

Recipe Unlimited Corporation

Unaudited Condensed Consolidated Interim Financial Statements
For the 13 weeks ended March 28, 2021 and March 29, 2020

Recipe Unlimited Corporation

Unaudited Condensed Consolidated Interim Statements of Earnings (Loss)

For the 13 weeks ended March 28, 2021 and March 29, 2020

	For the 13 weeks ended	
	March 28 2021	March 29, 2020
(in thousands of Canadian dollars, except where otherwise indicated)		
Sales (note 6).....	\$ 165,263	\$ 229,757
Franchise revenues (note 7).....	28,804	40,165
Total gross revenue	\$ 194,067	\$ 269,922
Cost of inventories sold.....	(88,274)	(102,957)
Selling, general and administrative expenses (note 8).....	(94,215)	(162,551)
Impairment, net of reversals, of restaurant assets and lease receivables (notes 13, 14, and 15).....	18	(16,282)
Restructuring and other (note 9).....	(1,074)	1,143
Operating income (loss)	\$ 10,522	\$ (10,725)
Interest expense and other financing charges (note 10).....	(13,519)	(14,475)
Interest income (note 10).....	6,018	8,074
Share of earnings (loss) from investment in joint ventures (note 15).....	374	113
Earnings (loss) before change in fair value and income taxes	\$ 3,395	\$ (17,013)
Change in fair value of non-controlling interest liability (note 20).....	(454)	—
Change in fair value of Exchangeable Keg Partnership units and Keg Royalty Income Fund units.....	10,821	(33,050)
Earnings (loss) before income taxes	\$ 13,762	\$ (50,063)
Current income tax expense (note 11).....	(2,430)	(2,410)
Deferred income tax recovery (expense) (note 11).....	1,620	11,228
Net earnings (loss)	\$ 12,952	\$ (41,245)
Net earnings (loss) attributable to Shareholders of the Company.....	12,952	(40,974)
Non-controlling interest.....	—	(271)
	\$ 12,952	\$ (41,245)
Net earnings (loss) per share attributable to the Common Shareholders of the Company (note 23) (in dollars)		
Basic earnings (loss) per share.....	\$ 0.23	\$ (0.73)
Diluted earnings (loss) per share.....	\$ 0.22	\$ (0.73)

Recipe Unlimited Corporation

Unaudited Condensed Consolidated Interim Statements of Comprehensive Income (Loss)

For the 13 weeks ended March 28, 2021 and March 29, 2020

(in thousands of Canadian dollars, except where otherwise indicated)	<u>March 28, 2021</u>	<u>March 29, 2020</u>
Net earnings (loss)	\$ 12,952	\$ (41,245)
Items that will not be reclassified to profit or loss:.....		
Net defined benefit plan actuarial gain, net of income taxes.....	3,366	—
Cumulative translation adjustment.....	(95)	1,067
Other comprehensive loss, net of income taxes	3,271	1,067
Total comprehensive income (loss)	<u>\$ 16,223</u>	<u>\$ (40,178)</u>

Recipe Unlimited Corporation
 Unaudited Condensed Consolidated Interim Statements of Total Equity
 For the 13 weeks ended March 28, 2021 and March 29, 2020

Attributable to the Common Shareholders of the Company							
(in thousands of Canadian dollars, except where otherwise indicated)	Number of shares (in thousands)	Share capital (note 23)	Merger reserve	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity
Balance at December 27, 2020	56,363	\$616,898	\$(216,728)	\$ 11,950	\$ (7,238)	\$ (121,346)	\$ 283,536
Net earnings (loss)	—	—	—	—	—	12,952	12,952
Other comprehensive income	—	—	—	—	3,271	—	3,271
Dividends	—	—	—	—	—	—	—
Share re-purchase (note 22)	—	—	—	—	—	—	—
Stock options exercised (note 22)	13	161	—	76	—	—	237
Stock-based compensation (note 21)	—	—	—	167	—	—	167
	13	161	—	243	3,271	12,952	16,627
Balance at March 28, 2021	56,376	\$617,059	\$(216,728)	\$ 12,193	\$ (3,967)	\$ (108,394)	\$ 300,163

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

Recipe Unlimited Corporation
Unaudited Condensed Consolidated Interim Balance Sheets
As at March 28, 2021, December 27, 2020 and March 29, 2020

(in thousands of Canadian dollars)

	March 28 2021	December 27 2020	March 29 2020
Assets			
Current Assets			
Cash	\$ 44,144	\$ 40,539	\$ 311,928
Accounts receivable (note 26)	86,224	106,272	75,774
Inventories (note 12)	45,056	44,921	37,180
Current taxes receivable	13,148	13,148	3,241
Prepaid expenses and other assets	7,520	7,184	8,410
Current portion of long-term receivables (note 13)	68,059	66,297	75,736
Total Current Assets	\$ 264,151	\$ 278,361	\$ 512,269
Long-term receivables (note 13)	299,878	314,793	394,227
Property, plant and equipment (note 14)	519,902	538,276	593,147
Investment in the Keg Limited Partnership (note 27)	129,396	116,874	101,480
Brands and other assets (note 15)	604,759	606,807	610,624
Goodwill (note 16)	201,789	198,313	198,313
Deferred tax asset (note 11)	55,556	55,647	48,444
Total Assets	\$ 2,075,431	\$ 2,109,071	\$ 2,458,504
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	\$ 127,875	\$ 137,957	\$ 120,501
Provisions (note 17)	3,091	2,725	2,994
Gift card liability	140,411	160,769	128,611
Income taxes payable	2,726	6,722	3,234
Current portion of long-term debt (note 18)	446	—	—
Current portion of lease liabilities (note 19)	113,932	119,754	121,559
Total Current Liabilities	\$ 388,481	\$ 427,927	\$ 376,899
Long-term debt (note 18)	498,205	488,834	770,974
Note payable to The Keg Royalties Income Fund	57,000	57,000	57,000
Provisions (note 17)	3,472	3,733	3,651
Lease liabilities (note 19)	526,100	544,969	642,972
Other long-term liabilities (note 20)	57,122	58,906	64,985
Deferred gain on sale of The Keg Rights (note 27)	146,021	144,806	144,688
Deferred tax liability (note 11)	98,867	99,360	98,713
Total Liabilities	\$ 1,775,268	\$ 1,825,535	\$ 2,159,882
Shareholders' Equity			
Common share capital (note 22)	\$ 617,059	\$ 616,898	\$ 616,814
Contributed surplus	12,193	11,950	11,105
Merger reserve	(216,728)	(216,728)	(216,728)
Accumulated other comprehensive loss	(3,967)	(7,238)	(2,337)
Deficit	(108,394)	(121,346)	(110,232)
Total Shareholders' Equity	\$ 300,163	\$ 283,536	\$ 298,622
Total Liabilities and Equity	\$ 2,075,431	\$ 2,109,071	\$ 2,458,504
Commitments, contingencies and guarantees (note 25)			
Subsequent events (note 29)			

Recipe Unlimited Corporation
Unaudited Condensed Consolidated Interim Statements of Cash Flows
For the 13 weeks ended March 28, 2021 and March 29, 2020

	For the 13 weeks ended	
	March 28 2021	March 29 2020
(in thousands of Canadian dollars)		
Cash from (used in)		
Operating Activities		
Net earnings (loss)	\$ 12,952	\$ (41,245)
Depreciation and amortization	24,442	27,441
Amortization of deferred gain	(455)	(446)
Net gain on disposal of property, plant and equipment and other assets	(102)	177
Loss on early buyout/cancellation of equipment rental contracts	345	(46)
Impairment, net of reversals, of restaurant assets and lease receivables (notes 13, 14, 15, and 27)	(18)	16,282
(Gain) Loss on settlement of lease liabilities (note 19)	(75)	118
Net interest expense on long-term debt and note payable to the Keg Royalties Income Fund (note 10)	6,642	5,447
Net interest expense on lease liabilities and receivables (note 10)	2,909	3,038
Stock based compensation	167	488
Income taxes paid	(6,415)	(14,451)
Change in restructuring provision	457	(2,138)
Change in deferred tax (note 11)	(402)	(11,323)
Change in fair value of exchangeable Keg Partnership units	(10,821)	33,050
Change in fair value of non-controlling interest liability and contingent liability	454	—
Other non-cash items	4,961	(5,008)
Net change in non-cash operating working capital (note 24)	(11,892)	(4,856)
Cash flows from operating activities	\$ 23,149	\$ 6,528
Investing Activities		
Business acquisitions, net of cash assumed (note 5)	\$ —	\$ (9)
Purchase of property, plant and equipment	(4,054)	(8,838)
Proceeds on disposal of property, plant and equipment	—	82
Proceeds on early buyout of equipment rental contracts	—	658
Investment in joint ventures	—	(500)
Additions to other assets	(5)	(1,091)
Lease payments received	16,909	22,977
Change in long-term receivables	—	(1,217)
Cash flows (used in) investing activities	\$ 12,850	\$ 12,062
Financing Activities		
Issuance of long-term debt (note 18)	\$ 10,000	\$ 300,000
Repayment of long-term debt (note 18)	—	(5,000)
Deferred financing costs (note 18)	(459)	—
Issuance of subordinated voting common shares (note 22)	237	—
Share re-purchase (note 22)	—	(312)
Lease liabilities paid (note 19)	(35,930)	(37,742)
Change in lease liability due to rent concessions (note 19)	(2,723)	—
Interest paid on long-term debt and note payable	(3,725)	(3,552)
Cash flows (used in) from financing activities	\$ (32,600)	\$ 253,394
Change in cash during the period	\$ 3,399	\$ 271,984
Foreign currency translation adjustment	206	(407)
Cash - Beginning of period	40,539	40,351
Cash - End of period	\$ 44,144	\$ 311,928

1 Nature and description of the reporting entity

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

The Company's subordinate voting shares are listed on the Toronto Stock Exchange under the stock symbol "RECP". As part of the Company's initial public offering ("IPO") during fiscal 2015, the Company issued multiple voting shares to Fairfax Financial Holdings Limited and its affiliates ("Fairfax") and to the Phelan family through Cara Holdings Limited and its affiliates ("Cara Holdings", and together with Fairfax, the "Principal Shareholders"). As at March 28, 2021, the Principal Shareholders hold 70.7% of the total issued and outstanding shares and have 98.1% of the voting control attached to all the shares.

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

Impact of COVID-19

The COVID-19 pandemic has impacted Canadians and economies around the world. The restaurant and food services industry have experienced significant business disruptions due to evolving mandated restaurant closures and other restrictive measures. As a result, 88.7% of the Company's operating weeks during the first quarter were impacted by complete or partial closures. Locations that were permitted to open 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 have remained open throughout the pandemic as an essential service continuing to supply branded and private label products to grocery customers.

Health and Safety

In late 2020, the Company launched its Social Safety media campaign, which highlights our continued commitment to delivering best in class experiences by operating safe and clean restaurants across all of our locations. From our comprehensive protocols related to food safety, strict standard operating procedures, independent third party audits and our rigorous safety training programs, we have a continued commitment to ensure the health and safety of our guests, associates and franchise partners.

Frontline Workers Support

The ongoing pandemic and the evolving government mandated restaurant openings and closings have a significant financial and mental health impact on our frontline associates. As a result, the Company announced on April 8, 2021, a \$500,000 support package for its Ontario corporate frontline restaurant workers to assist its associates through the latest extended closures that have been mandated by the Ontario government. The Company's support program will consist of direct payments to frontline associates who would have otherwise been laid off because of this latest lockdown. Recipe will also continue to focus on employees' mental health through enhanced benefits coverage for mental health practitioners and employee assistance programs.

Franchise Partner Support

Since the beginning of the COVID-19 crisis, the Company has been committed to protecting the financial health of its franchisees through various support programs, including Recipe's rent certainty program (which provided direct rent support to franchisees), Recipe's 2020 royalty reduction program and Recipe's COVID support program. Recipe's rent certainty and royalty reduction programs ended in 2020 while the Company's COVID support program remained in effect until the end of March 2021. Beyond March 2021, the Company will continue to provide support to certain franchise partners through various subsidies and cash flow support programs.

Liquidity and Cash Management

The Company has taken action to provide sufficient liquidity for the foreseeable future. On February 18, 2021, the Company amended its lending covenant with its banking syndicate and Private Noteholders to provide additional covenant flexibility during the 2021 COVID-19 disruption period (see Note 18 - Long-term debt). The covenant amendments are effective through to the end of the first quarter of 2022 and management expects the lending covenants amendments to provide sufficient covenant flexibility through the extended COVID-19 crisis.

The Company has also taken additional measures to maximize liquidity during the pandemic, which include the suspension of its NCIB buyback program, the suspension of dividend payments and the suspension of many central, new store development, corporate store renovations and other capital expenditure plans. As a result of these actions and careful working capital management, the Company finished the quarter with a net debt position of \$457.7 million, compared to \$451.3 million at the end of 2020.

Government Assistance

The Canadian Federal and Provincial governments have announced various assistance programs during the COVID-19 crisis, including:

- The Canada Emergency Wage Subsidy program (CEWS) was made available to the Company and its franchise partners. During the 13 weeks ended March 28, 2021, the Company received \$18.2 million of wage subsidies for salaries paid to employees in corporate restaurants, food manufacturing and head office locations.
- The Canada Emergency Rent Subsidy (CERS) program, which provides direct rent relief to eligible applicants. During the 13 weeks ended March 28, 2021, the Company realized \$3.8 million of government rent subsidies.
- The Property Tax and Energy Cost Rebate programs introduced by the governments of Ontario, Alberta and British Columbia, provides direct property tax and utility cost rebates to business locations that were mandated to close or significantly restrict its services due to provincial public health measures. During the 13 weeks ended March 28, 2021, the Company realized \$4.8 million of government property tax and energy cost rebates.

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

2 Basis of Presentation**Statement of compliance**

The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and International Accounting Standard (“IAS”) 34, “Interim Financial Reporting” as issued by the International Accounting Standards Board (“IASB”). The unaudited condensed consolidated interim financial statements should be read in conjunction with the Company’s 2020 audited annual consolidated financial statements and accompanying notes, except for new accounting standards that have been adopted in 2021, as described in note 3. The accounting policies and methods of computations followed in the interim financial statements are consistent with the Company’s 2020 audited annual consolidated financial statements.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors (“Board”) on May 6, 2021.

Basis of preparation

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

Critical accounting judgements and estimates

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Company’s accounting policies except those adopted during the 13 weeks ended March 28, 2021 and the key sources of estimation of uncertainty were the same as those that applied to the Company’s audited annual consolidated financial statements as at and for the year ended December 27, 2020.

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

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

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

Comparative information

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

3 Significant accounting policies**Accounting standards implemented in 2021****Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)**

Amendments were made to address financial statement impacts when an existing interest rate benchmark such as LIBOR is replaced with an alternative reference rate and the implications for specific hedge accounting requirements, which require forward-looking analysis. The amendments also include additional disclosure requirements surrounding uncertainty arising from the interest rate benchmark reform. The amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 were adopted effective December 28, 2020 and resulted in no significant adjustment.

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

In May 2020, the IASB issued COVID-19-Related Rent Concession (Amendments to IFRS 16). The amendments permit 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. The original amendment applied to COVID-19-related rent concessions that reduce lease payments due on or before June 30, 2021. However, since lessors continue to grant COVID-19-related rent concessions to lessees and since the effects of the COVID-19 pandemic are ongoing and significant, effective April 1, 2021, the IASB extended the practical expedient by one year, for affected lease payments due on or before June 30, 2022. For the 13 weeks ended March 28, 2021, the Company recorded \$0.2 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.

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 specify 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.

Definition of Accounting Estimates (Amendments to IAS 8)

On February 12, 2021, the IASB issued *Definition of Accounting Estimates (Amendments to IAS 8)*. The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. The amendments are effective for annual periods beginning on or after January 1, 2024. The Company is currently assessing whether this will have a material impact on the consolidated financial statements.

Disclosure initiative - Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

On February 12, 2021, the IASB issued *Disclosure Initiative - Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements)*. The amendments help companies provide useful accounting policy disclosures. The key amendments include: (1). requiring companies to disclose their material accounting policies rather than their significant accounting policies; (2). clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosures; and (3). clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

Recipe Unlimited Corporation

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 28, 2021 and March 29, 2020**5 Acquisitions and Buyouts**

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

Original Joe's - see note 27 Related Parties

On January 1, 2021, the Company completed the purchase of the remaining interest of three Original Joe's joint ventures (OJ's Swift Restaurant Inc., OJ's Winnipeg St. Vital Restaurant Inc. and OJ's Winnipeg Kenaston Restaurant Inc.). The Company obtained control through a step acquisition that was completed on January 1, 2021 for OJ's Swift Restaurant Inc. The fair value of the Company's equity interest in OJ's Swift Restaurant Inc. immediately before January 1, 2021 was \$1.9 million.

Control of the other two joint ventures had been previously acquired on November 27, 2016 and reported as part of the Company's consolidated financial results prior to the acquisition date and on January 1, 2021, the Company acquired the non-controlling interest of these two joint ventures for total consideration of \$0.4 million.

(in thousands of Canadian dollars)

	March 28, 2021	March 29, 2020
Consideration		
Cash	\$ —	\$ 9
Settlement of loans	3,318	—
Total Consideration	\$ 3,318	\$ 9
Net assets acquired		
Cash	\$ 6	\$ —
Accounts Receivable	5	—
Prepaid Expenses	5	—
Inventories	64	9
Property, plant and equipment	97	—
Brands and other assets	5	—
Total Assets	182	9
Liabilities		
Accounts payable and accrued liabilities	340	—
Total liabilities	340	—
Goodwill	3,476	—
Total	\$ 3,318	\$ 9

Recipe Unlimited Corporation

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 28, 2021 and March 29, 2020**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 13 weeks ended	
	March 28, 2021	March 29, 2020
(in thousands of Canadian dollars)		
Sales at corporate restaurants	\$ 73,589	\$ 151,804
Food processing and distribution sales	86,457	72,860
Catering sales	1,124	2,365
Call centre service charge revenues	4,093	2,728
	\$ 165,263	\$ 229,757

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.

	For the 13 weeks ended	
	March 28, 2021	March 29, 2020
(in thousands of Canadian dollars)		
Royalty revenue	\$ 16,025	\$ 22,928
Marketing fund contributions	10,584	14,514
Other rental income	1,837	1,946
Franchise fees on new and renewal licenses	105	488
Income on finance leases	226	252
Amortization of unearned conversion fees income	27	37
	\$ 28,804	\$ 40,165

Recipe Unlimited Corporation

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 28, 2021 and March 29, 2020**8 Selling, general and administrative expenses**

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

(in thousands of Canadian dollars)	For the 13 weeks ended	
	March 28, 2021	March 29, 2020
Corporate restaurant expenses	\$ 48,592	\$ 103,784
Advertising fund transfers	10,584	13,105
The Keg royalty expense	2,743	5,706
Franchise assistance and bad debt	855	962
Depreciation of property, plant and equipment (note 14)	22,335	25,282
Amortization of other assets (note 15)	1,031	1,123
Net loss on disposal of property, plant and equipment and other assets	(102)	177
Loss on settlement of lease liabilities (note 19)	(75)	118
Losses on early buyout/cancellation of equipment rental contracts	(346)	—
Other	8,598	12,294
	<u>\$ 94,215</u>	<u>\$ 162,551</u>

For the 13 weeks ended March 28, 2021, \$1.1 million (March 29, 2020 - \$1.0 million) of depreciation related to property, plant and equipment has been included in cost of inventories sold as part of food processing and distribution.

Recipe Unlimited Corporation

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 28, 2021 and March 29, 2020**9 Restructuring and other**

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

The following table provides a summary of the costs recognized and cash payments made, as well as the corresponding net liability as at March 28, 2021. The beginning net liability balance for the prior year was updated and a reclassification was made to the Right-of-Use asset and Long-term receivables balances to comply with current year's presentation.

(in thousands of Canadian dollars)	For the 13 weeks ended	
	March 28, 2021	March 29, 2020
Net liability, beginning of period	\$ 10,132	\$ 10,105
Cost recognized (reversed)		
Employee termination benefits.....	589	517
Site closing costs and other.....	485	(1,660)
	\$ 1,074	\$ (1,143)
Cash payments		
Employee termination benefits.....	617	547
Site closing costs and other.....	—	448
	\$ 617	\$ 995
Net liability, end of period	\$ 10,589	\$ 7,967

Recorded in the consolidated balance sheets as follows:

(in thousands of Canadian dollars)	March 28 2021	December 27 2020	March 29 2020
Employee termination benefits:			
Accounts payable and accrued liabilities.....	\$ 2,245	\$ 2,524	\$ 1,552
Site closing costs and other are recorded as a reduction to:			
Provisions (current).....	255	437	—
Provisions (long-term).....	1,374	407	—
Property, plant and equipment.....	6,715	6,762	6,415
	\$ 10,589	\$ 10,130	\$ 7,967

Recipe Unlimited Corporation

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 28, 2021 and March 29, 2020**10 Net interest expense and other financing charges**

(in thousands of Canadian dollars)	For the 13 weeks ended	
	March 28, 2021	March 29, 2020
Interest expense and other financing charges		
Interest expense on long-term debt	\$ 5,573	\$ 5,447
The Keg Royalties Income Fund	1,069	1,069
Interest on lease obligations (note 19)	6,578	7,564
Financing costs	249	252
Interest expense - other	50	143
	13,519	14,475
Interest income		
Interest income on Partnership units and KRIF units	(1,844)	(2,675)
Interest income	(504)	(873)
Interest income on lease receivable	(3,670)	(4,526)
	\$ (6,018)	\$ (8,074)
Net interest expense and other financing charges	\$ 7,501	\$ 6,401

11 Income taxes

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

(in thousands of Canadian dollars)	For the 13 weeks ended	
	March 28 2021	March 29 2020
Current income tax expense		
Current period	\$ 2,430	\$ 2,410
	\$ 2,430	\$ 2,410
Deferred income tax expense (recovery)		
Benefit from previously unrecognized tax asset	\$ (1,136)	\$ 150
Origination and reversal of temporary differences	(484)	(11,378)
	\$ (1,620)	\$ (11,228)
Net income tax expense (recovery)	\$ 810	\$ (8,818)

Recognized deferred tax assets and liabilities

(in thousands of Canadian dollars)	March 28 2021	December 27 2020	March 29 2020
Opening balance	\$ (43,713)	\$ (61,592)	\$ (61,592)
Deferred income tax recovery	1,620	17,275	11,228
Income taxes recognized in other comprehensive income	(1,200)	1,095	—
Other	(18)	(491)	95
	\$ (43,311)	\$ (43,713)	\$ (50,269)

Recipe Unlimited Corporation

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 28, 2021 and March 29, 2020**12 Inventories**

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

(in thousands of Canadian dollars)	March 28 2021	December 27 2020	March 29 2020
Raw materials.....	\$ 7,041	\$ 7,041	\$ 5,968
Work in progress.....	1,122	1,067	1,128
Finished goods.....	26,237	26,254	18,256
Food and beverage supplies.....	10,656	10,559	11,828
	\$ 45,056	\$ 44,921	\$ 37,180

13 Long-term receivables

(in thousands of Canadian dollars)	March 28 2021	December 27 2020	March 29 2020
Lease receivables.....	\$ 345,783	\$ 354,455	\$ 443,643
Franchise receivables.....	6,902	7,623	9,842
Due from related parties (note 27).....	14,956	18,666	15,903
Promissory notes.....	296	346	575
	\$ 367,937	\$ 381,090	\$ 469,963

Recorded in the consolidated balance sheets as follows:

(in thousands of Canadian dollars)	March 28 2021	December 27 2020	March 29 2020
Current portion of long-term receivables.....	\$ 68,059	\$ 66,297	\$ 75,736
Long-term receivables.....	299,878	314,793	394,227
	\$ 367,937	\$ 381,090	\$ 469,963

Lease receivables

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

Lease receivables are reviewed for impairment based on expected losses at each balance sheet date in accordance with IFRS 9. An impairment loss is recorded when the credit risk is assessed to have increased for the lease receivables. For the 13 weeks ended March 28, 2021, the Company recorded an impairment loss reversal of \$3.7 million (March 29, 2020 - \$4.0 million impairment loss) on long-term lease receivables using the expected credit loss model.

Recipe Unlimited Corporation

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 28, 2021 and March 29, 2020

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

	For the 13 weeks ended	For the 52 weeks ended	For the 13 weeks ended
	March 28 2021	December 27 2020	March 29 2020
(in thousands of Canadian dollars)			
Balance, beginning of period	\$ 354,455	\$ 455,245	\$ 455,245
Additions	—	1,075	1,138
Lease renewals and modifications, terminations and other adjustments	5,196	(22,948)	9,759
Interest income	3,670	17,029	4,526
Impairment (loss) reversal	3,673	(5,834)	(4,048)
Lease payments received or receivable	(21,211)	(90,112)	(22,977)
	\$ 345,783	\$ 354,455	\$ 443,643

Franchise receivables

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 \$6.9 million (March 29, 2020 - \$9.8 million) relates primarily to the long-term obligation of the franchisees to pay the Company over the term of the rental agreement which is equal to the term of the license agreement or the term to the expected buyout date assuming that the franchisee is more likely than not to acquire the rented assets from the Company.

Long-term franchise receivables are reviewed for impairment based on expected losses at each balance sheet date. An impairment loss is recorded when the credit risk is assessed to have increased for the lease receivables. For the 13 weeks ended March 28, 2021, the Company recorded \$nil (March 29, 2020 - \$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% - 10%.

Provision for impairment

For the 13 weeks ended March 28, 2021, the Company recorded \$3.3 million impairment loss reversal (March 29, 2020 - \$4.5 million impairment loss) on total long-term receivable.

The Company has recorded a provision for impairment against long-term receivables of \$31.5 million as at March 28, 2021:

	For the 13 weeks ended	For the 52 weeks ended	For the 13 weeks ended
	March 28 2021	December 27 2020	March 29 2020
(in thousands of Canadian dollars)			
Balance, beginning of period	\$ 34,738	\$ 29,616	\$ 29,616
Impairment loss (reversal) related to lease receivable	(3,673)	5,834	4,048
Impairment loss related to equity investees	405	577	500
Write-offs	—	(722)	(722)
Adjustments	—	(567)	(567)
Provision for impairment	\$ 31,470	\$ 34,738	\$ 32,875

Recipe Unlimited Corporation

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 28, 2021 and March 29, 2020
14 Property, plant and equipment

	13 weeks ended March 28, 2021						
(in thousands of Canadian dollars)	Land	Buildings	Equipment	Leasehold improvements	Right-of-Use Assets	Construction-in-progress	Total
Cost							
Balance, beginning of year	\$ 35,789	\$ 115,734	\$ 256,120	\$ 241,903	\$ 340,520	\$ 9,860	\$ 999,926
Additions	—	6	605	121	2,977	3,322	7,031
Acquisitions and buybacks (note 5)	—	—	97	—	—	—	97
Lease renewals and modifications	—	—	—	—	1,164	—	1,164
Foreign exchange translation	—	—	(268)	(657)	(434)	—	(1,359)
Disposals and adjustments	—	—	(2,138)	(2,996)	407	(1)	(4,728)
Transfer to/(from) construction-in-progress	—	1	1,708	928	—	(2,637)	—
Balance, end of period	\$ 35,789	\$ 115,741	\$ 256,124	\$ 239,299	\$ 344,634	\$ 10,544	\$ 1,002,131
Accumulated depreciation and impairment losses							
Balance, beginning of year	\$ —	\$ 19,027	\$ 177,407	\$ 149,546	\$ 115,670	\$ —	\$ 461,650
Depreciation expense	—	920	6,198	5,879	10,414	—	23,411
Impairment loss	—	—	475	434	2,483	—	3,392
Reversal of impairment losses	—	—	—	—	(141)	—	(141)
Foreign exchange translation	—	—	(238)	(594)	(146)	—	(978)
Disposals and adjustments	—	—	(2,120)	(2,985)	—	—	(5,105)
Balance, end of period	\$ —	\$ 19,947	\$ 181,722	\$ 152,280	\$ 128,280	\$ —	\$ 482,229
Carrying amount as at March 28, 2021	\$ 35,789	\$ 95,794	\$ 74,402	\$ 87,019	\$ 216,354	\$ 10,544	\$ 519,902
December 27, 2020	\$ 35,789	\$ 96,707	\$ 78,713	\$ 92,357	\$ 224,850	\$ 9,860	\$ 538,276
March 29, 2020	\$ 35,966	\$ 99,438	\$ 85,687	\$ 121,547	\$ 244,515	\$ 5,994	\$ 593,147

Impairment losses

For the 13 weeks ended March 28, 2021, the Company recorded \$3.4 million (13 weeks ended March 29, 2020 - \$13.1 million) of impairment losses on property, plant and equipment in respect of 12 cash generating units (“CGUs”) (13 weeks ended March 29, 2020 - 34 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”). 100% (March 29, 2020 - 50%) of impaired CGUs had carrying values greater than their FVLCS. None (March 29, 2020 - 50%) of impaired CGUs had carrying values greater than their VIU.

For the 13 weeks ended March 28, 2021, the Company recorded \$0.1 million of impairment reversal (13 weeks ended March 29, 2020 - \$2.3 million) in respect of 1 CGU (March 29, 2020 - 13).

When determining the VIU of a restaurant location, the Company employs a discounted cash flow model for each CGU. The duration of the cash flow projections for individual CGUs varies based on the remaining useful life of the significant asset within the CGU or the remaining lease term of the location. Sales forecasts for cash flows are based on actual operating results, operating budgets and long-term growth rates that were consistent with strategic plans presented to the Company’s Board and ranged between 0% and 3%. The estimate of the VIU of the relevant CGUs was determined using an after-tax discount rate of 3.7% to 11.7% at March 28, 2021 (March 29, 2020 - 3.7% to 14.5%)

Recipe Unlimited Corporation

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 28, 2021 and March 29, 2020
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.

	13 weeks ended March 28, 2021			
(in thousands of Canadian dollars)	Brands	Other assets	Investment in joint ventures	Total
Cost				
Balance, beginning of year	\$ 530,516	\$ 92,070	\$ 18,636	\$ 641,222
Additions from business acquisitions (note 5) ..	5	—	—	5
Disposal	—	(75)	(1,332)	(1,407)
Share of earnings	—	—	374	374
Adjustments and transfers	(224)	—	10	(214)
Balance as at March 28, 2021	\$ 530,297	\$ 91,995	\$ 17,688	\$ 639,980
Accumulated amortization				
Balance, beginning of year	\$ 3,839	\$ 30,576	\$ —	\$ 34,415
Amortization	—	1,031	—	1,031
Adjustments and transfers	—	(225)	—	(225)
Balance as at March 28, 2021	\$ 3,839	\$ 31,382	\$ —	\$ 35,221
Carrying amount as at March 28, 2021	\$ 526,458	\$ 60,613	\$ 17,688	\$ 604,759
December 27, 2020	\$ 526,677	\$ 61,494	\$ 18,636	\$ 606,807
March 29, 2020	\$ 530,456	\$ 63,040	\$ 17,128	\$ 610,624

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)	March 28 2021	December 27 2020	March 29 2020
Balance, beginning of period	\$ 198,313	\$ 198,313	\$ 198,313
Additions from business acquisitions (note 5)	3,476	—	—
Balance, end of period	\$ 201,789	\$ 198,313	\$ 198,313

Recipe Unlimited Corporation

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 28, 2021 and March 29, 2020**17 Provisions**

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

	13 weeks ended March 28, 2021		
(in thousands of Canadian dollars)	Asset retirement obligations	Other	Total
Balance, beginning of period.....	\$ 4,283	\$ 2,175	\$ 6,458
Additions.....	—	483	483
Accretion.....	58	—	58
Payments.....	(9)	(285)	(294)
Adjustments.....	(196)	54	(142)
Balance as at March 28, 2021.....	\$ 4,136	\$ 2,427	\$ 6,563
December 27, 2020	\$ 4,283	\$ 2,175	\$ 6,458
March 29, 2020	\$ 4,376	\$ 2,269	\$ 6,645

Recorded in the consolidated balance sheets as follows:

(in thousands of Canadian dollars)	March 28 2021	December 27 2020	March 29 2020
Provisions-current.....	\$ 3,091	\$ 2,725	\$ 2,994
Provisions-long-term.....	3,472	3,733	3,651
	\$ 6,563	\$ 6,458	\$ 6,645

Recipe Unlimited Corporation

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 28, 2021 and March 29, 2020**18 Long-term debt**

(in thousands of Canadian dollars)	March 28 2021	December 27 2020	March 29 2020
Private debt	\$ 250,000	\$ 250,000	\$ 250,000
Term credit facility - revolving	217,323	207,323	505,325
The Keg credit facilities	34,500	34,500	19,000
	<u>501,823</u>	<u>491,823</u>	<u>774,325</u>
Less: financing costs	3,172	2,989	3,351
	<u>\$ 498,651</u>	<u>\$ 488,834</u>	<u>\$ 770,974</u>

Recorded in the consolidated balance sheets as follows:

(in thousands of Canadian dollars)	March 28 2021	December 27 2020	March 29 2020
Current portion of long-term debt.....	\$ 446	\$ —	\$ —
Long-term portion of long-term debt.....	498,205	488,834	770,974
	<u>\$ 498,651</u>	<u>\$ 488,834</u>	<u>\$ 770,974</u>

Private debt

On May 1, 2019, the Company issued \$250.0 million First Lien 10 year Senior Secured Notes by way of a private placement (the “Notes”). The Notes rank pari passu in right of payment with the lenders under the Company’s amended and restated credit agreement (“New Credit Facility”), is secured on a first lien basis on the assets that secure the Company’s New Credit Facility, and is guaranteed by all material subsidiaries and holding companies of the Company on the same basis as the New Credit Facility. The Notes bear interest from their date of issue at a rate of 4.72% per annum, payable semi-annually and maturing on May 1, 2029. As at March 28, 2021, \$250.0 million (December 27, 2020 - \$250.0 million; March 29, 2020 - \$250.0 million) was drawn under the Notes.

Term credit facility

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

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

As at March 28, 2021, \$217.3 million (December 27, 2020 - \$207.3 million; March 29, 2020 - \$505.3 million) was drawn under the amended and extended credit facilities. The effective interest rate for the 13 weeks ended March 28, 2021 was 3.77% representing a bankers’ acceptance rate of 0.37% plus 2.30% borrowing spread, standby fees and the amortization of deferred financing fees of 1.10%.

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, each as defined in the facility agreements. As of March 28, 2021 the standby fee rate was 0.46%.

February 2021 amendments to the term credit facility and private notes

The terms of the Company's syndicated bank credit facility and private notes require that it comply with certain financial covenants including a maximum leverage ratio and a minimum interest coverage ratio. The leverage ratio is determined by dividing total funded net debt by annualized EBITDA ("Leverage Ratio"), each as defined in the facility agreements. The interest coverage ratio is determined by dividing annualized EBITDA plus net rent expense, by total cash interest expense plus net rent expense ("Interest Coverage Ratio"), as defined in the facility agreements.

In early 2021, the Company remained in compliance with all financial covenants. However, the ongoing COVID-19 pandemic and associated operating restrictions imposed by the government was expected to have a negative impact on the Company's 2021 first and second quarter EBITDA results, which may have challenged the Company's compliance with the 2021 quarterly financial covenants, in particular the Leverage Ratio. As a result, the Company amended the terms of its bank credit facility and private notes on February 18, 2021.

As part of the amendments the definitions of annualized EBITDA used for the purpose of calculating the Leverage Ratio and Interest Coverage Ratio was temporarily amended and will remain in effect through the end of the second quarter of 2022. In addition, the maximum Leverage Ratio was increased to 4.0 times EBITDA through the end of the fourth quarter of 2021 (thereafter will return to the pre-amendment level of 3.5 times annualized EBITDA).

As at March 28, 2021, the Company was in compliance with the amended financial covenants..

The Keg Credit Facilities

On September 28, 2013, Keg Restaurants Ltd. ("KRL") entered into an amended multi-option credit agreement with its Canadian banking syndicate for the expansion of restaurant operations. The revolving credit and term loan facilities, with a syndicate of two Canadian banks, are available to finance the construction of certain new corporate restaurants and major renovations in Canada.

On November 29, 2019, the Company renegotiated the terms of its credit agreement with its existing banking syndicate to modify it from a revolving credit/term loan facility to an all revolving facility, increased the size of the facility to \$60.0 million, reduced the interest rate and extended the maturity date. The credit facility is now comprised of a \$55.0 million revolving facility with no set term of repayments and a \$5.0 million revolving demand operating facility. The Company's credit facility now bears interest at a rate between bank prime plus 0% to bank prime plus 0.75%, based on certain financial criteria. As at March 28, 2021, \$14,000 of the revolving demand operating facility has been used to issue letters of credit, and \$4,986,000 remains available. As at March 28, 2021, KRL meets the criteria for interest at bank prime plus 0.75%. On November 29, 2019, the maturity date of this credit facility 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 June 27, 2021.

As at March 28, 2021, \$22.0 million of this facility has been drawn (December 27, 2020 - \$22.0 million; March 29, 2020 - \$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 March 28, 2021, KRL was in compliance with all bank covenants associated with these facilities.

Recipe Unlimited Corporation

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 28, 2021 and March 29, 2020

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%. Commencing on September 30, 2021, KRL is required to make monthly principal repayments of \$74,000 for the remainder of the BCAP Loan term. KRL has the option to repay any principal amount of this loan at any time, without bonus, premium or penalty.

The movement in long-term debt from December 27, 2020 to March 28, 2021 is as follows:

(in thousands of Canadian dollars)	<u>Private Debt</u>	<u>Term Credit Facility</u>	<u>Keg Credit Facilities</u>	<u>Total</u>
Principal balance at December 27, 2020.....	\$ 250,000	\$ 207,323	\$ 34,500	\$ 491,823
Less unamortized deferred Financing costs	<u>(1,544)</u>	<u>(1,239)</u>	<u>(206)</u>	<u>(2,989)</u>
Balance at December 27, 2020	\$ 248,456	\$ 206,084	\$ 34,294	\$ 488,834

Changes from financing cash flows

Issuance of borrowings.....	—	10,000	—	\$ 10,000
Addition to deferred financing costs.....	<u>(149)</u>	<u>(310)</u>	<u>—</u>	<u>(459)</u>
Balance due to changes from financing cash flows as at March 28, 2021.....	\$ 248,307	\$ 215,774	\$ 34,294	\$ 498,375

Non-cash movements

Amortization of deferred financing costs..	49	193	34	276
Balance at March 28, 2021.....	\$ 248,356	\$ 215,967	\$ 34,328	\$ 498,651

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

(in thousands of Canadian dollars)	<u>Private Debt</u>	<u>Term Credit Facility</u>	<u>Keg Credit Facilities</u>	<u>Total</u>
Principal balance at December 29, 2019	\$ 250,000	\$ 210,325	\$ 19,000	\$ 479,325
Less unamortized deferred Financing costs	<u>(1,625)</u>	<u>(1,771)</u>	<u>(187)</u>	<u>(3,583)</u>
Balance at December 29, 2019	\$ 248,375	\$ 208,554	\$ 18,813	\$ 475,742

Changes from financing cash flows

Repayment of borrowings	—	(5,000)	—	(5,000)
Issuance of borrowings	\$ —	\$ 300,000	\$ —	\$ 300,000
Balance due to changes from financing cash flows as at March 29, 2020	\$ 248,375	\$ 503,554	\$ 18,813	\$ 770,742

Non-cash movements

Amortization of deferred financing costs	44	168	20	232
Balance at March 29, 2020	\$ 248,419	\$ 503,722	\$ 18,833	\$ 770,974

Recipe Unlimited Corporation

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 28, 2021 and March 29, 2020**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	—	118,998	—	—
Keg Credit Facilities.....	446	22,893	893	893	9,375	—
Total ⁽¹⁾	\$ 446	\$ 121,218	\$ 893	\$ 119,891	\$ 9,375	\$ 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)	For the 13 weeks ended	For the 52 weeks ended	For the 13 weeks ended
	March 28 2021	December 27 2020	March 29 2020
Balance, beginning of period.....	\$ 664,723	\$ 768,449	\$ 768,449
Additions.....	384	12,265	6,675
Lease renewals and modifications.....	10,843	42,823	21,214
Lease terminations.....	(3,601)	(32,241)	(2,825)
(Gain)/Loss on settlement of lease liability.....	(74)	1,149	118
Change in lease liability due to rent concessions.....	(2,723)	(16,171)	—
Other adjustments.....	6	1,370	282
Interest expense.....	6,578	29,188	7,564
Foreign translation adjustment.....	(174)	(84)	796
Payments and amounts payable.....	(35,930)	(142,025)	(37,742)
Balance, end of period	\$ 640,032	\$ 664,723	\$ 764,531

Recorded in the consolidated balance sheets as follows:

(in thousands of Canadian dollars)	March 28 2021	December 27 2020	March 29 2020
Current portion of lease liabilities.....	\$ 113,932	\$ 119,754	\$ 121,559
Lease liabilities.....	526,100	544,969	642,972
	\$ 640,032	\$ 664,723	\$ 764,531

Recipe Unlimited Corporation

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 28, 2021 and March 29, 2020**20 Other long-term liabilities**

(in thousands of Canadian dollars)	March 28 2021	December 27 2020	March 29 2020
Non-controlling interest liability	\$ 20,819	\$ 20,365	\$ 22,483
Accrued pension and other benefit plans	20,487	25,192	21,389
Deferred income	7,500	8,281	12,657
Contingent liability	3,389	3,389	7,000
Deferred rental income	2,289	2,591	4,208
Other long-term liabilities	530	604	2,527
Deferred share units	1,945	1,346	580
Restricted share units	2,313	1,421	368
	\$ 59,272	\$ 63,189	\$ 71,212

Recorded in the consolidated balance sheets as follows:

(in thousands of Canadian dollars)	March 28 2021	December 27 2020	March 29 2020
Accounts payable and accrued liabilities	\$ 2,150	\$ 4,283	\$ 6,227
Other long-term liabilities	57,122	58,906	64,985
	\$ 59,272	\$ 63,189	\$ 71,212

Accrued pension and other benefit plans

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

For the 13 weeks ended March 28, 2021, the Company recorded a recovery of \$0.1 million (13 weeks ended March 29, 2020 - \$0.2 million expense) related to pension benefits.

The Company's pension plans are subject to changes in actuarial assumptions, including changes in discount rates. As at March 28, 2021, the Company estimates that the discount rates applicable to its pension plans have increased to 2.85% - 3.45% from 2.15% - 2.75% as at December 27, 2020. The estimated change in discount rates resulted in an actuarial gain of \$4.6 million or an after-tax net actuarial gain of \$3.4 million, which was recorded in other comprehensive income during the first quarter of 2021.

Non-controlling interest liability

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

As at March 28, 2021, the Company has recorded \$20.8 million (13 weeks ended March 29, 2020 - \$22.5 million) related to non-controlling interest liability.

Contingent liability

In connection with The Keg and the Marigolds and Onions acquisitions, a contingent liability in the amounts of \$3.4 million has been recorded as at March 28, 2021 (December 27, 2020 - \$3.4 million; March 29, 2020 - \$7.0 million), representing amounts payable to the former shareholders contingent on certain targets and conditions being met. For the 13 weeks ended March 28, 2021, there were no changes to the amounts recorded (13 weeks ended March 29, 2020 - \$nil) related to the contingent liability.

Recipe Unlimited Corporation

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 28, 2021 and March 29, 2020

Deferred income*Unearned franchise and conversion fee income*

At March 28, 2021, the Company had deferred \$2.3 million (December 27, 2020 - \$2.6 million; March 29, 2020 - \$3.1 million) of initial franchise fees and conversion fees received from franchisees that will be recognized over the remaining term of the respective franchise agreements.

Sale-leaseback transactions

At March 28, 2021, the Company had deferred \$1.5 million (December 27, 2020 - \$1.7 million; March 29, 2020 - \$2.1 million) related to gains on sale-leaseback transactions.

Covenancy fees

The Company collects covenancy fees from franchisees on subtenant leases. At March 28, 2021, the Company had unearned covenancy fees of \$3.4 million (December 27, 2020 - \$3.5 million; March 29, 2020 - \$4.4 million) in connection with recording a lease receivable on transition to IFRS 16 (see note 3 and 13).

Unearned Revenue

The Company earns sales incentives which includes rebates and promotional programs based on achievement of specified volume or growth in volume levels and other agreed promotional activities. At March 28, 2021, the Company had unearned revenue of \$0.1 million (December 27, 2020 - \$0.5 million; March 29, 2020 - \$3.1 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 \$2.3 million balance at March 28, 2021 (December 27, 2020 - \$2.6 million; March 29, 2020 - \$4.2 million) represents the unearned revenue associated with the rental agreements calculated as the present value of the minimum lease payments using an interest rate implicit in the rental agreement.

Deferred share units ("DSU")

The non-employee board members receive DSUs as compensation for their participation on the board. These DSUs are settled for cash when members cease to participate on the board of directors and are remeasured at fair value through profit or loss at each balance sheet date. For the 13 weeks ended March 28, 2021, the Company recognized an expense of \$0.6 million (13 weeks ended March 29, 2020 - recovery of \$0.6 million) and a liability was recorded as part of Other Long-Term Liabilities in the amount of \$1.9 million as at March 28, 2021 (December 27, 2020 - \$1.3 million; March 29, 2020 - \$0.6 million).

Restricted share units ("RSU")

RSUs are granted at the beginning of each year and are earned only if certain performance conditions are met. RSUs vest after 3 years and will be settled for cash. For the 13 weeks ended March 28, 2021, the Company recognized an expense of \$0.9 million (13 weeks ended March 29, 2020 - a recovery of \$0.2 million) and a liability was recorded as part of Other Long-Term Liabilities in the amount of \$2.3 million as at March 28, 2021 (December 27, 2020 - \$1.4 million; March 29, 2020 - \$0.4 million).

Recipe Unlimited Corporation

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 28, 2021 and March 29, 2020
21 Long-term incentive plans

Under the various stock option plans, the Company may grant options to buy up to 15% of its total Subordinate and Multiple Voting Shares outstanding, a total of 8.5 million shares, a guideline the Company has set on the number of stock option grants. As at March 28, 2021, approximately 6.4 million stock options were granted and outstanding.

Stock options outstanding as at March 28, 2021 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.

The following table summarizes the options granted:

	For the 13 weeks ended March 28, 2021					
	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 27, 2020	2,749,355	\$ 10.75	3,639,279	\$ 33.10	6,388,634	\$ 23.48
Granted	—	\$ —	—	\$ —	—	\$ —
Exercised	(10,000)	\$ 8.51	—	\$ —	(10,000)	\$ 8.51
Forfeited	—	\$ —	(15,005)	\$ 27.23	(15,005)	\$ 27.23
Outstanding options, end of period	2,739,355	\$ 10.76	3,624,274	\$ 33.12	6,363,629	\$ 23.50
Options exercisable, end of period	2,559,355	\$ 9.60	472,585	\$ 23.03	3,031,940	\$ 11.70

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

CEO stock option plan

Under the CEO Stock Option Plan (“CEO Plan”), the Company’s CEO was granted the right to purchase Subordinate Voting Shares of the Company. The options vest pro-rata each year over 5 years, and expire after eight years. The settlement of the option can only be into the common share equity of the Company.

During the 13 weeks ended March 28, 2021, 10,000 options with a weighted average exercise price of \$8.51 were exercised under the CEO Plan (nil for the 13 weeks ended March 29, 2020). No stock options were granted or forfeited under the CEO Plan for the 13 weeks ended March 28, 2021 and March 29, 2020.

For the 13 weeks ended March 28, 2021, the Company recognized stock-based compensation costs of \$0.1 million (13 weeks ended March 29, 2020 - \$0.1 million) related to the CEO Plan with a corresponding increase to contributed surplus.

Employee stock option plan

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

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

Under this plan, the CFO has 180,000 options at an average exercise price of \$27.36 and the Company’s management team has 3,444,274 at an average exercise price of \$33.42.

During the 13 weeks ended March 28, 2021 and March 29, 2020, the Company granted no stock options and no stock options were exercised under the Employee Plan.

During the 13 weeks ended March 28, 2021, 15,005 stock options with a weighted average exercise price of \$27.23 were forfeited under the Employee Plan (13 weeks ended March 29, 2020 – 5,693 stock options with a weighted average exercise price of \$31.81 were forfeited).

For the 13 weeks ended March 28, 2021, the Company recognized a stock-based compensation recovery of less than \$0.1 million (13 weeks ended March 29, 2020 - an expense of less than \$0.1 million) related to the Employee Plan with a corresponding decrease to contributed surplus.

Restricted share units (“RSU”)

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

	For the 13 weeks ended	
	March 28 2021	March 29 2020
RSUs earned and outstanding		
RSUs outstanding, beginning of period.....	196,213	200,736
RSUs granted and earned in the period.....	—	—
RSUs exercised.....	(2,903)	—
RSUs forfeited.....	—	(687)
RSUs outstanding, end of period.....	193,310	200,049
RSUs vested, end of period.....	43,310	—

During the 13 weeks ended March 28, 2021, nil RSUs were granted and earned and nil RSUs were forfeited (13 weeks ended March 29, 2020 - nil RSUs were granted and earned and 687 RSUs were forfeited). For the 13 weeks ended March 28, 2021, the Company recognized a stock-based compensation expense of \$0.3 million (13 weeks ended March 29, 2020 - \$0.3 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 March 28, 2021, there were 123,928 PSUs granted but not yet earned or vested that can increase to 227,857 PSUs if maximum 3 year performance targets are achieved. PSUs will be settled for subordinate voting shares. For the 13 weeks ended March 28, 2021, the Company recognized a stock-based compensation expense of \$nil (13 weeks ended March 29, 2020 - \$nil) related to PSUs.

22 Share capital

The Company's authorized share capital consists of an unlimited number of two classes of issued and outstanding shares: Subordinate Voting Shares and Multiple Voting Shares (together 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 could purchase up to 1,822,329 Subordinate Voting Shares during the period from June 24, 2019 to June 23, 2020, after which period the NCIB expired. Purchases of the Subordinate Voting Shares were made at market prices and the Subordinate Voting Shares purchased through the NCIB were cancelled. During the 13 weeks ended March 29, 2020, a total of 25,518 Subordinate Voting Shares were purchased under the NCIB for \$0.3 million.

As at March 28, 2021, there were 34,054,824 Multiple Voting Shares and 22,320,904 Subordinate Voting Shares issued and outstanding (March 29, 2020 - 34,054,824 Multiple Voting Shares and 22,298,083 Subordinate Voting Shares).

Recipe Unlimited Corporation

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 28, 2021 and March 29, 2020

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 29, 2019	34,055	22,323	56,378	\$ 183,297	\$ 433,829	\$ 617,126
Shares issued under stock option plan	—	—	—	—	—	—
Share re-purchase under NCIB	—	(26)	(26)	—	(312)	(312)
Balance at March 29, 2020	34,055	22,297	56,352	\$ 183,297	\$ 433,517	\$ 616,814
Shares issued under stock option plan	—	10	10	\$ —	\$ 84	\$ 84
Share re-purchase under NCIB	—	—	—	—	—	—
Balance at December 27, 2020	34,055	22,308	56,363	\$ 183,297	\$ 433,601	\$ 616,898
Shares issued under stock option plan	—	10	10	\$ —	\$ 85	\$ 85
Shares issued through exercise of RSUs	—	3	3	\$ —	\$ 76	\$ 76
Balance at March 28, 2021	34,055	22,321	56,376	\$ 183,297	\$ 433,762	\$ 617,059

23 Earnings per share

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

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

	13 weeks ended March 28, 2021			13 weeks ended March 29, 2020		
	Net earnings attributable to shareholders of the Company	Weighted average number of shares	EPS	Net earnings attributable to shareholders of the Company	Weighted average number of shares	EPS
Basic....	\$ 12,952	56,376	\$ 0.23	\$ (40,974)	56,378	\$ (0.73)
Diluted.	\$ 12,952	57,903	\$ 0.22	\$ (40,974)	56,378	\$ (0.73)

Recipe Unlimited Corporation

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 28, 2021 and March 29, 2020

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

	For the 13 weeks ended	
	March 28 2021	March 29 2020
Common shares	56,375,728	56,378,425
Effect of stock options issued ⁽¹⁾	1,527,675	—
	<u>57,903,403</u>	<u>56,378,425</u>

⁽¹⁾ 3,841,456 stock options for the 13 weeks ended March 28, 2021 have been excluded because they are anti-dilutive (March 29, 2020 - all stock options)

24 Cash flows

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

	For the 13 weeks ended	
	March 28 2021	March 29 2020
(in thousands of Canadian dollars)		
Accounts receivable	\$ 19,920	\$ 41,337
Inventories	(135)	2,633
Income taxes payable	(3,996)	(12,022)
Prepaid expenses and other assets	(335)	(1,874)
Accounts payable and accrued liabilities	(10,486)	(8,512)
Gift card liability	(20,358)	(38,974)
Income taxes paid	6,415	14,451
Change in interest payable	(2,917)	(1,895)
Net change in non-cash operating working capital	<u>\$ (11,892)</u>	<u>\$ (4,856)</u>

25 Commitments, contingencies and guarantees

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

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

The Company has outstanding letters of credit amounting to \$0.4 million (March 29, 2020 - \$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.

26 Financial instruments and risk management

Market risk

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

Interest rate risk

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

Commodity price risk

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

Liquidity and capital availability risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due.

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

Recipe Unlimited Corporation

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 28, 2021 and March 29, 2020

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 March 28, 2021 and December 27, 2020:

(in thousands of Canadian dollars)

	March 28, 2021			Total
	Current	> 30 days past due	> 60 days past due	
Accounts receivable (net of allowance).....	\$ 70,723	\$ 10,256	\$ 5,245	\$ 86,224
Balance at December 27, 2020	\$ 76,546	\$ 11,329	\$ 18,397	\$ 106,272
Balance at March 29, 2020	\$ 63,878	\$ 9,028	\$ 2,868	\$ 75,774

There are no significant impaired receivables that have not been provided for in the allowance. As at March 28, 2021, the Company has taken an allowance of \$29.8 million (December 27, 2020 - \$27.9 million; March 29, 2020 - \$14.8 million), of which \$21.4 million represents direct financial assistance to certain franchisees as part of the Company's rent certainty and other COVID support programs. The prior year aging comparatives were updated to comply with current year's presentation. 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 March 28, 2021.

Other financial instruments

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

27 Related parties**Shareholders**

As at March 28, 2021, the Principal Shareholders hold 70.7% of the total issued and outstanding shares and have 98.1% of the voting control attached to all the shares. Cara Holdings holds 22.6% of the total issued and outstanding shares, representing 36.5% voting control. Fairfax holds 48.1% of the total issued and outstanding shares, representing 61.7% voting control.

During 13 weeks ended March 28, 2021, the Company declared a dividend of \$nil per share (13 weeks ended March 29, 2020 - \$0.1177 per share) on the Subordinate and Multiple Voting Shares of which Fairfax received \$nil (13 weeks ended March 29, 2020 - \$3.2 million) and Cara Holdings received \$nil (13 weeks ended March 29, 2020 - \$1.5 million), respectively.

Fairfax and the Company are parties to a Shared Services and Purchasing Agreement. Under this agreement, Fairfax is authorized to enter into negotiations on behalf of the Company (and Fairfax associated restaurant companies) to source shared services and purchasing arrangements for any aspect of Recipe's operations, including food and beverages, information technology, payment processing, marketing and advertising or other logistics. There were no transactions under this agreement for 13 weeks ended March 28, 2021 and March 29, 2020.

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

Insurance Provider

Some of Recipe's insurance policies are held by a company that is a subsidiary of Fairfax. The transaction is on market terms and conditions. As at March 28, 2021, no payments were outstanding.

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

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

Investment in The Keg Royalties Income Fund

The KRIF units held by the Company are measured at fair value through profit or loss. The closing market price of a Fund unit as at March 28, 2021 was \$13.61. Distributions on KRIF units are recorded as interest income on Partnership and Fund units in the consolidated statement of earnings. During the 13 weeks ended March 28, 2021, the Company purchased nil KRIF units (52 weeks ended December 27, 2020 - nil, 13 weeks ended March 29, 2020 - nil).

Exchangeable Unit Investment in the Partnership

The Exchangeable unit investment in the Partnership is comprised of the Exchangeable Partnership units held by the Company, and measured at fair value through profit or loss. The closing market price of a Fund unit as at March 28, 2021 was \$13.61 (December 27, 2020 - \$11.70, March 29, 2020 - \$8.85).

Recipe Unlimited Corporation

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 28, 2021 and March 29, 2020

(in thousands of Canadian dollars)	March 28, 2021		December 27, 2020		March 29, 2020	
	# of units	Fair Value	# of units	Fair Value	# of units	Fair Value
Class A Partnership units.....	905,944	\$ 12,330	905,944	\$ 10,600	905,944	\$ 8,018
Class B Partnership units.....	176,700	2,405	176,700	2,067	176,700	1,564
Class D Partnership units.....	3,970,272	54,035	3,768,295	44,089	3,679,692	32,565
Exchangeable unit investment in the Partnership.....	5,052,916	\$ 68,770	4,850,939	\$ 56,756	4,762,336	\$ 42,147
Class C unit investment in the Partnership.....	5,700,000	57,000	5,700,000	57,000	5,700,000	57,000
Investment in the Partnership.....	10,752,916	\$ 125,770	10,550,939	\$ 113,756	10,462,336	\$ 99,147
Investment in KRIF units.....	250,000	3,402	250,000	2,925	250,000	2,213
Distributions earned on KRIF units.....	—	224	—	193	—	120
	11,002,916	\$ 129,396	10,800,939	\$ 116,874	10,712,336	\$ 101,480

Other

As at March 28, 2021, long-term receivables include a non-interest bearing employee demand note in the amount \$0.8 million (December 27, 2020 - \$0.8 million, March 29, 2020 - \$0.8 million).

As at March 28, 2021, the Company has a \$1.3 million royalty fee payable, including GST, to the Fund (December 27, 2020 - \$1.0 million, March 29, 2020 - \$1.4 million) and a \$0.3 million interest payable amount due to the Fund on the Keg Loan (December 27, 2020 - \$0.3, March 29, 2020 - \$0.3 million) included in accounts payable and accrued liabilities.

As at March 28, 2021, the Company has \$0.7 million in distributions receivable from the Partnership (December 27, 2020 - \$0.6 million March 29, 2020 - \$0.7 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 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 \$2.7 million for the 13 weeks ended March 28, 2021 (13 weeks ended March 29, 2020 – \$5.7 million).

The Company also records investment income on its investment in Exchangeable units of the Partnership, Class C units of the Partnership, and investment in The Keg Royalties Income Fund units which is presented as interest income on Partnership and Fund units in the statements of earnings and comprehensive income. During 13 weeks ended March 28, 2021, the Company recorded investment income of \$1.9 million related to these units (13 weeks ended March 29, 2020 – \$2.7 million).

Investment in Original Joe's joint venture companies

The Company has joint venture arrangements with certain Original Joe's franchises. The Company has an equity investment in these restaurants at varying ownership interests as well as term loans and demand loans related to new restaurant construction, renovation and working capital. As at March 28, 2021 there was a due from related party balance of \$12.4 million (December 27, 2020 - \$15.8 million, March 29, 2020 - \$14.7 million) which consists of term loans and demand loans secured by restaurant assets of the joint venture

companies which has been recorded at fair value and will be accreted up to the recoverable value over the remaining term of the loans. The term loans bear interest at rates ranging from 7.75% to 9.76% and all mature September 21, 2021. The term loans are reviewed and renewed on an annual basis. The expected current portion of these loans is \$1.0 million (December 27, 2020 - \$1.0 million, March 29, 2020 - \$1.0 million). The demand loans bear interest at 5% and have no specific terms of repayment. Pooling arrangements between the joint venture companies to share costs and repay the loans exist such that restaurants within a certain restaurant pool of common ownership agree that available cash from restaurants can be used to apply against balances outstanding among the group. For the 13 weeks ended March 28, 2021, the Company charged interest in the amount of \$14 thousand (13 weeks ended March 29, 2020 - \$37 thousand) on the term loans and demand loans.

The Company charges Original Joe's joint venture franchises a royalty and marketing fee of 5% and 2%, respectively, on net sales. As at March 28, 2021 the accounts receivable balance included \$0.1 million (December 27, 2020 - \$nil, March 29, 2020 - \$0.2 million) due from related parties in relation to these royalty and marketing payments. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties in accordance with the franchise agreement.

The Company's investment in joint ventures are increased by the proportionate share of income earned. For the 13 weeks ended March 28, 2021, an increase of \$0.1 million (13 weeks ended March 29, 2020 - \$0.1 million decrease) to the investment balance was recorded in relation to the Company's proportionate share of income or loss for the period and included in share of income from investment in joint ventures on the statement of earnings.

On January 1, 2021, the Company, through its subsidiary Original Joe's Franchising Group Inc. which the Company has an 89.2% interest in, completed the purchase of the remaining interest of three Original Joe's joint ventures. For one of the three joint ventures, the Company obtained control through a step acquisition that was completed on January 1, 2021. The remaining two joint ventures were reported as part of the Company's consolidated financial results prior to the acquisition date and on January 1, 2021, the Company acquired the minority interest of these two joint ventures.

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"). The remaining 20.6% was owned by a third party who has an earn-out agreement that can grow their ownership interest to 50.0% if certain earnings targets are met. Both parties have joint control and all relevant activities require the unanimous consent from both parties. The Company has accounted for the investment by using the equity method.

The Company's investment is increased by the proportionate share of income earned. For the for the 13 weeks ended March 28, 2021, there was a \$0.2 million increase to the investment balance (13 weeks ended March 29, 2020 - increase of \$0.2 million). The changes were recorded in relation to the Company's proportionate share of income for the period and included in share of loss from investment in joint ventures on the statement of earnings.

Investment in 1909 Taverne Moderne joint venture

The Company has an investment in a joint venture to operate two 1909 Taverne Moderne restaurants with a third party. As at March 28, 2021, the Company has invested \$5.6 million, recorded in long-term receivables (December 27, 2020 - \$5.6 million, March 29, 2020 - \$5.2 million). The loan receivable is unsecured, non-interest bearing and does not have defined repayment terms. As at March 28, 2021, an allowance of \$5.6 million (December 27, 2020 - \$5.2 million, March 29, 2020 - \$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 13 weeks ended March 28, 2021, there was \$nil recorded in the long term receivable balance (13 weeks ended March 29, 2020 - \$nil) 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.

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

Significant subsidiaries

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

28 Segmented information

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

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

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

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

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

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 Unaudited Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 28, 2021 and March 29, 2020

(in thousands of Canadian dollars)	For the 13 weeks ended	
	March 28 2021	March 29 2020
Gross revenue		
Sales	\$ 79,553	\$ 158,149
Proportionate share of equity accounted joint venture sales	(5,964)	(6,345)
Sales at corporate restaurants	\$ 73,589	\$ 151,804
Franchise revenues	16,882	22,849
Proportionate share of equity accounted joint venture royalty revenue	(857)	79
Royalty revenue	\$ 16,025	\$ 22,928
Retail & Catering	87,581	75,225
Central	6,261	5,414
Non-allocated revenue	10,611	14,551
Total gross revenue	\$ 194,067	\$ 269,922
Operating income (loss)		
Corporate	\$ (4,433)	\$ (11,072)
Franchise	16,016	21,886
Retail & Catering	6,519	6,433
Central	(19,323)	(23,967)
Proportionate share equity accounted joint venture results included in corporate and franchise segment	745	(256)
Non-allocated costs	10,998	(3,749)
	\$ 10,522	\$ (10,725)
Depreciation and amortization		
Corporate	\$ 7,541	\$ 10,676
Franchise	—	—
Retail & Catering	1,495	1,446
Central	15,406	15,319
	\$ 24,442	\$ 27,441
Capital expenditures		
Corporate	\$ 2,729	\$ 7,166
Franchise	—	—
Retail & Catering	27	71
Central	1,298	18,279
	\$ 4,054	\$ 25,516

29 Subsequent Events

Subsequent to March 28, 2021, the provincial governments of Ontario, Manitoba and Quebec announced the mandated closures of all restaurant dining rooms in response to the resurgence of the COVID-19 cases. For the province of Ontario, the mandated closures also include outdoor patios. As a result, all of our locations in the affected areas are closed for in-restaurant dining but most locations remain open for take-out and delivery. The Company will continue to take the necessary safety measures and operate in accordance with public health guidance.

On May 6, 2021, two of the Company's non-employee board members retired. The board members earned DSUs as compensation throughout their participation on the board. Upon their retirement, their DSUs will be settled for cash payment of \$0.7 million.

Subsequent to March 28, 2021, the Company entered into a purchase agreement to acquire the remaining interest in New & Old Kings and Priests Restaurants Inc. ("Burger's Priest"), for cash consideration of approximately \$20.0 million. The transaction closed on May 6, 2021.