousands of Canadian dollars)	<u>As at December 27, 2020</u>	<u>As at December 29, 2019</u>
Employee termination benefits:		
Accounts payable and accrued liabilities	\$ 2,524	\$ 1,561
Site closing costs and other are recorded as a reduction to:		
Long-term receivable	—	3,010
Provisions (current)	437	1,705
Provisions (long-term)	407	—
Property, plant and equipment	6,762	7,431
	<u>\$ 10,130</u>	<u>\$ 13,707</u>

10 Net interest expense and other financing charges

(in thousands of Canadian dollars)	<u>For the 52 weeks ended</u>	
	<u>December 27, 2020</u>	<u>December 29, 2019</u>
Interest expense on long-term debt	\$ 24,317	\$ 17,814
Interest expense on note payable to The Keg Royalties Income Fund	4,275	4,275
Financing costs	977	897
Interest expense - other	625	348
Interest income on Partnership units and KRIF units	(8,179)	(11,146)
Interest income	(2,734)	(2,026)
Interest on lease obligations (note 19)	29,188	32,211
Interest income on lease receivable (note 13)	(17,029)	(19,132)
	<u>\$ 31,440</u>	<u>\$ 23,241</u>

11 Income taxes

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

(in thousands of Canadian dollars)	For the 52 weeks ended	
	December 27, 2020	December 29, 2019
Current income tax expense		
Current period	\$ 5,687	\$ 25,316
Adjustments for prior years	(4,620)	(469)
	\$ 1,067	\$ 24,847
Deferred income tax recovery		
Benefit from previously unrecognized tax asset	\$ (19)	\$ —
Origination and reversal of temporary differences	(21,148)	(8,868)
Adjustments for prior years	3,892	888
	\$ (17,275)	\$ (7,980)
Net income tax expense (recovery) ⁽¹⁾	\$ (16,208)	\$ 16,867

⁽¹⁾ Net income tax expense (recovery) for the years ended December 27, 2020 and December 29, 2019 relates to income taxes from operations.

The statutory income tax rate for the year ended December 27, 2020 was 26.37% (December 29, 2019 – 26.61%).

Net income tax expense (recovery) is reconciled from net earnings (losses) as follows:

(in thousands of Canadian dollars)	For the 52 weeks ended	
	December 27, 2020	December 29, 2019
Net earnings (losses)	\$ (53,028)	\$ 43,912
Income taxes	(16,208)	16,867
Income (loss) before income taxes	(69,236)	60,779
Statutory income tax rate	26.37 %	26.61 %
Expected income tax expense based on above rates	(18,258)	16,173
Increase (decrease) resulting from:		
Benefit from previously unrecognized tax asset (including unrecognized income tax benefit utilized in the current year)	3,586	1,890
Adjustments for prior years	(727)	419
Income taxes on non-deductible amounts	(1,102)	(2,794)
Other	293	1,179
Expenses (recovery) for income taxes	\$ (16,208)	\$ 16,867

Recognized deferred tax assets and liabilities

(in thousands of Canadian dollars)	<u>As at December 27, 2020</u>	<u>As at December 29, 2019</u>
Opening balance.....	\$ (61,592)	\$ (70,420)
Deferred income tax recovery.....	17,275	7,980
Income taxes recognized in other comprehensive loss.....	1,095	76
Other.....	(491)	(92)
IFRS 16 adjustment to opening balance.....	—	864
	<u>\$ (43,713)</u>	<u>\$ (61,592)</u>

Deferred tax assets and liabilities are attributable to the following:

(in thousands of Canadian dollars)	<u>As at December 27, 2020</u>	<u>As at December 29, 2019</u>
Deferred tax assets:		
Other long-term liabilities.....	\$ 21,445	\$ 15,240
Income tax losses ⁽¹⁾	17,304	4,955
Accounts payable and accrued liabilities.....	12,539	12,857
Other assets.....	1,341	1,605
	<u>\$ 52,629</u>	<u>\$ 34,657</u>
Deferred tax liabilities:		
Brand and other intangibles.....	\$ (84,071)	\$ (87,197)
Property, plant and equipment.....	(11,351)	(7,622)
Long-term receivables.....	(768)	(1,204)
Accounts receivable.....	(152)	(226)
	<u>\$ (96,342)</u>	<u>\$ (96,249)</u>
Classified in the Consolidated Financial Statements as:		
Deferred tax asset.....	55,647	37,509
Deferred tax liability.....	(99,360)	(99,101)
	<u>\$ (43,713)</u>	<u>\$ (61,592)</u>

⁽¹⁾ The gross amount of tax non-capital losses carried forward will start to expire in 2027.

Recipe Unlimited Corporation

Notes to the Consolidated Financial Statements

For the 52 weeks ended December 27, 2020 and December 29, 2019*Unrecognized deferred tax liabilities*

Deferred tax is not recognized on the unremitted earnings of subsidiaries and other investments as the Company is in a position to control the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. Reversing these temporary differences would not result in any significant tax implications.

Unrecognized deferred tax assets

Deferred tax assets have not been recognized on the consolidated balance sheets in respect of the following items:

(in thousands of Canadian dollars)	As at December 27, 2020	As at December 29, 2019
Income tax losses.....	\$ 18,917	\$ 12,094
Deductible temporary differences.....	39,590	34,302
	\$ 58,507	\$ 46,396

The US income tax losses of \$11.5 million and Canadian income tax losses of \$7.4 million (December 29, 2019 - \$12.1 million) will start to expire in 2023. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable income will be available to the Company to utilize the benefits.

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)	As at December 27, 2020	As at December 29, 2019
Raw materials.....	\$ 7,041	\$ 6,937
Work in progress.....	1,067	921
Finished goods.....	26,254	19,035
Food and beverage supplies.....	10,559	12,911
	\$ 44,921	\$ 39,804

Recipe Unlimited Corporation

Notes to the Consolidated Financial Statements

For the 52 weeks ended December 27, 2020 and December 29, 2019**13 Long-term receivables**

(in thousands of Canadian dollars)	<u>As at December 27, 2020</u>	<u>As at December 29, 2019</u>
Lease receivable	\$ 354,455	\$ 455,245
Franchise receivable	7,623	11,189
Due from related parties	18,666	14,170
Promissory notes	346	626
	<u>\$ 381,090</u>	<u>\$ 481,230</u>

Recorded in the consolidated balance sheets as follows:

(in thousands of Canadian dollars)	<u>As at December 27, 2020</u>	<u>As at December 29, 2019</u>
Current portion of long-term receivables	\$ 66,297	\$ 80,347
Long-term receivables	314,793	400,883
	<u>\$ 381,090</u>	<u>\$ 481,230</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.

For the 52 weeks ended December 27, 2020, the Company recorded an impairment of \$5.8 million (December 29, 2019 - \$19.9 million impairment loss) on long-term lease receivables using the expected credit loss model.

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

(in thousands of Canadian dollars)	<u>As at December 27, 2020</u>	<u>As at December 29, 2019</u>
Balance, beginning of period	\$ 455,245	\$ —
IFRS 16 inception adjustment	—	504,439
Additions	1,075	27,609
Lease renewals and modifications, terminations and other adjustments	(22,948)	19,884
Lease payments received or receivable	(90,112)	(95,944)
Interest income	17,029	19,132
Impairment	(5,834)	(19,875)
Lease receivable	<u>\$ 354,455</u>	<u>\$ 455,245</u>

Franchise receivable

In prior years, the Company converted certain corporate restaurants to franchise and sold the restaurants to independent operators (“franchisees”). As part of these conversion agreements, certain franchisees entered into rental agreements to rent certain restaurant assets from the Company. Franchise receivables of \$7.6 million (December 29, 2019 - \$11.2 million) relates primarily to the long-term obligation of the franchisees to pay the Company over the term of the rental agreement which is equal to the term of the license agreement or the term to the expected buyout date assuming that the franchisee is more likely than not to acquire the rented assets from the Company.

Recipe Unlimited Corporation

Notes to the Consolidated Financial Statements

For the 52 weeks ended December 27, 2020 and December 29, 2019

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 franchise receivables. For the 52 weeks ended December 27, 2020, the Company recorded \$nil (December 29, 2019 - \$nil) of impairment losses on long-term franchise receivables.

Franchise receivables have maturity dates ranging from 2021 to 2034 and bear an average effective interest rate of 8%.

(in thousands of Canadian dollars)	As at December 27, 2020	As at December 29, 2019
Balance, beginning of period.....	\$ 11,189	\$ 18,431
Payments.....	(1,726)	(2,844)
Buyouts, take-backs, and other adjustments.....	(1,840)	(4,398)
Franchise receivable.....	\$ 7,623	\$ 11,189

Provision for impairment

(in thousands of Canadian dollars)	As at December 27, 2020	As at December 29, 2019
Balance, beginning of period.....	\$ 29,616	\$ —
IFRS 16 inception adjustment.....	—	7,438
Impairment of lease receivable.....	5,834	19,875
Additions related to due from related parties.....	577	4,741
Write-offs.....	(722)	—
Adjustments.....	(567)	(2,438)
Provision for impairment.....	\$ 34,738	\$ 29,616

Recipe Unlimited Corporation
Notes to the Consolidated Financial Statements
For the 52 weeks ended December 27, 2020 and December 29, 2019

14 Property, plant and equipment

	As at December 27, 2020						
(in thousands of Canadian dollars)	Land	Buildings	Equipment	Leasehold improvements	Right-of-Use Assets	Construction-in-progress	Total
Cost							
Balance, beginning of year	\$ 35,966	\$ 115,656	\$ 238,864	\$ 238,540	\$ 304,504	\$ 8,578	\$ 942,108
Additions	—	40	5,501	442	11,001	22,294	39,278
Acquisitions and buybacks (note 5)	—	—	1,451	2,659	—	—	4,110
Lease renewals and modifications	—	—	—	—	33,066	—	33,066
Foreign exchange translation	—	—	(256)	(627)	(264)	—	(1,147)
Disposals and adjustments	(177)	(3)	(4,713)	(4,809)	(7,787)	—	(17,489)
Transfer to/(from) construction-in-progress	—	41	15,273	5,698	—	(21,012)	—
Balance, end of year	\$ 35,789	\$ 115,734	\$ 256,120	\$ 241,903	\$ 340,520	\$ 9,860	\$ 999,926
Accumulated depreciation and impairment losses							
Balance, beginning of year	\$ —	\$ 15,301	\$ 149,587	\$ 111,556	\$ 62,750	\$ —	\$ 339,194
Depreciation expense	—	3,729	28,324	28,559	42,170	—	102,782
Impairment losses	—	—	4,749	16,508	17,993	—	39,250
Reversal of impairment losses	—	—	(278)	(2,112)	(7,024)	—	(9,414)
Foreign exchange translation	—	—	(245)	(605)	(219)	—	(1,069)
Disposals and adjustments	—	(3)	(4,730)	(4,360)	—	—	(9,093)
Balance, end of year	\$ —	\$ 19,027	\$ 177,407	\$ 149,546	\$ 115,670	\$ —	\$ 461,650
Carrying amount as at December 27, 2020	\$ 35,789	\$ 96,707	\$ 78,713	\$ 92,357	\$ 224,850	\$ 9,860	\$ 538,276

Recipe Unlimited Corporation
Notes to the Consolidated Financial Statements
For the 52 weeks ended December 27, 2020 and December 29, 2019

As at December 29, 2019

(in thousands of Canadian dollars)	Land	Buildings	Equipment	Leasehold improvements	Assets under finance lease	Right-of-Use Assets	Construction-in-progress	Total
Cost								
Balance, beginning of year	\$ 36,359	\$ 114,335	\$ 231,834	\$ 208,987	\$ 42,811	\$ —	\$ 8,947	\$ 643,273
IFRS 16 adjustment to opening balance	—	—	(400)	12,276	(41,589)	263,615	—	233,902
Additions	—	14	7,554	4,213	—	46,793	37,259	95,833
Acquisitions and buybacks (note 5)	—	—	458	345	—	—	—	803
Foreign exchange translation	—	—	(586)	(1,452)	—	(596)	—	(2,634)
Disposals and adjustments	(393)	(509)	(15,642)	(5,995)	(1,242)	(5,308)	—	(29,089)
Transfer to/(from) construction-in-progress	—	1,816	15,646	20,166	—	—	(37,628)	—
Balance, end of year	\$ 35,966	\$ 115,656	\$ 238,864	\$ 238,540	\$ (20)	\$ 304,504	\$ 8,578	\$ 942,088
Accumulated depreciation and impairment losses								
Balance, beginning of year	\$ —	\$ 11,675	\$ 132,848	\$ 78,068	\$ 20,692	\$ —	\$ —	\$ 243,283
IFRS 16 adjustment to opening balance	—	—	—	971	(19,900)	—	—	(18,929)
Depreciation expense	—	4,091	28,805	31,025	—	46,211	—	110,132
Impairment losses	—	—	3,514	11,633	—	17,143	—	32,290
Reversal of impairment losses	—	—	—	(185)	—	(152)	—	(337)
Foreign exchange translation	—	—	(484)	(1,206)	—	(83)	—	(1,773)
Disposals and adjustments	—	(465)	(15,096)	(8,750)	(812)	(369)	—	(25,492)
Balance, end of year	\$ —	\$ 15,301	\$ 149,587	\$ 111,556	\$ (20)	\$ 62,750	\$ —	\$ 339,174
Carrying amount as at December 29, 2019	\$ 35,966	\$ 100,355	\$ 89,277	\$ 126,984	\$ —	\$ 241,754	\$ 8,578	\$ 602,914

Impairment losses

For the 52 weeks ended December 27, 2020, the Company recorded \$39.3 million (December 29, 2019 - \$32.3 million) of impairment losses on property, plant and equipment in respect of 95 cash generating units (“CGUs”) (December 29, 2019 - 41 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 45% (December 29, 2019 - 32%) of impaired CGUs had carrying values greater than their FVLCS. The remaining 55% (December 29, 2019 - 68%) of impaired CGUs had carrying values greater than their VIU.

For the 52 weeks ended December 27, 2020, the Company recorded \$9.4 million of impairment reversals (December 29, 2019 - \$0.3 million) in respect of 15 CGUs (December 29, 2019 - 2 CGUs).

When determining the VIU of a restaurant location, the Company employs a discounted cash flow model for each CGU. The duration of the cash flow projections for individual CGUs varies based on the remaining useful life of the significant asset within the CGU or the remaining lease term of the location. Sales forecasts for cash flows are based on actual operating results, operating budgets and long-term growth rates that were consistent with strategic plans presented to the Company’s Board and ranged between 0% and 3%. The estimate of the VIU of the relevant CGUs was determined using an after-tax discount rate of 3.75% to 11.7% at December 27, 2020 (December 29, 2019 - 3.75% to 14.5%).

Recipe Unlimited Corporation

Notes to the Consolidated Financial Statements

For the 52 weeks ended December 27, 2020 and December 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.

(in thousands of Canadian dollars)	As at December 27, 2020			
	Brands	Other assets	Investment in joint ventures (note 29)	Total
Cost				
Balance, beginning of year.....	\$ 530,456	\$ 82,611	\$ 18,139	\$ 631,206
Additions from business acquisitions (note 5) ..	—	7,265	—	7,265
Additions.....	60	2,194	—	2,254
Disposal.....	—	—	(1,124)	(1,124)
Share of gain.....	—	—	1,621	1,621
Balance as at December 27, 2020.....	\$ 530,516	\$ 92,070	\$ 18,636	\$ 641,222
Accumulated amortization				
Balance, beginning of year.....	\$ —	\$ 19,716	\$ —	\$ 19,716
Amortization.....	—	4,275	—	4,275
Impairment.....	3,839	6,005	—	9,844
Adjustments and transfers.....	—	580	—	580
Balance as at December 27, 2020.....	\$ 3,839	\$ 30,576	\$ —	\$ 34,415
Carrying amount as at December 27, 2020.....	\$ 526,677	\$ 61,494	\$ 18,636	\$ 606,807

Recipe Unlimited Corporation

Notes to the Consolidated Financial Statements

For the 52 weeks ended December 27, 2020 and December 29, 2019

(in thousands of Canadian dollars)	As at December 29, 2019			
	Brands	Other assets	Investment in joint ventures (note 29)	Total
Cost				
Balance, beginning of year.....	\$ 526,072	\$ 98,336	\$ 18,635	\$ 643,043
Additions.....	—	124	—	124
Additions from business acquisitions (note 5).....	4,384	1,971	—	6,355
Disposal.....	—	(561)	(209)	(770)
Share of loss.....	—	—	60	60
Adjustments and transfers.....	—	(17,259)	(347)	(17,606)
Balance at December 29, 2019.....	\$ 530,456	\$ 82,611	\$ 18,139	\$ 631,206
Accumulated amortization				
Balance, beginning of year.....	\$ —	\$ 26,860	\$ —	\$ 26,860
Amortization.....	—	6,278	—	6,278
Disposal and Adjustments.....	—	(561)	—	(561)
Impairment.....	—	675	—	675
Other.....	—	325	—	325
Adjustments and transfers.....	—	(13,861)	—	(13,861)
Balance at December 29, 2019.....	\$ —	\$ 19,716	\$ —	\$ 19,716
Carrying amount as at December 29, 2019.....	\$ 530,456	\$ 62,895	\$ 18,139	\$ 611,490

Impairment testing of brands and other assets

For the purpose of impairment testing, brands are allocated to the group of CGUs which represent the lowest level within the group at which the brands are monitored for internal management purposes.

The Company performed impairment testing of brands with an indefinite life in accordance with the Company's accounting policy for the years ended December 27, 2020 and December 29, 2019. During the year ended December 27, 2020 the Company recorded \$3.8 million (December 29, 2019 - nil) of impairment losses on indefinite life intangible assets.

The Company determines FVLCS of its brands using the "Relief from Royalty Method", a discounted cash flow model. The process of determining the FVLCS requires management to make assumptions around projected future sales, terminal growth rates, royalty rates and discount rates. Projected future sales are consistent with the most recent strategic plans presented to the Company's Board. For the purposes of the impairment test, the Company has reflected a terminal value growth of 2.5% after the fifth year in its present value calculations.

The Company has used an after-tax discount rate in the range of 9.2% to 11.7% (December 29, 2019 - 8.2% to 14.5%), which is based on the Company's weighted average cost of capital with appropriate adjustments for the risks associated with the group of CGUs to which brands with an indefinite life is allocated. Cash flow projections are discounted over a five-year period plus a terminal value.

Definite life intangible assets tested for impairment are reviewed at their lowest level for which identifiable cash inflows are largely independent of cash inflows of other assets or groups of assets. During the year ended December 27, 2020, the Company recorded \$6.0 million (December 29, 2019 - \$0.7 million) of impairment losses in respect of two CGU groups (December 29, 2019 - 3 CGU groups).

An impairment loss and any subsequent reversals, if any, are recognized in the consolidated statements of earnings or losses.

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>As at December 27, 2020</u>	<u>As at December 29, 2019</u>
Cost		
Balance, beginning of period	\$ 198,313	\$ 196,638
Additions from business acquisitions (note 5)	—	1,291
Additions resulting from change in Preliminary Purchase Equation	—	384
Balance, end of period	<u>\$ 198,313</u>	<u>\$ 198,313</u>

Impairment testing of goodwill

For the purpose of impairment testing, goodwill is allocated to the group of CGUs, being brands that are considered to represent the lowest level within the group at which the goodwill is monitored for internal management purposes.

During the years ended December 27, 2020 and December 29, 2019, the Company performed annual impairment testing of goodwill, in accordance with the Company's accounting policy.

The Company uses the VIU method for determining the recoverable amount of the group of CGUs to which goodwill is allocated. The values assigned to the key assumptions represent management's assessment of future trends and are based on both external sources and internal sources (historical data). Significant assumptions include projected future sales and earnings, terminal growth rate and discount rates. The Company has projected cash flows based on the most recent strategic plans presented to the Company's Board. For the purposes of the impairment test, the Company has reflected a terminal value growth of 1% to 2.5% after the fifth year in its present value calculations.

The Company has used an after-tax discount rate in the range of 9.2% to 11.7% (December 29, 2019 - 8.2% to 14.5%), which is based on the Company's weighted average cost of capital with appropriate adjustments for the risks associated with the group of CGUs to which goodwill is allocated. Cash flow projections are discounted over a five-year period plus a terminal value.

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Notes to the Consolidated Financial Statements

For the 52 weeks ended December 27, 2020 and December 29, 2019**17 Provisions**

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

	As at December 27, 2020		
(in thousands of Canadian dollars)	Asset retirement obligations	Other	Total
Balance, beginning of period	\$ 4,340	\$ 3,970	\$ 8,310
Additions	178	1,561	1,739
Accretion	231	—	231
Payments	(67)	(80)	(147)
Adjustments	(399)	(3,276)	(3,675)
Balance as at December 27, 2020	\$ 4,283	\$ 2,175	\$ 6,458

	As at December 29, 2019		
(in thousands of Canadian dollars)	Asset retirement obligations	Other	Total
Balance, beginning of period	\$ 5,478	\$ 17,997	\$ 23,475
Additions	207	1,852	2,059
Accretion	181	—	181
Payments	(35)	(270)	(305)
Adjustments	(1,491)	(266)	(1,757)
Impact from transition to IFRS 16	—	(15,343)	(15,343)
Balance at December 29, 2019	\$ 4,340	\$ 3,970	\$ 8,310

Recorded in the consolidated balance sheets as follows:

(in thousands of Canadian dollars)	As at December 27, 2020	As at December 29, 2019
Provisions-current	\$ 2,725	\$ 4,721
Provisions-long-term	3,733	3,589
	\$ 6,458	\$ 8,310

Recipe Unlimited Corporation

Notes to the Consolidated Financial Statements

For the 52 weeks ended December 27, 2020 and December 29, 2019**18 Long-term debt**

(in thousands of Canadian dollars)	<u>As at December 27, 2020</u>	<u>As at December 29, 2019</u>
Private debt.....	\$ 250,000	\$ 250,000
Term credit facility - revolving.....	207,323	210,325
The Keg credit facilities.....	34,500	19,000
	<u>491,823</u>	<u>479,325</u>
Less: financing costs.....	2,989	3,583
	<u>\$ 488,834</u>	<u>\$ 475,742</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. As at December 27, 2020, \$250.0 million (December 29, 2019 - \$250.0 million) was outstanding under the Notes.

Term credit facility

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

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

On March 17, 2020, the Company drew \$300.0 million from its credit facility in response to COVID-19 shut-down measures to provide the Company additional liquidity. The Company then repaid \$5.0 million during the first quarter, \$56.0 million during the second quarter, \$220.0 million in the third quarter, and \$22.0 million in the fourth quarter. On May 7, 2020, the Company amended its lending covenants with its syndicated lenders. As at December 27, 2020, \$207.3 million (December 29, 2019 - \$210.3 million) was drawn under the amended and extended credit facilities. For the 52 weeks ended December 27, 2020, the effective interest rate was 3.54% representing bankers acceptance rate of 0.71% plus 2.30% borrowing spread, standby fees and the amortization of deferred financing fees of 0.53%. As at December 27, 2020, the effective interest rate was 3.23%, representing bankers acceptance rate of 0.47% 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 December 27, 2020, the standby fee rate was 0.46%.

As at December 27, 2020, the Company was in compliance with all covenants and has not exceeded any covenant levels requiring early repayments. On February 18, 2021, the Company amended its lending covenants with both its syndicated lenders and private note holders. The covenant amendments are effective through the first quarter of 2022. 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, KRL entered into an amended multi-option credit agreement with its Canadian banking syndicate for the expansion of restaurant operations. The revolving credit and term loan facilities, with a syndicate of two Canadian banks, are available to finance the construction of certain new corporate restaurants and major renovations in Canada.

On November 29, 2019, the Company renegotiated the terms of its credit agreement with its existing banking syndicate to modify it from a revolving credit/term loan facility to an all revolving facility, increased the size of the facility to \$60.0 million, reduced the interest rate and extended the maturity date. The credit facility is now comprised of a \$55.0 million revolving facility with no set term of repayments and a \$5.0 million revolving demand operating facility. The Company's credit facility now bears interest at a rate between bank prime plus 0% to bank prime plus 0.75%, based on certain financial criteria, rather than at bank prime plus 0.25% to bank prime plus 1.0%. The maturity date was extended from October 1, 2020 to July 4, 2022.

On June 26, 2020, and again on December 22, 2020, in order to ensure that KRL remains in compliance with its debt covenants during the disruption period, KRL entered into an amended and re-stated credit agreement with its Canadian banking syndicate. The amendment eliminates certain financial covenants and revises others until December 26, 2021. A new financial covenant requires KRL's liquidity (the sum of cash on hand and available but undrawn credit) to not be less than certain specified values until June 27, 2021, tested on a quarterly basis. The interest rate on the bank debt was increased from its existing level of bank prime to bank prime plus 0.75% effective June 29, 2020 until July 21, 2021.

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 \$4.7 million. KRL subsequently repaid both loans in full, one on August 20, 2020 and the remaining loan on October 21, 2020.

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

On September 29, 2020, KRL borrowed \$12.5 million under BDC Co-Lending Program ("BCAP Loan") from its existing banking syndicate and the BDC jointly. This amount was borrowed to help fund the cash flow needs which have been negatively impacted by the unexpected impact of COVID-19. The BCAP Loan is a non-revolving term facility with a five-year term, requires interest only payments for the first year, and bears interest at the prime rate plus 1.5%. KRL has the option to repay any principal amount of this loan at any time, without bonus, premium or penalty.

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Notes to the Consolidated Financial Statements

For the 52 weeks ended December 27, 2020 and December 29, 2019

The movement in long-term debt from December 29, 2019 to December 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.....	—	(303,002)	(7,721)	(310,723)
Issuance of borrowings.....	—	300,000	18,500	318,500
Assumption of long term debt (note 5).....	—	—	4,721	4,721
Addition to deferred financing costs.....	(100)	(168)	—	(268)
Balance due to changes from financing cash flows as at December 27, 2020.....	\$ 248,275	\$ 205,384	\$ 34,313	\$ 487,972
Non-cash movements				
Amortization of deferred financing costs.....	182	698	(18)	862
Balance at December 27, 2020.....	\$ 248,457	\$ 206,082	\$ 34,295	\$ 488,834

The movement in long-term debt from December 30, 2018 to December 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)
	<u>—</u>	<u>368,719</u>	<u>20,847</u>	<u>389,566</u>
Changes from financing cash flows				
Repayment of borrowings.....	—	(299,700)	(23,000)	(322,700)
Issuance of borrowings.....	250,000	140,000	21,000	411,000
Additions to deferred financing costs.....	(1,741)	(1,222)	(131)	(3,094)
Balance due to changes from financing cash flows as at December 29, 2019.....	\$ 248,259	\$ 207,797	\$ 18,716	\$ 474,772
Non-cash movements				
Amortization of deferred financing costs...	116	757	97	970
Balance at December 29, 2019.....	\$ 248,375	\$ 208,554	\$ 18,813	\$ 475,742

Debt repayments

The five-year schedule of repayment of long-term debt is as follows:

(in thousands of Canadian dollars)	2021	2022	2023	2024	2025	Thereafter
Private Debt	—	—	—	—	—	\$ 250,000
Revolving Credit Facility	—	98,325	—	108,998	—	—
Keg Credit Facilities	—	22,000	—	—	12,500	—
Total ⁽¹⁾	\$ —	\$ 120,325	\$ —	\$ 108,998	\$ 12,500	\$ 250,000

⁽¹⁾ The total does not reflect any interest payments.

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)	December 27, 2020	December 29, 2019
Balance, beginning of period	\$ 768,449	\$ 26,016
IFRS 16 inception adjustment	—	782,857
Additions	12,265	41,361
Lease renewals and modifications	42,823	60,681
Lease assignments and terminations	(32,241)	(13,168)
Loss/(Gain) on settlement of lease liability	1,149	(1,400)
Change in lease liability due to rent concessions	(16,171)	—
Other adjustments	1,370	(6,983)
Interest expense	29,188	32,212
Foreign translation adjustment	(84)	(559)
Payments and amounts payable	(142,025)	(152,568)
Balance, end of period	\$ 664,723	\$ 768,449

Recorded in the consolidated balance sheets as follows:

(in thousands of Canadian dollars)	December 27, 2020	December 29, 2019
Current portion of lease liabilities	\$ 119,754	\$ 121,847
Lease liabilities	544,969	646,602
	\$ 664,723	\$ 768,449

As part of the Company's COVID support initiatives, the Company has agreed to provide rent assistance to certain franchisees, where the franchisee is on the real estate head lease. As at December 27, 2020, total estimated rent assistance payable to franchisees, where the franchisee is on the real estate head lease, was \$6.1 million and was recorded as part of accounts payable and accrued liabilities.

Amounts recognized in profit or loss

(in thousands of Canadian dollars)	<u>2020</u>	<u>2019</u>
Interest on lease liabilities	\$ 29,188	\$ 32,212
Variable lease payments not included in the measurement of lease liabilities	15,856	17,917
Expense relating to leases of low-value assets	1,605	1,808
Expense relating to leases of short-term leases	556	650

Maturity analysis - contractual undiscounted cash flows:

(in thousands of Canadian dollars)	<u>2020</u>	<u>2019</u>
2021	\$ 140,343	\$ 149,303
2022	126,340	140,180
2023	106,896	124,839
2024	90,371	104,285
2025	78,097	86,999
Thereafter	220,231	285,158
Total undiscounted lease liabilities, end of year	\$ 762,278	\$ 890,764

As a Lessee

Real estate leases

The Company's lease contracts consist of real estate leases for use in the operation of its corporate restaurants, call centre, retail and catering business, and corporate head offices. The leases typically run for a period of 10 years.

Most of the Company's property leases contain extension options exercisable by the Company up to one year before the end of the non-cancellable contract period. These options are typically 5 years after the end of the current contract terms. The Company recognizes the exercised options in its finance lease obligations.

Other leases

The Company leases vehicle and equipment used in St-Hubert's food processing and distribution division, with lease terms of up to five years. The Company recognizes and monitors the use of these vehicles and equipment, and reassesses the estimated amount payable at the each reporting date to remeasure lease liabilities and right-of-use assets. The Company also leases IT equipment and vehicles with contract terms of one to three years, these leases are short-term and/or leases of low-value items, therefore, the Company has elected not to recognize right-of-use assets and lease liabilities for these leases.

As a Lessor

The Company is on the head lease of many of its franchised locations whereby a corresponding sublease contract is entered into between the Company and its franchisees (see note 13). The Company has classified all the subleases as finance leases because the subleases are for the whole of the remaining term of the head leases.

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The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

(in thousands of Canadian dollars)	<u>2020</u>	<u>2019</u>
2021	\$ 85,247	\$ 95,116
2022	76,981	89,043
2023	64,964	79,675
2024	54,950	67,186
2025	46,947	56,919
Thereafter	<u>118,718</u>	<u>173,316</u>
Total undiscounted lease payments receivable, end of year	\$ 447,807	\$ 561,255
Unearned finance income	(85,729)	(94,821)
Net investment in the lease	<u>\$ 362,078</u>	<u>\$ 466,434</u>

20 Other long-term liabilities

(in thousands of Canadian dollars)	<u>December 27, 2020</u>	<u>December 29, 2019</u>
Accrued pension and other benefit plans (note 21)	\$ 25,192	\$ 21,640
Non-controlling interest liability	20,365	22,483
Contingent liability	3,389	8,412
Deferred income	8,281	12,193
Deferred rental income	2,591	4,721
Other long-term liabilities	604	1,783
Deferred share units	1,346	1,237
Restricted share units	1,421	543
	<u>\$ 63,189</u>	<u>\$ 73,012</u>

Recorded in the consolidated balance sheets as follows:

(in thousands of Canadian dollars)	<u>December 27, 2020</u>	<u>December 29, 2019</u>
Accounts payable and accrued liabilities	\$ 4,283	\$ 6,039
Other long-term liabilities	58,906	66,973
	<u>\$ 63,189</u>	<u>\$ 73,012</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 52 weeks ended December 27, 2020, the Company recorded expenses of \$0.5 million (52 weeks ended December 29, 2019 - \$0.8 million) related to pension benefits.

Non-controlling interest liability

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

For the 52 weeks ended December 27, 2020, the Company recorded a recovery of \$2.1 million (52 weeks ended December 29, 2019 - recovery of \$0.3 million) related to non-controlling interest liability.

Contingent liability

In connection with The Keg and Marigolds and Onions acquisitions, a contingent liability in the amounts of \$3.4 million has been recorded as at December 27, 2020 (December 29, 2019 - \$8.4 million), representing amounts payable to the former shareholders contingent on certain targets and conditions being met.

For the 52 weeks ended December 27, 2020, the Company recorded a recovery of \$5.0 million (52 weeks ended December 29, 2019 - \$10.0 million) related to the contingent liability.

Deferred income*Unearned franchise and conversion fee income*

At December 27, 2020, the Company had deferred \$2.6 million (December 29, 2019 - \$3.3 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 December 27, 2020, the Company had deferred \$1.7 million (December 29, 2019 - \$2.2 million) related to gains realized on sale-leaseback transactions.

Covenancy fees

The Company collects covenancy fees from franchisees on subtenant leases. At December 27, 2020, the Company had unearned covenancy fees of \$3.5 million (December 29, 2019 - \$4.4 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 December 27, 2020, the Company had unearned revenue of \$0.5 million (December 29, 2019 - \$2.3 million).

Deferred rental income

In prior years, the Company converted certain corporate restaurants to franchise and sold the restaurants to independent operators (“franchisees”). As part of these conversion agreements, certain franchisees entered into rental agreements to rent certain restaurant assets from the Company. The \$2.6 million balance at December 27, 2020 (December 29, 2019 - \$4.7 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 52 weeks ended December 27, 2020, the Company recognized an expense of \$0.1 million (52 weeks ended December 29, 2019 - \$0.1 million) and a liability was recorded as part of Other Long-Term Liabilities in the amount of \$1.3 million as at December 27, 2020 (December 29, 2019 - \$1.2 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 year ended December 27, 2020, the Company recognized an expense of \$0.9 million (year ended December 29, 2019 - \$0.5 million).

21 Employee future benefits

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.

Recipe's Pension Committee (the "Committee") oversees the Company's pension plans. The Committee is responsible for assisting the Board in fulfilling its general oversight responsibilities for the plans such as administration of the plans, pension investment and compliance with legal and regulatory requirements.

Information on the Company's defined benefit pension plans, in aggregate, is summarized as follows:

(in thousands of Canadian dollars)	<u>As at December 27, 2020</u>	<u>As at December 29, 2019</u>
Present value of obligations.....	\$ (58,699)	\$ (54,539)
Fair value of plan assets.....	<u>33,507</u>	<u>32,899</u>
Deficit in the plans.....	<u>\$ (25,192)</u>	<u>\$ (21,640)</u>
	For the 52 weeks ended	
(in thousands of Canadian dollars)	<u>December 27, 2020</u>	<u>December 29, 2019</u>
Experience gains (losses) on plan assets	\$ 920	\$ 3,120
Experience gains (losses) on plan obligations.....	(1,415)	—
Actuarial (losses) gains on obligation....	(3,813)	(3,411)
Income tax recovery (note 11).....	<u>1,095</u>	<u>76</u>
	<u>\$ (3,213)</u>	<u>\$ (215)</u>

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The following are the continuities of the fair value of plan assets and the present value of the defined benefit plan obligation:

(in thousands of Canadian dollars)	Defined benefit pension plan		Supplemental Executive Retirement Plans (Unfunded)		Total	
	Dec 27, 2020	Dec 29, 2019	Dec 27, 2020	Dec 29, 2019	Dec 27, 2020	Dec 29, 2019
Changes in the fair value of plan assets						
Fair value, beginning of period	\$ 32,899	\$ 30,908	\$ —	\$ —	\$ 32,899	\$ 30,908
Interest income	983	1,146	—	—	983	1,146
Return on plan assets (excluding interest income)	920	3,120	—	—	920	3,120
Employer contributions	524	610	1,513	1,547	2,037	2,157
Employee contributions	77	87	—	—	77	87
Administrative expenses	(79)	(95)	—	—	(79)	(95)
Benefits paid	(1,817)	(2,877)	(1,513)	(1,547)	(3,330)	(4,424)
Fair value, end of period	<u>\$ 33,507</u>	<u>\$ 32,899</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 33,507</u>	<u>\$ 32,899</u>
Changes in the present value of obligations						
Balance, beginning of period	\$ (37,405)	\$ (36,028)	\$ (17,134)	\$ (17,012)	\$ (54,539)	\$ (53,040)
Current service cost	(513)	(447)	—	—	(513)	(447)
Employee contributions	(77)	(87)	—	—	(77)	(87)
Interest cost	(1,136)	(1,353)	(537)	(625)	(1,673)	(1,978)
Benefits paid	1,817	2,877	1,513	1,547	3,330	4,424
Actuarial gains (losses) in financial assumptions	(2,661)	(2,367)	(2,566)	(1,044)	(5,227)	(3,411)
Balance, end of period	<u>\$ (39,975)</u>	<u>\$ (37,405)</u>	<u>\$ (18,724)</u>	<u>\$ (17,134)</u>	<u>\$ (58,699)</u>	<u>\$ (54,539)</u>

The net expense recognized in selling, general and administrative expense on the consolidated statements of earnings (note 8) for the Company's defined benefit pension plans was as follows:

(in thousands of Canadian dollars)	Defined benefit pension plan		Supplemental Executive Retirement Plans (Unfunded)		Total	
	52 weeks ended		52 weeks ended		52 weeks ended	
	Dec 27, 2020	Dec 29, 2019	Dec 27, 2020	Dec 29, 2019	Dec 27, 2020	Dec 29, 2019
Current service cost	\$ 513	\$ 447	\$ —	\$ —	\$ 513	\$ 447
Interest on obligations	1,136	1,353	537	625	1,673	1,978
Interest income on plan assets	(983)	(1,146)	—	—	(983)	(1,146)
Administrative expenses	79	95	—	—	79	95
Net benefit plan expense	<u>\$ 745</u>	<u>\$ 749</u>	<u>\$ 537</u>	<u>\$ 625</u>	<u>\$ 1,282</u>	<u>\$ 1,374</u>

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The cumulative actuarial losses before tax recognized in other comprehensive income for the Company's defined benefit pension plans are as follows:

(in thousands of Canadian dollars)	Defined benefit pension plan		Supplemental Executive Retirement Plans (Unfunded)		Total	
	Dec 27, 2020	Dec 29, 2019	Dec 27, 2020	Dec 29, 2019	Dec 27, 2020	Dec 29, 2019
Cumulative amount, beginning of period.....	\$ 1,371	\$ 618	\$ (8,227)	\$ (7,183)	\$ (6,856)	\$ (6,565)
Return on plan assets (excluding interest income).....	920	3,120	—	—	920	3,120
Actuarial gains (losses) in financial assumptions.....	(2,661)	(2,367)	(2,566)	(1,044)	(5,227)	(3,411)
Total net actuarial gains (losses) recognized in other comprehensive income (loss).....	(1,741)	753	(2,566)	(1,044)	(4,307)	(291)
Cumulative amount, end of period.....	<u>\$ (370)</u>	<u>\$ 1,371</u>	<u>\$ (10,793)</u>	<u>\$ (8,227)</u>	<u>\$ (11,163)</u>	<u>\$ (6,856)</u>

The actual total return/(loss) on plan assets was \$1.9 million for the period ended December 27, 2020 (December 29, 2019 - \$4.3 million).

The accrued benefit plan obligations and the fair value of the benefit plan assets were determined using a December 31 measurement date for accounting purposes.

The Company's pension funding policy is to contribute amounts sufficient, at minimum, to meet local statutory funding requirements. The Company expects to contribute approximately \$0.8 million in 2021 to its registered funded defined benefit plan, defined contribution plans and multi-employer plans. The actual amount paid may vary from the estimate based on actuarial valuations being completed, investment performance, volatility in discount rates, regulatory requirements and other factors.

The benefit plan assets are held in trust and at December 31st was invested 100% in a balanced fund.

The Company's defined benefit pension plans are exposed to actuarial risks, such as longevity risk, investment rate risk and market risk.

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The principal actuarial assumptions used in calculating the Company's defined benefit plan obligations and net defined benefit plan expense, as at the measurement date of December 31st, were as follows:

	Defined benefit pension plan		Unfunded defined benefit pension plans	
	December 27, 2020	December 29, 2019	December 27, 2020	December 29, 2019
Defined benefit plan obligations				
Discount rate	2.15-2.75	3.05	2.15	3.05
Rate of compensation increase	2.0-3.0	2.0-3.0	2.0	2.0
Mortality table	CPM2014BPubl - SAF 0.8	CPM2014BPubl - SAF 0.8	CPM2014BPubl - SAF 0.8	CPM2014BPubl - SAF 0.8
Net defined benefit plan expense				
Discount rate	3.05	3.35-3.85	3.05	3.35
Rate of compensation increase	2.0-3.0	2.0-3.0	2.0	2.0
Mortality table	CPM2014BPubl - SAF 0.8	CPM2014BPubl - SAF 0.8	CPM2014BPubl - SAF 0.8	CPM2014BPubl - SAF 0.8

The following table outlines the key actuarial assumption for 2020 and the sensitivity of a 1% change in each of these assumptions on the defined benefit plan obligations and net defined benefit plan expense.

The sensitivity analysis provided in the table is hypothetical and should be used with caution. The sensitivities of each key assumption have been calculated independently of any changes in other key assumptions. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions.

(in thousands of Canadian dollars)	Defined benefit pension plan		Unfunded defined benefit pension plans	
	Defined Benefit Plan Obligations	Net Defined Benefit Plan Expense	Defined Benefit Plan Obligations	Net Defined Benefit Plan Expense
Discount rate	2.15%-2.75%	3.05 %	2.15 %	3.05 %
Impact of : 1% increase	(5,048)	(260)	(1,475)	119
1% decrease	6,301	232	1,700	(142)

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22 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 December 27, 2020, approximately 6.4 million stock options were granted and outstanding.

Stock options outstanding as at December 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 52 weeks ended December 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.....	—	\$ —	(9,918)	\$ 8.51	(9,918)	\$ 8.51
Forfeited.....	—	\$ —	(94,780)	\$ 28.41	(94,780)	\$ 28.41
Outstanding options, end of period.....	2,749,355	\$ 10.75	3,639,279	\$ 33.10	6,388,634	\$ 23.48
Options exercisable, end of period.....	2,569,356	\$ 9.60	489,274	\$ 23.18	3,058,630	\$ 11.77
	For the 52 weeks ended December 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.....	—	\$ —	(575,331)	\$ 8.51	(575,331)	\$ 8.51
Forfeited.....	(150,000)	\$ 27.39	(175,798)	\$ 28.70	(325,798)	\$ 28.10
Outstanding options, end of period.....	2,749,355	\$ 10.75	3,743,977	\$ 32.91	6,493,332	\$ 23.53
Options exercisable, end of period.....	2,489,355	\$ 9.06	323,292	\$ 23.03	2,812,647	\$ 10.66

CEO stock option plan

Under the CEO Stock Option Plan (“CEO Plan”), the Company’s previous CEO and current CEO were 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 years ended December 27, 2020 and December 29, 2019, no stock options were granted under the CEO Plan.

During the year ended December 27, 2020 no stock options were exercised or forfeited under the CEO Plan (no stock options exercised and 150,000 stock options with an exercise price of \$27.39 forfeited during the year ended December 29, 2019).

The Company has accounted for these grants as if they will be equity settled using the grant date fair value in accordance with IFRS 2. The fair value of options granted was determined by applying the Black-Scholes option pricing model using the following assumptions:

Option Grant Date	Number of Options	Exercise Price	Expected Time to Vesting from Option Grant Date	Stock Price Volatility	Risk-Free Interest Rate	Grant Date Fair Value of Option
October 31, 2013	2,419,355	8.51	5 years	35.00%	1.42%	\$1.68
December 4, 2015	10,000	32.37	5.5 years	26.00%	0.92%	\$6.80
January 4, 2017	20,000	24.64	5.5 years	26.00%	1.11%	\$5.85
May 10, 2018	150,000	27.39	7.5 years	26.00%	2.22%	\$7.25
May 10, 2018	300,000	27.17	7.5 years	26.00%	2.22%	\$7.32
Less forfeitures	(150,000)					
Total	2,749,355					

The expected annual volatility is based on industry benchmarks against a common pool of comparable industry stocks, using average 3-year volatility trends as of the grant date. For options granted prior to the IPO, stock price was determined using a standard Enterprise Value calculation with an implied private company illiquidity discount of 20%. The Risk-Free Interest Rate is based on Government of Canada bond yields with maturities that coincide with the exercise period and terms of the grant.

For the 52 weeks ended December 27, 2020, the Company recognized stock-based compensation costs of \$0.4 million (year ended December 29, 2019 - \$0.6 million) related to the CEO Plan with a corresponding increase to contributed surplus.

Employee stock option plan

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

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

Under this plan, the CFO has 180,000 options at an average exercise price of \$27.36 and the Company’s management team has 3,459,279 at an average exercise price of \$33.40.

During the years ended December 27, 2020 and December 29, 2019, no options were granted to the CFO.

During the years ended December 27, 2020 and December 29, 2019, no stock options were granted under the Employee Plan.

During the year ended December 27, 2020, 9,918 stock options with a weighted average exercise price of \$8.51 were exercised (year ended December 29, 2019 – 575,331 stock options with a weighted average exercise price of \$8.51).

During the year ended December 27, 2020, 94,780 stock options with a weighted average exercise price of \$28.42 were forfeited (year ended December 29, 2019 – 175,798 stock options with a weighted average exercise price of \$28.70).

The Company has accounted for these grants as if they will be equity settled using the grant date fair value in accordance with IFRS 2. The fair value of options granted under the Employee Plan was determined by applying the Black-Scholes option pricing model using the following assumptions:

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Option Grant Date	Number of Options	Exercise Price	Vesting from Option Grant Date	Stock Price Volatility	Risk-Free Interest Rate	Grant Date Fair Value of Option
October 31, 2013	241,935	8.51	5 years	35.00%	1.42%	\$1.68
January 1, 2014	217,103	8.51	6.5 years	35.00%	1.99%	\$1.97
September 8, 2014	215,054	8.51	6.5 years	35.00%	2.02%	\$5.60
December 4, 2014	492,287	8.51	6.5 years	35.00%	1.90%	\$9.99
July 6, 2015	40,000	34.10	5.5 years	26.00%	0.76%	\$7.18
October 1, 2015	20,282	32.87	5.5 years	26.00%	0.81%	\$7.47
October 14, 2015	15,000	33.91	5.5 years	26.00%	0.77%	\$7.08
October 31, 2015	16,699	34.51	5.5 years	26.00%	0.88%	\$8.13
November 11, 2015	5,000	34.90	5.5 years	26.00%	1.00%	\$7.79
December 4, 2015	215,625	32.37	5.5 years	26.00%	0.92%	\$6.80
February 1, 2016	8,134	25.35	5.5 years	26.00%	0.67%	\$4.68
April 4, 2016	3,276	29.37	5.5 years	26.00%	0.70%	\$6.21
May 1, 2016	1,641	32.52	5.5 years	26.00%	0.87%	\$7.00
August 15, 2016	1,644	30.19	5.5 years	26.00%	0.58%	\$5.29
August 22, 2016	1,628	30.22	5.5 years	26.00%	0.64%	\$6.29
August 29, 2016	46,478	30.02	5.5 years	26.00%	0.68%	\$6.29
September 2, 2016	12,636	30.14	5.5 years	26.00%	0.69%	\$6.36
September 6, 2016	1,443	30.15	5.5 years	26.00%	0.66%	\$6.39
September 12, 2016	1,365	30.09	5.5 years	26.00%	0.71%	\$6.28
September 26, 2016	1,196	29.69	5.5 years	26.00%	0.58%	\$5.47
October 3, 2016	577	27.58	5.5 years	26.00%	0.62%	\$5.30
November 7, 2016	593	26.03	5.5 years	26.00%	0.71%	\$5.33
January 4, 2017	489,502	24.64	5.5 years	26.00%	1.11%	\$5.85
February 27, 2017	2,075	25.51	5.5 years	26.00%	1.12%	\$5.48
May 1, 2017	1,678	25.90	5.5 years	26.00%	1.02%	\$5.06
May 10, 2018	150,000	27.39	7.5 years	26.00%	2.21%	\$7.25
May 10, 2018	3,000,000	35.00	7.5 years	26.00%	2.21%	\$5.15
Less options exercised	(844,625)					
Less forfeitures	(718,947)					
Total	3,639,279					

The expected annual volatility is based on industry benchmarks against a common pool of comparable industry stocks, using average 5-year volatility trends as of the grant date. For options granted prior to the IPO, Stock price was determined using a standard Enterprise Value calculation with an implied private company illiquidity discount of 15-20%. The Risk-Free Interest Rate is based on Government of Canada bond yields with maturities that coincide with the exercise period and terms of the grant.

For the 52 weeks ended December 27, 2020, the Company recognized a stock-based compensation reversal of \$0.4 million (year ended December 29, 2019 - reversal of \$2.2 million) related to the Employee Plan with a corresponding decrease to contributed surplus.

Restricted share units (“RSU”)

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

	For the 52 weeks ended	
	December 27, 2020	December 29, 2019
RSUs earned and outstanding		
RSUs outstanding, beginning of period.....	200,736	256,470
RSUs granted and earned in the period.....	—	38,164
RSUs forfeited.....	(4,523)	(93,898)
RSUs outstanding, end of period.....	196,213	200,736
RSUs vested, end of period.....	—	—

During the year ended December 27, 2020, no RSUs were granted and earned and 4,523 RSUs were forfeited (year ended December 29, 2019 - 38,164 RSUs were granted and earned and 93,898 forfeited). For the year ended December 27, 2020, the Company recognized a stock-based compensation expense of \$1.3 million (year ended December 29, 2019 - \$1.3 million) related to RSUs with a corresponding increase to contributed surplus.

Performance Share Units ("PSU")

PSUs are granted at the beginning of each year and are earned when certain long-term performance targets are achieved. The total number of PSUs earned can increase if maximum performance targets are met. PSUs are earned only if the performance target is achieved at the end of the 3-year period from grant date, vest 5 years from the grant date and expire 10 years from the grant date. As at December 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 year ended December 27, 2020, the Company recognized a stock-based compensation expense of \$nil (year ended December 29, 2019 - \$nil) related to PSUs.

23 Share capital

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

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

On June 20, 2019, the Company announced its notice of intention to continue its normal course issuer bid (“NCIB”) for its Subordinate Voting Shares. The Company may purchase up to 1,822,329 Subordinate Voting Shares during the period from June 24, 2019 to June 23, 2020. Purchases of the Subordinate Voting Shares are made at market prices and any Subordinate Voting Shares purchased through the NCIB will be cancelled. During the 52 weeks ended December 27, 2020, the Company purchased and cancelled 25,518 Subordinate Voting Shares for \$0.3 million (52 weeks ended December 29, 2019 – 1,322,871 Subordinate Voting Shares for \$35.2 million).

As at December 27, 2020, there were 34,054,824 Multiple Voting Shares and 22,308,001 Subordinate Voting Shares issued and outstanding (December 29, 2019 - 34,054,824 Multiple Voting Shares and 22,323,601 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 30, 2018	34,396	27,359	61,755	\$ 192,548	\$ 577,114	\$ 769,662
Shares issued under stock option plan (note 21)	—	575	575	—	8,119	8,119
Shares re-purchased under NCIB.....	—	(1,323)	(1,323)	—	(35,229)	(35,229)
Shares issued as part of Keg merger.....	(341)	(4,288)	(4,629)	(9,251)	(116,175)	(125,426)
Balance at December 29, 2019	34,055	22,323	56,378	\$ 183,297	\$ 433,829	\$ 617,126
Shares issued under stock option plan (note 21)	—	10	10	—	84	84
Share re-purchased under NCIB.....	—	(25)	(25)	—	(312)	(312)
Share re-purchased under SIB.....	—	—	—	—	—	—
Balance at December 27, 2020	34,055	22,308	56,363	\$ 183,297	\$ 433,601	\$ 616,898

Recipe Unlimited Corporation

Notes to the Consolidated Financial Statements

For the 52 weeks ended December 27, 2020 and December 29, 2019**24 Earnings (loss) per share ("EPS")**

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

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

	52 weeks ended December 27, 2020			52 weeks ended December 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....	\$ (52,087)	56,362	\$ (0.92)	\$ 44,519	60,004	\$ 0.74
Diluted	\$ (52,087)	56,362	\$ (0.92)	\$ 44,519	61,772	\$ 0.72

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

	For the 52 weeks ended	
	December 27, 2020	December 29, 2019
Common shares.....	56,361,766	60,003,935
Effect of stock options issued ⁽¹⁾	—	1,768,176
	56,361,766	61,772,111

⁽¹⁾ All shares have been excluded from the 52 weeks ended December 27, 2020 because they are anti-dilutive (December 29, 2019 - 3,944,730 shares)

25 Capital management

Capital is defined as total long-term debt and shareholders' equity. The objectives of the Company when managing capital are to safeguard the Company's ability to continue as a going concern while maintaining adequate financial flexibility to invest in new business opportunities that will provide attractive returns to shareholders. The primary activities engaged by the Company to generate attractive returns include the construction and related leasehold improvements of new and existing restaurants, the development of new business concepts, the acquisition of restaurant concepts complementary to the Company's existing portfolio of restaurant brands, the investment in information technology to increase scale and support the expansion of the Company's multi-branded restaurant network, the investment in maintenance of capital equipment used in the Company's food processing and distribution business and investment in technologies and research and development to improve food manufacturing.

The Company's main sources of capital are cash flows generated from operations, a revolving line of credit, long-term debt and the issue of share capital. These sources are used to fund the Company's debt service requirements, capital expenditures, working capital needs, and dividend distributions to shareholders.

The Company monitors its anticipated capital expenditures to ensure that acceptable returns will be generated from the invested funds and will increase or decrease the program accordingly. Capital expenditures may also be adjusted in light of changes in economic conditions, the objectives of its shareholders, the cash requirements of the business and the condition of capital markets.

Recipe Unlimited Corporation

Notes to the Consolidated Financial Statements

For the 52 weeks ended December 27, 2020 and December 29, 2019

The following table provides a summary of certain information with respect to the Company's capital structure and financial position:

(in thousands of Canadian dollars)	<u>As at December 27, 2020</u>	<u>As at December 29, 2019</u>
Current portion of lease liabilities (note 19)	119,754	121,847
Long-term debt (note 18).....	488,834	475,742
Lease liabilities (note 19).....	544,969	646,602
Letters of credit (note 27).....	2,862	568
Total.....	<u>1,156,419</u>	<u>1,244,759</u>
Shareholders' equity attributable to shareholders of the Company.....	283,536	344,986
Total capital under management.....	<u>\$ 1,439,955</u>	<u>\$ 1,589,745</u>

26 Cash flows

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

(in thousands of Canadian dollars)	<u>December 27, 2020</u>	
	<u>December 27, 2020</u>	<u>December 29, 2019</u>
Accounts receivable.....	\$ 10,536	\$ (13,181)
Inventories.....	(4,940)	(2,935)
Income taxes payable.....	(18,441)	6,318
Prepaid expenses and other assets.....	(648)	2,859
Accounts payable and accrued liabilities.....	12,191	(11,544)
Gift card liability.....	(6,816)	13,753
Income taxes paid.....	19,694	18,579
Change in interest payable.....	254	(2,487)
Net change in non-cash operating working capital.....	<u>\$ 11,830</u>	<u>\$ 11,362</u>

27 Commitments, contingencies and guarantees

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

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

The Company has outstanding letters of credit amounting to \$2.9 million (December 29, 2019 - \$0.6 million), primarily related to KRL as part of its normal course of business and are covered by its operating credit facility described in note 18.

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.

28 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.

Continued compliance with the covenants under the amended credit facilities is dependent on the Company achieving its financial forecasts. Market conditions are difficult to predict and there is no assurance that the Company will achieve its forecasts. The Company mitigates this risk by amending its lending covenants with its bank syndicate and Private Noteholders. The amendments were completed on February 18, 2021 and provides additional covenant flexibility during the COVID-19 disruption period. The covenants amendments are effective through the first quarter of 2022. The Company will continue to carefully monitor its compliance with the covenants.

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 December 27, 2020 and December 29, 2019:

(in thousands of Canadian dollars)

	December 27, 2020			
	Current	> 30 days past due	> 60 days past due	Total
Accounts receivable (net of allowance).....	\$ 83,283	\$ 11,329	\$ 11,660	\$ 106,272
Balance at December 29, 2019.....	\$ 106,551	\$ 7,250	\$ 3,478	\$ 117,279

There are no significant impaired receivables that have not been provided for in the allowance. As at December 27, 2020, the Company has taken an allowance of \$27.9 million (December 29, 2019 - \$13.3 million), of which \$20.3 million represents direct financial assistance to certain franchisees as part of the Company's rent certainty and other COVID support programs. The Company believes that the 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 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 December 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 at market interest rates.

29 Related parties

Shareholders

As at December 27, 2020, the Principal Shareholders hold 70.7% of the total issued and outstanding shares and have 98.2% of the voting control attached to all the shares. Cara Holdings holds 22.6% of the total issued and outstanding shares, representing 36.5% voting control. Fairfax holds 48.1% of the total issued and outstanding shares, representing 61.7% voting control.

During the 52 weeks ended December 27, 2020, the Company paid a dividend of \$0.1177 per share (52 weeks ended December 29, 2019 - \$0.4484 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 remainder of 2020. During the 52 weeks ended December 27, 2020, Fairfax received \$3.2 million (52 weeks ended December 29, 2019 - \$12.2 million) and Cara Holdings received \$1.5 million (52 weeks ended December 29, 2019 - \$6.3 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 52 weeks ended December 27, 2020 and December 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 December 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").

Recipe Unlimited Corporation

Notes to the Consolidated Financial Statements

For the 52 weeks ended December 27, 2020 and December 29, 2019*Investment in The Keg Royalties Income Fund*

During the 52 weeks ended December 27, 2020, the Company purchased nil KRIF units (52 weeks ended December 29, 2019 - 250,000 shares for \$4.0 million). 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 December 27, 2020 was \$11.70. Distributions on KRIF units are recorded as interest income on Partnership and Fund units in the consolidated statement of earnings.

	<u>As at December 27, 2020</u>		<u>As at December 29, 2019</u>	
	<u># of units</u>	<u>Fair Value</u>	<u># of units</u>	<u>Fair Value</u>
(in thousands of Canadian dollars)				
Class A Partnership units.....	905,944	\$ 10,600	905,944	\$ 13,924
Class B Partnership units.....	176,700	2,067	176,700	2,716
Class D Partnership units.....	3,768,295	44,089	3,325,280	51,110
Exchangeable unit investment in the Partnership.....	4,850,939	\$ 56,756	4,407,924	\$ 67,750
Class C unit investment in the Partnership.....	5,700,000	57,000	5,700,000	57,000
Investment in the Partnership.....	10,550,939	\$ 113,756	10,107,924	\$ 124,750
Investment in KRIF units.....	250,000	2,925	250,000	3,843
Distributions earned on KRIF units.....	—	193	—	47
	10,800,939	\$ 116,874	10,357,924	\$ 128,640

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 December 27, 2020 was \$11.70 (December 29, 2019 - \$15.37).

The Class A Partnership units represent The Keg's initial 10% effective ownership of The Keg Royalties Income Fund ("the Fund") at the date of The Keg Initial Public Offering ("The Keg IPO"). The Class B and Class D Partnership units were received by The Keg subsequent to The Keg IPO date in return for adding net sales to the Royalty Pool on an annual basis. The royalty payments from KRL to the Partnership is four percent of system sales for such period reported by The Keg restaurants that are in the Partnership.

Pursuant to the declaration of trust, the holder (other than the Fund or its subsidiaries) of the Exchangeable Partnership units is entitled to vote in all votes of Fund unitholders as if they were holders of the number of Fund units they would receive if the Exchangeable Partnership units were exchanged into Fund units as of the record date of such votes, and will be treated in all respects as a Fund unitholder for the purpose of any such votes.

(a) The Class A units are entitled to a preferential proportionate distribution equal to the distribution on the Class C units, multiplied by the number of Class A units divided by the number of LP Partnership units ("LP units") issued and outstanding. The Keg Holdings Trust ("KHT") holds all of the 8,153,500 LP units issued and outstanding at December 27, 2020. In addition, the Class A units receive a residual distribution proportionately with the Class B units, Class D units, LP units and GP units relative to the aggregate number of each class issued and outstanding (or in the case of the Class B units and Class D units, the number issued and outstanding multiplied by the Class B and Class D current distribution entitlement, respectively). Class A units are exchangeable for Fund units on the basis of one Class A unit for one Fund unit and represent The Keg's initial 10% effective ownership of the Fund prior to the entitlement of Class B and Class D units.

(b) The Class B units were issued to The Keg in return for adding net sales from new Keg restaurants to the Royalty Pool and are entitled to a preferential proportionate distribution and a residual distribution based on the incremental royalty paid to the Partnership. The distribution entitlements of the Class B units were adjusted annually on January 1 until the January 1, 2008 roll-in when the Class B Termination Date was reached and the last of the Class B units became entitled. Class B units held by the Company are exchangeable for Fund units on the basis of one Class B unit for one Fund unit. Class B units held by the Company receive a distribution entitlement.

(c) The Class D units were issued to the Company in return for adding net sales from new Keg restaurants to the Royalty Pool on an annual basis and are entitled to a preferential proportionate distribution and a residual distribution based on the incremental royalty paid to the Partnership. The distribution entitlements of the Class D units are adjusted annually on January 1. Class D units held by the Company are exchangeable for Fund units on the basis of one Class D unit for one Fund unit and the same distribution entitlement as the Class B units. Class D units are issued subsequent to the Class B Termination Date and are identical to Class B units except that the Trustees of KHT can require the Company to surrender any or all of the issued Class D units for a price that is equal to the one originally used in the formula to calculate the number of units issued.

Included in the total 3,768,295 Class D units, are 88,603 notional Class D units that KRL recognized during the 2020 fiscal year in exchange for adding net sales to the Royalty Pool on January 1, 2020. Interest income on these notional Class D units have been accrued in the statement of comprehensive income (loss), but readers should note that no cash distributions will be paid to KRL on these Class D units, as they shall be considered unentitled until such time as the final sales determination is made, and the actual Class D units are issued to KRL on December 25, 2022, to be effective January 1, 2020.

Distributions on Exchangeable Partnership units are recorded as interest income on Partnership and Fund units in the consolidated statement of earnings.

Class C Unit Investment in the Partnership

The Class C unit investment in the Partnership is comprised of 5,700,000 Class C Partnership units held by the Company. The Class C Partnership units were issued to The Keg as one of a series of transactions that occurred in conjunction with The Keg IPO of the Fund on May 31, 2002.

The Company has the option at any time to transfer its 5,700,000 Class C Partnership units to KHT, a subsidiary of Fund, in consideration for the assumption by KHT of an amount of the note payable equal to \$10.00 for each Class C unit transferred. If the Company transferred all 5,700,000 Class C Partnership units, the entire \$57.0 million note payable to the Fund would be extinguished. The Class C units are entitled to preferential monthly distributions equal to \$0.0625 per Class C unit issued and outstanding and these distributions are recorded as interest income on Partnership and Fund units in the consolidated statement of earnings.

The Royalty Pool

Annually, on January 1st, the Royalty Pool is adjusted to include the gross sales from new Keg restaurants that have opened on or before October 2nd of the prior year, less gross sales from any Keg restaurants that have permanently closed during the preceding calendar year. In return for adding these net sales to the Royalty Pool, KRL receives the right to indirectly acquire additional Fund units (the "Additional Entitlement"). The Additional Entitlement is determined based on 92.5% of the net royalty revenue added to the Royalty Pool, divided by the yield of the Fund units, divided by the weighted average unit price of the Fund units. KRL receives 80% of the estimated Additional Entitlement initially, with the balance received on December 25th of each year when the actual full year performance of the new restaurants is known with certainty.

On January 1, 2020, an estimated \$19.1 million in annual net sales were added to the KRIF Royalty Pool. Five new restaurants that opened during the period from October 3, 2018 through October 2, 2019, with estimated gross sales of \$34 million annually, were added to the Royalty Pool. Four permanently closed Keg restaurants with annual sales of \$14.9 million were removed from the Royalty Pool. The number of total restaurants in the Royalty Pool increased to 106. The pre-tax yield of the Fund units was determined to be 9.72% calculated using a weighted average unit price of \$16.42.

On January 1, 2020, KRL received 80% of this entitlement, representing the equivalent of 354,412 KRIF units, being 2.20% of the KRIF units on a fully diluted basis. KRL also received a proportionate increase in monthly distributions from the Keg Partnership. Therefore on January 1, 2020, KRL had the right to exchange its units in the capital of the Partnership for 4,762,336 Fund units, representing 29.55% of the Fund units on a fully diluted basis. On December 25, 2020, but effective January 1, 2020, KRL recognized the remaining balance of the 2020 Additional Entitlement. This resulted in KRL recognizing a notional Additional Entitlement equivalent of 88,603 notional Exchangeable units, thereby increasing its effective ownership to 4,850,939 KRIF units, representing 29.94% of the KRIF units on a fully diluted basis. No cash distributions will be paid to KRL on these 88,603 notional Exchangeable units, as they shall be considered unentitled, until such time as the final sales determination is made, and the actual Exchangeable units are issued to KRL on December 25, 2022.

Deferred Gain on Sale of The Keg Rights

The deferred gain on sale of The Keg Rights relates to the sale by The Keg of its trademarks and other related intellectual property (collectively, the “Keg Rights”) to the Partnership in connection with The Keg IPO. The deferred gain is adjusted to reflect changes in KRL’s ownership interest in the Keg Rights resulting from the entitlement of Exchangeable Partnership units received as consideration for the addition of net new sales to the Royalty Pool on an annual basis.

The gain on the sale of The Keg Rights is deferred and amortized on a straight-line basis over the 99-year term of the Licence and Royalty Agreement ending on May 30, 2101.

Other

As at December 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).

As at December 27, 2020, the Company has a \$1.0 million royalty fee payable, including GST, to the Fund (December 29, 2019 - \$2.9 million) and a \$0.3 million interest payable amount due to the Fund on the Keg Loan (December 29, 2019 - \$0.3 million) included in accounts payable and accrued liabilities.

As at December 27, 2020, the Company has \$0.6 million in distributions receivable from the Partnership (December 29, 2019 - \$1.2 million) related to its ownership of the Class C and Exchangeable Partnership units. These amounts were received from the Partnership when due, subsequent to the above periods.

The Company performs accounting services for a company owned by a director. For the 52 weeks ended December 27, 2020, KRL earned \$0.1 million for these services (52 weeks ended December 29, 2019 – \$0.3 million), which has been recognized by the Company as other income, net of the costs to provide these services.

The Company incurs royalty expense with respect to the 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 \$13.9 million for the 52 weeks ended December 27, 2020 (52 weeks ended December 29, 2019 – \$25.4 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 the 52 weeks ended December 27, 2020, the Company recorded investment income of \$8.3 million related to these units (52 weeks ended December 29, 2019 – \$11.1 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 December 27, 2020 there was a due from related party balance of \$15.8 million (December 29, 2019 - \$13.0 million) which consists of term loans and demand loans secured by restaurant assets of the joint venture company which has been recorded at amortized cost 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). 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 52 weeks ended December 27, 2020, the Company charged interest in the amount of \$0.2 million (52 weeks ended December 29, 2019 - \$0.3 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 December 27, 2020 the accounts receivable balance included \$nil (December 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 52 weeks ended December 27, 2020, an increase of \$0.3 million (52 weeks ended December 29, 2019 - \$0.1 million increase) to the investment balance was recorded in relation to the Company’s proportionate share of income or loss for the period and included in share of gain (loss) from investment in joint ventures on the statement of earnings.

Investment in Burger’s Priest joint venture

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

The Company’s investment is increased by the proportionate share of income earned. For the for the 52 weeks ended December 27, 2020, there was a \$1.3 million increase to the investment balance (52 weeks ended December 29, 2019 - increase of \$0.1 million). The changes were recorded in relation to the Company’s proportionate share of income for the period and included in share of loss from investment in joint ventures on the statement of earnings.

Investment in 1909 Taverne Moderne joint venture

The Company has an investment in a joint venture to operate two 1909 Taverne Moderne restaurants with a third party. As at December 27, 2020, the Company has invested \$5.6 million, recorded in long-term receivables (December 29, 2019 - \$4.7 million). The loan receivable is unsecured, non-interest bearing and does not have defined repayment terms. As at December 27, 2020, an allowance of \$5.2 million 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 52 weeks ended December 27, 2020, there was \$0.3 million decrease recorded in the long term receivable balance (52 weeks ended December 29, 2019 - \$1.5 million decrease) was recorded in relation to the Company's proportionate share of loss for the period and included in share of losses from investment in joint ventures on the statement of earnings.

Investment in Rose Reisman Catering joint venture

In connection with the acquisition of Pickle Barrel on December 1, 2017, the Company has 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 December 27, 2020.

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

Transactions with key management personnel

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the Company and/or its subsidiary, directly or indirectly, including any external director of the Company and/or its subsidiary. Key management personnel may also participate in the Company's stock-based compensation plans and the Company's defined contribution savings plan.

Remuneration of key management personnel of the Company is comprised of the following expenses:

	For the 52 weeks ended	
	December 27, 2020	December 29, 2019
(in thousands of Canadian dollars)		
Short-term employee benefits	\$ 4,496	\$ 4,426
Long-term incentive plans	1,591	899
Termination benefits	—	600
Total compensation	\$ 6,087	\$ 5,925

There were no additional related party transactions between the Company and its key management personnel, or their related parties, including other entities over which they have control.

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.

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

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

The CEO 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.

Recipe Unlimited Corporation

Notes to the Consolidated Financial Statements

For the 52 weeks ended December 27, 2020 and December 29, 2019

	For the 52 weeks ended	
	December 27, 2020	December 29, 2019
(in thousands of Canadian dollars)		
Gross revenue		
Sales	\$ 408,674	\$ 772,675
Proportionate share of equity accounted joint venture sales	(21,661)	(29,638)
Sales at corporate restaurants	\$ 387,013	\$ 743,037
Franchise revenues		
Proportionate share of equity accounted joint venture royalty revenue	67,572	108,890
Royalty revenue	\$ 67,806	\$ 109,426
Retail & Catering	337,469	311,917
Central	23,105	23,887
Non-allocated revenue	49,184	64,184
Total gross revenue	\$ 864,577	\$ 1,252,451
Operating income (loss) ⁽¹⁾		
Corporate	\$ (45,074)	\$ 32,153
Franchise	64,793	105,066
Retail & Catering	42,550	30,546
Central	(57,390)	(68,376)
Proportionate share equity accounted joint venture results included in corporate and franchise segment	1,819	216
Non-allocated costs	(34,072)	(20,134)
	\$ (27,374)	\$ 79,471
Depreciation and amortization		
Corporate	\$ 43,614	\$ 42,354
Retail & Catering	5,822	6,180
Central	57,621	67,876
	\$ 107,057	\$ 116,410
Capital expenditures		
Corporate	\$ 19,155	\$ 30,381
Retail & Catering	1,432	5,506
Central	7,690	13,153
	\$ 28,277	\$ 49,040

⁽¹⁾ The allocation of overhead costs related to retail and catering for the 52 weeks ended December 29, 2019, have been adjusted to more accurately reflect actual overhead costs incurred in these segments.

31 Subsequent Events*Lending Covenant Amendments*

On February 18, 2021, the Company amended its lending covenants with its banking syndicate and Private Noteholders to provide additional covenant flexibility during the COVID-19 disruption period. The covenants amendments are effective through the first quarter of 2022.

Keg Restaurants Ltd. Additional Entitlement

On January 1, 2021, an estimated \$12.2 million in annual net sales were added to the Royalty Pool. Two new restaurants that opened during the period from October 3, 2019 through October 2, 2020. Two permanently closed Keg restaurants with annual sales of \$4.9 million were removed from the Royalty Pool. The total number of restaurants in the Royalty Pool remained at 106. The pre-tax yield of the Fund units was determined to be 12.88% calculated using a weighted average unit price of \$8.27. As a result of the contribution of the additional net sales to the Royalty Pool, and assuming 100% of the estimated Additional Entitlement is received, KRL's Additional Entitlement will be equivalent to 252,471 Fund units, being 1.53% of the Fund units on a fully diluted basis.

On January 1, 2021, KRL received 80% of this entitlement, representing the equivalent of 201,977 Fund units, being 1.23% of the Fund units on a fully diluted basis. KRL will also receive a proportionate increase in monthly distributions from the Partnership. Including the initial portion of the Additional Entitlement described above, KRL will effectively own the equivalent of 5,052,916 Fund units, representing 30.80% of the Fund units on a fully diluted basis. The balance of the additional entitlement will be adjusted on December 25, 2022 to be effective January 1, 2021, once the actual performance of the new restaurants has been confirmed. If KRL were to receive 100% of the estimated Additional Entitlement for 2021, KRL will effectively own the equivalent of 5,103,410 Fund units, representing 31.01% of the Fund units on a fully diluted basis.