

Cara Operations Limited

Condensed Consolidated Interim Financial Statements (unaudited)
For the 13 weeks ended March 27, 2016 and March 29, 2015

Cara Operations Limited

Condensed Consolidated Interim Statements of Earnings and Comprehensive Income

For the 13 weeks ended March 27, 2016 and March 29, 2015

(unaudited)

(in thousands of Canadian dollars, except where otherwise indicated)

	For the 13 weeks ended	
	March 27, 2016	March 29, 2015
Sales (note 6)	\$ 65,579	\$ 55,784
Franchise revenues (note 7)	18,635	18,196
Development revenues	-	1,686
Total gross revenue from continuing operations	\$ 84,214	\$ 75,666
Cost of inventories sold	(18,839)	(16,021)
Selling, general and administrative expenses (note 8)	(44,749)	(40,547)
Development expenses	-	(1,645)
Restructuring (note 9)	134	205
Operating income	\$ 20,760	\$ 17,658
Finance costs		
Net interest expense and other financing charges (note 10)	(639)	(9,911)
Earnings from continuing operations before income taxes	\$ 20,121	\$ 7,747
Income taxes (note 11)		
Current	(65)	(1,105)
Deferred	(5,725)	(414)
Net earnings from continuing operations	\$ 14,331	\$ 6,228
Discontinued operations - net of income taxes	(2)	(3)
Net earnings and comprehensive income	\$ 14,329	\$ 6,225
Net earnings attributable to		
Shareholders of the Company	\$ 14,496	\$ 6,303
Non-controlling interest	(167)	(78)
	\$ 14,329	\$ 6,225
Net earnings per share attributable to the Common Shareholders of the Company (note 22) (in dollars)		
Basic earnings per share	\$ 0.29	\$ 0.35
Diluted earnings per share	\$ 0.27	\$ 0.17
Basic earnings per share from continuing operations	\$ 0.29	\$ 0.35
Diluted earnings per share from continuing operations	\$ 0.27	\$ 0.17

See accompanying notes to the unaudited condensed consolidated interim financial statements.

Cara Operations Limited

Condensed Consolidated Interim Statements of Total Equity

For the 13 weeks ended March 27, 2016 and March 29, 2015

(unaudited)

(in thousands of Canadian dollars, except where otherwise indicated)

	Attributable to the Common Shareholders of the Company							Total equity
	Number of shares (in thousands)	Share Capital (note 21)	Warrant certificates	Contributed surplus	Deficit	Non-controlling interest		
Balance at December 27, 2015	49,163	\$ 438,001	\$ -	\$ 13,622	\$ (226,916)	\$ -	\$ 224,707	
Net earnings and comprehensive income	-	-	-	-	14,496	-	14,496	
Dividends	-	-	-	-	(5,000)	-	(5,000)	
Stock-based compensation (note 20)	-	-	-	1,138	-	-	1,138	
	-	-	-	1,138	9,496	-	10,634	
Balance at March 27, 2016	49,163	\$ 438,001	\$ -	\$ 14,760	\$ (217,420)	\$ -	\$ 235,341	

	Attributable to the Common Shareholders of the Company							Total equity
	Number of shares (in thousands)	Share Capital (note 21)	Warrant certificates	Contributed surplus	Deficit	Non-controlling interest		
Balance at December 30, 2014	50,468	\$ 29,285	\$ 18,490	\$ 7,204	\$ (308,040)	\$ 15,020	\$ (238,041)	
Net earnings (loss) and comprehensive income	-	-	-	-	6,303	(78)	6,225	
Dividends	-	-	-	-	(3,044)	-	(3,044)	
Buyout of non-controlling interest	-	-	-	-	-	(315)	(315)	
Stock-based compensation (note 20)	-	-	-	1,655	-	-	1,655	
	-	-	-	1,655	3,259	(393)	4,521	
Balance at March 29, 2015	50,468	\$ 29,285	\$ 18,490	\$ 8,859	\$ (304,781)	\$ 14,627	\$ (233,520)	

Cara Operations Limited

Condensed Consolidated Interim Balance Sheets

As at March 27, 2016, December 27, 2015 and March 29, 2015

(in thousands of Canadian dollars)

	As at March 27, 2016	As at December 27, 2015	As at March 29, 2015
	(unaudited)		(unaudited)
Assets			
Current Assets			
Cash	\$ 3,025	\$ 19,409	\$ 714
Accounts receivable (note 25)	31,754	49,037	24,446
Inventories	3,685	3,779	3,209
Assets held for sale (note 12)	7,416	7,274	-
Current taxes receivable	167	-	-
Prepaid expenses and other assets	2,286	2,450	3,772
Total Current Assets	\$ 48,333	\$ 81,949	\$ 32,141
Long-term receivables (note 13)	34,515	35,198	46,565
Property, plant and equipment (note 14)	93,920	94,513	84,609
Brands and other assets (note 15)	200,294	201,301	163,229
Goodwill (note 16)	49,540	49,540	45,981
Deferred tax asset (note 11)	35,614	41,300	341
Total Assets	\$ 462,216	\$ 503,801	\$ 372,866
Liabilities			
Current Liabilities			
Bank indebtedness	\$ -	\$ -	\$ 5,288
Accounts payable and accrued liabilities	58,780	74,180	64,645
Provisions (note 17)	4,470	5,004	5,158
Gift card liability	29,110	51,946	26,954
Income taxes payable	-	69	68
Current portion of long-term debt (note 18)	2,207	2,156	17,750
Discontinued operations	133	144	174
Total Current Liabilities	\$ 94,700	\$ 133,499	\$ 120,037
Long-term debt (note 18)	70,573	83,152	280,808
Preferred shares	-	-	136,536
Provisions (note 17)	7,086	7,002	7,885
Other long-term liabilities (note 19)	50,080	51,044	61,120
Deferred tax liability (note 11)	4,436	4,397	-
Total Liabilities	\$ 226,875	\$ 279,094	\$ 606,386
Shareholders' Equity			
Common share capital	\$ 438,001	\$ 438,001	\$ 29,285
Warrant certificates	-	-	18,490
Contributed surplus	14,760	13,622	8,859
Deficit	(217,420)	(226,916)	(304,781)
Total Shareholders' Equity	\$ 235,341	\$ 224,707	\$ (248,147)
Non-controlling interest	-	-	14,627
Total Equity	\$ 235,341	\$ 224,707	\$ (233,520)
Total Liabilities and Equity	\$ 462,216	\$ 503,801	\$ 372,866

Commitments, contingencies and guarantees (note 24)

Subsequent events (note 28)

See accompanying notes to the unaudited condensed consolidated interim financial statements.

Cara Operations Limited
Condensed Consolidated Statements of Cash Flows
For the 13 weeks ended March 27, 2016 and March 29, 2015
(unaudited)

(in thousands of Canadian dollars)

	For the 13 weeks ended	
	March 27, 2016	March 29, 2015
Cash from (used in)		
Operating Activities		
Net earnings from continuing operations	\$ 14,331	\$ 6,228
Depreciation and amortization	6,113	5,840
Net gain on disposal of property, plant and equipment	(881)	(636)
Losses on early buyout/cancellation of equipment rental contracts	-	1,135
Net interest expense and other financing charges (note 10)	639	9,911
Stock based compensation	1,138	1,655
Income taxes paid	(326)	(5,008)
Change in restructuring provision	(1,174)	(2,351)
Change in deferred tax (note 11)	5,725	414
Change in onerous contract provision	(129)	(29)
Other non-cash items	(185)	(3,274)
Net change in non-cash operating working capital (note 23)	(25,561)	(25,354)
Cash flows used in operating activities of continuing operations	(310)	(11,469)
Cash flows used in operating activities of discontinued operations	(11)	(13)
Cash flows used in operating activities	(321)	(11,482)
Investing Activities		
Business acquisitions, net of cash assumed (note 5)	(224)	(3,312)
Buyout of non-controlling interests	-	(339)
Purchase of property, plant and equipment	(3,639)	(2,168)
Proceeds on disposal of property, plant and equipment	-	10
Proceeds on early buyout of equipment rental contracts	-	369
Additions to other assets	-	(17)
Change in long-term receivables	683	3,033
Cash flows used in investing activities	(3,180)	(2,424)
Financing Activities		
Change in bank indebtedness	-	5,288
Issuance of long-term credit facility (note 18)	6,000	44,000
Repayment of long-term credit facility (note 18)	(18,000)	(24,000)
Change in finance leases (note 18)	(561)	(361)
Interest paid	(322)	(3,115)
Dividends paid on common shares	-	(11,000)
Cash flows (used in) from financing activities	(12,883)	10,812
Change in cash during the period	(16,384)	(3,094)
Cash - Beginning of period	19,409	3,808
Cash - End of period	\$ 3,025	\$ 714

See accompanying notes to the unaudited condensed consolidated interim financial statements.

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 27, 2016 and March 29, 2015

(unaudited)

1 Nature and description of the reporting entity

Cara Operations Limited is a Canadian Company incorporated under the Ontario Business Corporations Act and is a Canadian full service restaurant operator and franchisor.

The Company's subordinate voting shares are listed on the Toronto Stock Exchange under the stock symbol "CAO". As part of the Company's initial public offering ("IPO"), the Company issued multiple voting shares to Fairfax Financial Holdings Limited and its affiliates ("Fairfax") and the Phelan family through Cara Holdings Limited and its affiliates ("Cara Holdings", and together with Fairfax, the "Principal Shareholders"). As at March 27, 2016, the Principal Shareholders hold 70.0% of the total issued and outstanding shares and have 98.3% of the voting control attached to all the shares.

Subsequent to March 27, 2016, Fairfax purchased 3,487,180 Subscription Receipts through a private placement. See note 28.

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

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 2015 audited annual consolidated financial statements and accompanying notes.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors ("Board") on May 5, 2016.

Functional and presentation currency

The condensed consolidated interim financial statements are presented in Canadian dollars which is the Company's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousands of dollars except where otherwise indicated.

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 27, 2016 and March 29, 2015(unaudited)

Seasonality of interim operations

Results of operations for the interim period are not necessarily indicative of the results of operations for the full year. System sales are subject to seasonal fluctuations due to consumer spending patterns. The Company may also experience quarterly variations in its operating results as its revenues may be subject to fluctuations resulting from a number of factors such as economic conditions, the effect of severe weather and the number of new locations opened or closures of existing franchise or company-owned restaurants. Occupancy related expenses, certain operating expenses, depreciation and amortization, and interest expense remain relatively steady throughout the year.

Critical accounting judgements and estimates

The preparation of these interim financial statements requires management to make judgements, estimates and assumptions that affect 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 using the judgements from the first quarter of 2016 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, 2015.

Comparative information

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

3 Significant accounting policies**Accounting standards implemented in 2016****Business Combinations**

In May 2014, the IASB issued amendments to IFRS 11, "Joint Arrangements" ("IFRS 11") entitled "Accounting for Acquisitions of Interests in Joint Operations" (Amendments to IFRS 11). The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitute a business. There was no impact on the Company's condensed consolidated interim financial statements as a result of the amendments to IFRS 11.

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 27, 2016 and March 29, 2015

(unaudited)

Other standards

In September 2014, the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process (Annual Improvements to IFRS (2012-2014) cycle). Amendments were made to clarify items including changes in method for disposal under IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”; ‘Continuing involvement’ for servicing contracts and offsetting disclosures in condensed interim financial statements under IFRS 7 “Financial Instruments: Disclosures”; Discount rate in a regional market sharing the same currency under IAS 19 “Employee Benefits”; Disclosure of information ‘elsewhere in the interim financial report’ under IAS 34 “Interim Financial Reporting”. There was no impact on the Company’s condensed consolidated interim financial statements as a result of the amendments.

In December 2014, the IASB issued amendments to IAS 1, “Presentation of Financial Statements” as part of its major initiative to improve presentation and disclosure in financial reports. There was no impact on the Company’s condensed consolidated interim financial statements as a result of the amendments to IAS 1.

4 Future accounting standards

Revenue

In May 2014, the IASB issued IFRS 15 “Revenue from Contracts with Customers” (“IFRS 15”). IFRS 15 will replace IAS 11, “Construction Contracts”, IAS 18 “Revenue”, IFRIC 13, “Customer Loyalty Programmes”, IFRIC 15, “Agreements for the Construction of Real Estate”, IFRIC 18, “Transfer of Assets from Customers”, and SIC 31, “Revenue – Barter Transactions Involving Advertising Services”. The new standard contains a single model that applies to contracts with customers and two approaches for recognizing revenue. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard is effective for annual periods beginning on or after January 1, 2018, but earlier application is permitted either following a full retrospective approach or a modified retrospective approach. The modified retrospective approach allows the standard to be applied to existing contracts beginning with the initial period of adoption and restatements to the comparative periods are not required. The Company is required to disclose the impact to the financial line item as a result of the adoption of this new standard. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. Earlier application is permitted. The extent of the impact of adoption of the standard has not yet been determined.

Financial Instruments

In July 2014, the IASB issued the complete IFRS 9 (IFRS 9 (2014)), “Financial Instruments” (“IFRS 9 (2014)”) which will ultimately replace IAS 39, “Financial Instruments: Recognition and Measurement”. IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new ‘expected credit loss’ model for calculating impairment. IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 27, 2016 and March 29, 2015

(unaudited)

provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model. The mandatory effective date of IFRS 9 (2014) is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. For the Company, the extent of the impact of adoption of the standard has not yet been determined.

Leases

In January 2016, the IASB issued IFRS 16 Leases with a mandatory effective date of January 1, 2019. The new standard will replace IAS 17 Leases and will carry forward the accounting requirements for lessors. IFRS 16 provides a new framework for lessee accounting that requires substantially all assets obtained through operating leases to be capitalized and a related liability to be recorded on the balance sheet. The new standard seeks to provide a more accurate picture of a Company's leased assets and related liabilities and create greater comparability between companies who leases assets and those who purchase assets. The Company intends to adopt IFRS 16 in its consolidated financial statements for the annual period beginning December 31, 2018. The extent of the impact of the amendments to IFRS 16 has not yet been determined.

Transfer of Assets

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 were to be applied prospectively for annual periods beginning on or after January 1, 2016, however, on December 17, 2015 the IASB decided to defer the effective date for these amendments indefinitely. Early adoption is still permitted. 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 recognises the full gain on the loss of control, whereas under the existing guidance on associates and JVs the parent recognises 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 does not intend to early adopt these amendments in its financial statements for the annual period beginning December 28, 2015, as the effective date for these amendments has been deferred indefinitely.

Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)

On January 19, 2016 the IASB issued Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12). The amendments apply retrospectively for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences. The Company intends to adopt

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 27, 2016 and March 29, 2015

(unaudited)

the amendments to IAS 12 in its financial statements for the annual period beginning on January 1, 2017. The extent of the impact of adoption of the amendments has not yet been determined.

5 Acquisitions

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.

Subsequent to March 27, 2016, the Company announced that it entered into a definitive agreement requiring certain approvals from regulatory authorities to acquire 100% of Groupe St-Hubert Inc ("St-Hubert"). See note 28.

Re-acquired franchise locations

In the normal course of business, the Company may acquire or re-acquire franchise restaurants and convert them into corporate restaurants. During the 13 weeks ended March 27, 2016, 3 franchised locations (March 29, 2015 – 3 franchised locations) were re-acquired by the Company. The determination of the identifiable net assets acquired at fair value, in connection with the re-acquired franchised locations, are summarized in the table below.

(in thousands of Canadian dollars)

	For the 13 weeks ended	
	March 27, 2016	March 29, 2015
Consideration		
Cash	\$ 224	\$ 3,312
Accounts receivable	182	58
Extinguishment of net finance leases	-	436
Total Consideration	\$ 406	\$ 3,806
Net assets acquired		
Inventories	\$ 12	\$ -
Property, plant and equipment	225	162
Brands and other assets	169	714
Total Assets	406	876
Goodwill	-	2,930
Total	\$ 406	\$ 3,806

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 27, 2016 and March 29, 2015

(unaudited)

6 Sales

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

(in thousands of Canadian dollars)	For the 13 weeks ended	
	March 27, 2016	March 29, 2015
Sales at corporate restuarants	\$ 63,205	\$ 53,146
Call centre service charge revenues	2,374	2,638
	<u>\$ 65,579</u>	<u>\$ 55,784</u>

7 Franchise revenues

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

(in thousands of Canadian dollars)	For the 13 weeks ended	
	March 27, 2016	March 29, 2015
Royalty revenue	\$ 17,577	\$ 16,763
Franchise fees on new and renewal licenses	41	267
Income on finance leases	511	522
Other rental income	108	169
Amortization of unearned conversion fees income	398	475
	<u>\$ 18,635</u>	<u>\$ 18,196</u>

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 27, 2016 and March 29, 2015

(unaudited)

8 Selling, general and administrative expenses

(in thousands of Canadian dollars)	For the 13 weeks ended	
	March 27, 2016	March 29, 2015
Corporate restaurant expenses	\$ 39,274	\$ 33,551
Franchise assistance and bad debt	1,861	1,847
Franchisor over-contribution to advertising funds	675	1,044
Depreciation of property, plant and equipment (note 14)	4,937	4,689
Amortization of other assets (note 15)	1,176	1,009
Other	(3,174)	(1,593)
	<u>\$ 44,749</u>	<u>\$ 40,547</u>

9 Restructuring

Restructuring costs consist of plans to consolidate and eliminate certain home office and brand operations positions related to Cara's acquisitions, comprised primarily of severance costs and other benefits. Restructuring costs also consist of renovation and closure costs related to phasing out the Casey's concept.

The following table provides a summary of the costs recognized and cash payments made, as well as the corresponding net liability as at March 27, 2016:

(in thousands of Canadian dollars)	For the 13 weeks ended	
	March 27, 2016	March 29, 2015
Net liability, beginning of period	\$ 3,662	\$ 10,338
Cost/(recovery) recognized		
Employee termination benefits	(169)	(264)
Site closing costs and other	35	59
Total	<u>(134)</u>	<u>(205)</u>
Cash payments		
Employee termination benefits	1,005	2,054
Site closing costs and other	35	92
Total	<u>1,040</u>	<u>2,146</u>
Net liability, end of period	<u>\$ 2,488</u>	<u>\$ 7,987</u>

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 27, 2016 and March 29, 2015

(unaudited)

Recorded in the consolidated balance sheets as follows:

(in thousands of Canadian dollars)	<u>March 27, 2016</u>	<u>December 27, 2015</u>	<u>March 29, 2015</u>
Employee termination benefits:			
Accounts payable and accrued liabilities	\$ 1,957	\$ 3,078	\$ 6,923
Other long-term liabilities	120	170	520
Site closing costs and other:			
Provisions - current	141	132	346
Provisions - long-term	270	282	198
	<u>\$ 2,488</u>	<u>\$ 3,662</u>	<u>\$ 7,987</u>

10 Net interest expense and other financing charges

(in thousands of Canadian dollars)	<u>For the 13 weeks ended</u>	
	<u>March 27, 2016</u>	<u>March 29, 2015</u>
Interest expense on long-term debt	\$ 354	\$ 3,352
Interest expense on preferred shares	-	2,762
Interest on finance leases	382	-
Financing costs	34	322
Interest expense - other	-	814
Accretion expense	-	902
Interest expense related to derivative	-	187
Loss on derivative	-	1,600
Interest income	(131)	(28)
	<u>\$ 639</u>	<u>\$ 9,911</u>

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 27, 2016 and March 29, 2015

(unaudited)

11 Income taxes

The Company's provision for income taxes is comprised of the following:

(in thousands of Canadian dollars)	For the 13 weeks ended	
	March 27, 2016	March 29, 2015
Current income tax expense (recovery)		
Current period	\$ 65	\$ -
Part VI.1 taxes on preferred share dividends	-	1,105
	<u>65</u>	<u>1,105</u>
Deferred income tax expense (recovery)		
Origination and reversal of temporary differences	5,625	2,229
Benefit from previously unrecognized tax asset	100	(1,815)
	<u>5,725</u>	<u>414</u>
Net income tax expense	<u>\$ 5,790</u>	<u>\$ 1,519</u>

Recognized deferred tax assets and liabilities

(in thousands of Canadian dollars)	As at	As at	As at
	March 27, 2016	December 27, 2015	March 29, 2015
Opening balance	\$ 36,903	\$ 671	\$ 671
Deferred income tax (expense)/recovery	(5,725)	35,080	(414)
Transaction costs associated with the Offering	-	4,131	-
New York Fries acquisition	-	(2,695)	-
Landing Group acquisition	-	(160)	84
Income taxes recognized in other comprehensive income	-	(124)	-
	<u>\$ 31,178</u>	<u>\$ 36,903</u>	<u>\$ 341</u>

Recorded in the consolidated balance sheets as follows:

Deferred tax asset	\$ 35,614	\$ 41,300	\$ 341
Deferred tax liability	(4,436)	(4,397)	-
	<u>\$ 31,178</u>	<u>\$ 36,903</u>	<u>\$ 341</u>

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 27, 2016 and March 29, 2015

(unaudited)

12 Assets held for sale

Assets held for sale relate restaurants that have been corporately developed with the intent to sell these locations to a franchisee within the next 12 months.

(in thousands of Canadian dollars)	<u>March 27, 2016</u>	<u>December 27, 2015</u>	<u>March 29, 2015</u>
Assets held for sale	<u>7,416</u>	<u>7,274</u>	<u>-</u>
	<u>\$ 7,416</u>	<u>\$ 7,274</u>	<u>\$ -</u>

13 Long-term receivables

(in thousands of Canadian dollars)	<u>March 27, 2016</u>	<u>December 27, 2015</u>	<u>March 29, 2015</u>
Franchise receivable	\$ 33,239	\$ 33,896	\$ 45,129
Promissory notes	1,271	1,289	1,405
Franchise licence notes	<u>5</u>	<u>13</u>	<u>31</u>
	<u>\$ 34,515</u>	<u>\$ 35,198</u>	<u>\$ 46,565</u>

Franchise receivable

In prior years, the Company converted certain corporate restaurants to franchise and sold the restaurants to independent operators (“franchisees”). As part of these conversion agreements, certain franchisees entered into rental agreements to rent certain restaurant assets from the Company. Franchise receivables of \$29.1 million (December 27, 2015 - \$30.0 million; March 29, 2015 - \$41.7 million) relate 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 when a triggering event has occurred. An impairment loss is recorded when the carrying amount of the long-term franchise receivable exceeds its estimated net realizable value. For the 13 weeks ended March 27, 2016 and March 29, 2015, the Company recorded \$nil of impairment losses on long-term franchise receivables.

Long-term receivable maturities

Long-term receivables have maturity dates ranging from 2017 to 2034.

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 27, 2016 and March 29, 2015

(unaudited)

14 Property, plant and equipment

(in thousands of Canadian dollars)	As at March 27, 2016						
	Land	Buildings	Equipment	Leasehold improvements	Assets under finance lease	Construction-in-progress	Total
Cost							
Balance, beginning of period	\$ 2,291	\$ 3,073	\$ 144,352	\$ 99,274	\$ 30,888	\$ 3,576	\$ 283,454
Additions	-	-	832	430	-	2,857	4,119
Additions from business acquisitions (note 5)	-	-	225	-	-	-	225
Disposals and adjustments	-	-	148	(5,137)	-	302	(4,687)
Transfer to/(from) construction-in-progress	-	-	1,989	230	-	(2,219)	-
Balance, end of period	\$ 2,291	\$ 3,073	\$ 147,546	\$ 94,797	\$ 30,888	\$ 4,516	\$ 283,111
Accumulated depreciation and impairment losses							
Balance, beginning of period	\$ -	\$ 2,448	\$ 109,918	\$ 62,696	\$ 13,879	\$ -	\$ 188,941
Depreciation expense	-	26	2,833	1,536	542	-	4,937
Disposals and adjustments	-	-	(2,100)	(2,587)	-	-	(4,687)
Balance, end of period	\$ -	\$ 2,474	\$ 110,651	\$ 61,645	\$ 14,421	\$ -	\$ 189,191
Carrying amount as at:							
March 27, 2016	\$ 2,291	\$ 599	\$ 36,895	\$ 33,152	\$ 16,467	\$ 4,516	\$ 93,920
December 27, 2015	\$ 2,291	\$ 625	\$ 34,434	\$ 36,578	\$ 17,009	\$ 3,576	\$ 94,513
March 29, 2015	\$ 2,291	\$ 688	\$ 31,294	\$ 32,066	\$ 17,867	\$ 403	\$ 84,609

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. Indefinite life intangible assets are tested for impairment at least annually and whenever there is an indication that the asset may be impaired. Re-acquired franchise rights and other assets are amortized on a straight-line basis over their estimated useful lives, averaging approximately five years and are tested for impairment whenever there is an indication that the asset may be impaired.

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 27, 2016 and March 29, 2015

(unaudited)

(in thousands of Canadian dollars)	<u>Brands</u>	<u>Other assets</u>	<u>Total</u>
Cost			
Balance, beginning of period	\$ 179,288	\$ 30,343	\$ 209,631
Additions from business acquisitions (note 5)	-	169	169
Balance, end of period	<u>\$ 179,288</u>	<u>\$ 30,512</u>	<u>\$ 209,800</u>
Accumulated amortization			
Balance, beginning of period	-	8,330	8,330
Amortization	-	1,176	1,176
Balance, end of period	<u>\$ -</u>	<u>\$ 9,506</u>	<u>\$ 9,506</u>
Carrying amount as at:			
March 27, 2016	<u><u>\$ 179,288</u></u>	<u><u>\$ 21,006</u></u>	<u><u>\$ 200,294</u></u>
December 27, 2015	\$ 179,288	\$ 22,013	\$ 201,301
March 29, 2015	<u>\$ 140,894</u>	<u>\$ 22,335</u>	<u>\$ 163,229</u>

16 Goodwill

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

(in thousands of Canadian dollars)	<u>March 27, 2016</u>	<u>December 27, 2015</u>	<u>March 29, 2015</u>
Cost			
Balance, beginning of period	\$ 49,540	\$ 43,051	\$ 43,051
Additions	-	6,589	2,930
Impairment	-	(100)	-
Balance, end of period	<u><u>\$ 49,540</u></u>	<u><u>\$ 49,540</u></u>	<u><u>\$ 45,981</u></u>

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 27, 2016 and March 29, 2015

(unaudited)

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 that obligation can be measured reliably. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risk specific to the liability. Provisions are reviewed on a regular basis and adjusted to reflect management's best current estimates. Due to the judgemental nature of these items, future settlements may differ from amounts recognized.

(in thousands of Canadian dollars)	Asset retirement obligations	Lease obligations for closed restaurants	Franchise onerous contracts	Other	Total
Balance, beginning of period	\$ 5,374	\$ 2,491	\$ 2,511	1,630	\$ 12,006
Additions	115	-	-	-	115
Accretion	75	-	-	-	75
Payments	(48)	(337)	(129)	-	(514)
Adjustments	(661)	525	-	10	(126)
Balance, end of period as at					
March 27, 2016	<u>\$ 4,855</u>	<u>\$ 2,679</u>	<u>\$ 2,382</u>	<u>1,640</u>	<u>\$ 11,556</u>
December 27, 2015	\$ 5,374	\$ 2,491	\$ 2,511	\$ 1,630	\$ 12,006
March 29, 2015	<u>\$ 5,125</u>	<u>\$ 2,710</u>	<u>\$ 3,434</u>	<u>\$ 1,774</u>	<u>\$ 13,043</u>

Recorded in the consolidated balance sheets as follows:

(in thousands of Canadian dollars)	March 27, 2016	December 27, 2015	March 29, 2015
Provisions - current	\$ 4,470	\$ 5,004	\$ 5,158
Provisions - long-term	7,086	7,002	7,885
	<u>\$ 11,556</u>	<u>\$ 12,006</u>	<u>\$ 13,043</u>

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 27, 2016 and March 29, 2015

(unaudited)

18 Long-term debt

(in thousands of Canadian dollars)	March 27, 2016	December 27, 2015	March 29, 2015
Term credit facility	\$ 53,000	\$ 65,000	\$ 251,000
Finance leases	20,224	20,785	22,452
Subordinated unsecured debentures	-	-	25,617
Other	-	-	1,787
	<u>73,224</u>	<u>85,785</u>	<u>300,856</u>
Less: Financing costs	444	477	2,298
	<u>\$ 72,780</u>	<u>\$ 85,308</u>	<u>\$ 298,558</u>

Recorded in the consolidated balance sheets as follows:

Current portion of long-term debt	\$ 2,207	\$ 2,156	\$ 17,750
Long-term portion of long-term debt	<u>70,573</u>	<u>83,152</u>	<u>280,808</u>
	<u>\$ 72,780</u>	<u>\$ 85,308</u>	<u>\$ 298,558</u>

Term credit facility

As at March 27, 2016, \$53.0 million (December 27, 2015 - \$65 million; March 29, 2015 - \$251 million) was drawn under the amended and extended term credit facility with an effective interest rate of 2.37% representing bankers acceptance rate of 0.87% plus 1.25% and the amortization of deferred financing fees of 0.25%.

The Company is required to pay a standby fee between 0.25% to 0.45% per annum, on the unused portion of the credit facility, for the term of its term credit facility. The standby fee rate is based on the Company's total funded net debt to EBITDA ratio. As of March 27, 2016, the fee was 0.25%.

Subsequent to March 27, 2016, the Company announced that it entered into a definitive agreement to acquire 100% of St-Hubert. The transaction will be partly funded by an increased lending commitment from Cara's syndicate from \$150.0 million to \$700.0 million. See note 28.

Finance leases

Included in finance leases are obligations that bear interest at an average rate of 7.3% (December 27, 2015 – 7.3%; March 29, 2015 – 7.4%).

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 27, 2016 and March 29, 2015

(unaudited)

19 Other long-term liabilities

(in thousands of Canadian dollars)	March 27, 2016	December 27, 2015	March 29, 2015
Accrued pension and other benefit plans	\$ 21,264	\$ 21,448	\$ 22,665
Deferred rental income	13,922	14,344	19,723
Deferred income	12,740	13,808	15,288
Accrued rent expense	3,965	3,898	3,754
Restructuring (note 9)	120	170	520
Long-term incentive plans (note 20)	175	166	-
Other long-term liabilities	1,758	1,805	3,809
	\$ 53,944	\$ 55,639	\$ 65,759

Recorded in the consolidated balance sheets as follows:

(in thousands of Canadian dollars)	March 27, 2016	December 27, 2015	March 29, 2015
Accounts payable and accrued liabilities	\$ 3,864	\$ 4,595	\$ 4,639
Other long-term liabilities	50,080	51,044	61,120
	\$ 53,944	\$ 55,639	\$ 65,759

Accrued pension and other benefit plans

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

For the 13 weeks ended March 27, 2016, the Company recorded expenses of \$0.2 million (March 29, 2015 - \$0.3 million) related to pension benefits. No contributions are required as at March 27, 2016.

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 \$13.9 million (December 27, 2015 - \$14.3 million; March 29, 2015 - \$19.7 million) represents the unearned revenue associated with the rental agreements calculated as the present value of the minimum lease payments using an interest rate implicit in the rental agreement.

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 27, 2016 and March 29, 2015

(unaudited)

Deferred income

Unearned franchise and conversion fee income

At March 27, 2016, the Company had deferred \$7.3 million (December 27, 2015 - \$7.5 million; March 29, 2015 - \$8.4 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 27, 2016, the Company had deferred \$4.9 million (December 27, 2015 - \$5.1 million; March 29, 2015 - \$6.3 million) related to gains realized on sale-leaseback transactions.

20 Long-term incentive plans

Under the various stock option plans, Cara may grant options to buy up to 15% of its total Subordinate and Multiple Voting Shares outstanding, a total of 7.4 million shares, a guideline the Company has set on the number of stock option grants. As at March 27, 2016, 5.0 million shares were granted.

Stock options outstanding as at March 27, 2016 have a term of up to eight years from the initial grant date. Each stock option is exercisable into one Subordinate Voting Share at the price specified in the terms of the option agreement. There were no accelerated vesting features upon the initial public offering under any of the plans described below.

On April 10, 2015, all stock options granted prior to the IPO were consolidated at a ratio of 2.79 to 1 to entitle holders of the options to purchase Subordinate Voting Shares of the Company.

The following table summarizes the options granted post share consolidation:

	For the 13 weeks ended March 27, 2016							
	Director stock option plan		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	Options (number of shares)	Weighted average exercise price/share
Outstanding options, December 27, 2015	86,021	0.01	3,504,624	5.97	1,351,603	14.06	4,942,248	\$ 8.08
Granted	-	-	-	-	12,635	27.85	12,635	\$ 27.85
Forfeited	-	-	-	-	(3,042)	18.31	(3,042)	18.31
Outstanding options, end of period	86,021	0.01	3,504,624	5.97	1,361,196	14.18	4,951,841	\$ 8.12
Options exercisable, end of period	53,763	0.01	1,747,312	5.89	-	-	1,801,075	5.72

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 27, 2016 and March 29, 2015

(unaudited)

	For the 13 weeks ended March 29, 2015 ⁽¹⁾							
	Director stock option plan		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	Options (number of shares)	Weighted average exercise price/share
Outstanding options, December 30, 2014	86,021	0.01	3,494,624	5.89	1,166,379	8.51	4,747,024	\$ 6.42
Forfeited	-	-	-	-	(2,688)	8.51	(2,688)	8.51
Outstanding options, end of period	86,021	0.01	3,494,624	5.89	1,163,691	8.51	4,744,336	6.43
Options exercisable, end of period	21,505	0.01	-	-	-	-	21,505	0.01

⁽¹⁾This table reflects the options and exercise price after the 2.79 to 1 share consolidation which took effect on April 10, 2015 prior to the Offering.

Director stock option plan

The Director Stock Option Plan (“Director Plan”) is for non-employee board members. Options granted under this plan entitle Directors to purchase non-voting shares of the Company after the end of each service period, following the date of the grant. The options vest pro-rata each year based on service years completed and expire after eight years. The shares issued on exercise are not entitled to vote or participate in dividends declared on the voting class of common shares. The settlement of the option can only be into the common share equity of the Company.

During the 13 weeks ended March 27, 2016 and March 29, 2015, no stock options were granted under the Director Plan.

For the period ended March 27, 2016, the Company recognized stock-based compensation costs of \$24.2 thousand (March 29, 2015 - \$72.5 thousand) related to the Director Plan Options with a corresponding increase to contributed surplus.

Certain non-employee board members receive Deferred Share Units (“DSU”) as compensation for their participation on the board. These DSUs are settled for cash when members cease to participate on the board of directors. For the period ended March 27, 2016, the Company expensed \$9.7 thousand (March 29, 2015 - \$nil) and a liability recorded as part of Other Long-Term Liabilities in the amount of \$0.2 million as at March 27, 2016 (March 29, 2015 - \$nil).

CEO stock option plan

Under the CEO Stock Option Plan (“CEO Plan”), the Company’s CEO was granted the right to purchase 3,000,000 non-voting shares of the Company at an exercise price per share of \$0.01 and 6,750,000 non-voting shares of the Company at an exercise price per share of \$3.05. Under this plan, 4,875,000 options vest on the second anniversary of the grant date (October 31, 2015) and 4,875,000 options will vest on the third anniversary of the grant date (October 31, 2016). Vested options will not be exercisable until the earlier of an initial public offering of the Company and the fifth anniversary of the grant date. The options expire after eight years.

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 27, 2016 and March 29, 2015

(unaudited)

On April 10, 2015, all stock options granted prior to the IPO were consolidated at a ratio of 2.79 to 1 to entitle holders of the options to purchase Subordinate Voting Shares of the Company. Under this plan, the CEO now has 1,075,269 options at an exercise price of \$0.01 and 2,419,355 options at an exercise price of \$8.51 for a total of 3,494,624 options at a weighted average exercise price of \$5.89.

During the 13 weeks ended March 27, 2016 and March 29, 2015, no stock options were granted under the CEO Plan.

For the 13 weeks ended March 27, 2016, the Company recognized stock-based compensation costs of \$0.5 million (March 29, 2015 - \$1.1 million) related to the CEO Plan with a corresponding increase to contributed surplus.

Employee stock option plan

On October 31, 2013, the Company granted options in accordance with certain terms of the CFO employment agreement to purchase 675,000 non-voting shares of the Company at an exercise price per share of \$3.05. Under the Employee Stock Option Plan (“Employee Plan”), these 675,000 options will vest on the third anniversary of the grant date (October 31, 2016). Vested options can be exercised upon the earlier of an initial public offering of the Company and the fifth anniversary of the grant date.

During the period ended December 30, 2014, the Company granted an additional 2,579,198 options under the Employee Plan to various members of the Company’s management team at an exercise price of \$3.05 per share to purchase single voting shares of the Company. These options vest over a three year period and may not be exercised until January 1, 2019. The options expire after eight years.

On April 10, 2015, all stock options granted prior to the IPO were consolidated at a ratio of 2.79 to 1 to entitle holders of the options to purchase Subordinate Voting Shares of the Company. Under this plan, the CFO now has 268,377 options at an average exercise price of \$8.51 and the Company’s management team now has 815,115 at an average exercise price of \$8.51.

During the 13 weeks ended March 27, 2016, the Company granted an additional 12,635 stock options at a weighted average exercise price of \$27.85 (March 29, 2015 – nil) per Subordinate Voting Share under its existing stock option plans, which only allows for settlement in shares.

During the period ended March 27, 2016, 3,042 stock options with an exercise price of \$18.31 were forfeited (March 29, 2015 – 2,688 stock options with an exercise price of \$8.51).

For the 13 weeks ended March 27, 2016, the Company recognized stock-based compensation costs of \$0.6 million (March 29, 2015 - \$0.5 million) related to the Employee Plan with a corresponding increase to contributed surplus.

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 27, 2016 and March 29, 2015

(unaudited)

21 Share capital

Prior to the IPO, the Company's authorized share capital consisted of an unlimited number of common shares and an unlimited number of non-voting common shares.

Immediately prior to the closing of the IPO, all of the outstanding Subordinated Debentures, Class A and Class B Preferred Shares were surrendered and converted into voting common shares in conjunction with a cashless warrant exercise. All outstanding voting common shares held immediately prior to closing of the IPO under either Fairfax's beneficial ownership or Cara Holding's ownership were converted at a ratio of 2.79 to 1 into Multiple Voting Shares ("Multiple Voting Shares"). All other outstanding common shares held by all other shareholders were converted into Subordinate Voting Shares ("Subordinate Voting Shares") entitled to one vote per share on all matters and consolidated at a ratio of 2.79 to 1.

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

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

On April 10, 2015 the Company converted certain common voting shares previously held by shareholders into 1,537,871 Subordinate Voting Shares and issued 10,005,000 Subordinate Voting Shares for a total of 11,542,871. As part of the IPO, the Principal Shareholders received 37,396,284 Multiple Voting Shares.

On June 26, 2015 the Company issued an additional 209,526 Subordinate Voting Shares as part of the Landing buyout.

On December 2, 2015, 3,000,000 Multiple Voting Shares held by Cara Holdings were converted to Subordinate Voting Shares and were sold to public shareholders in a secondary offering.

For the period ended December 27, 2015, the Company paid dividends on Subordinate Voting Shares and Multiple Voting Shares totaling \$9.5 million, of which \$9.1 million was cash settled and \$0.4 million was settled through the issue of 13,911 Subordinate Voting Shares through the Company's Dividend Reinvestment Plan ("DRIP") which enables shareholders to acquire additional Subordinate Voting Shares from Cara by reinvesting all of their cash dividends.

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 27, 2016 and March 29, 2015

(unaudited)

On March 3, 2016, the Company's Board of Directors declared the 2015 fourth quarter dividend of \$0.102 per share on its outstanding Subordinate Voting Shares and Multiple Voting Shares payable on April 15, 2016 to shareholders of record as of March 31, 2016.

For the 13 weeks ended March 27, 2016 and March 29, 2015, the Company did not pay any cash dividends on Subordinate Voting Shares and Multiple Voting Shares.

During the 13 weeks ended March 29, 2015, the Company declared \$3.0 million in dividends on common shares to Cara Holdings and paid \$11.0 million. These common shares were subsequently exchanged to multiple voting common shares as part of the IPO on April 10, 2015.

As at March 27, 2016, there were 34,396,284 Multiple Voting Shares and 14,766,307 Subordinate Voting Shares issued and outstanding. There were no preference shares issued and outstanding as at March 27, 2016.

	Number of Common Shares (in thousands)				Share Capital (in thousands of dollars)			
	Common shares (prior to offering) (note 1)	Multiple voting common shares	Subordinate voting common shares	Total Common Shares	Common shares (prior to offering) (note 1)	Multiple voting common shares	Subordinate voting common shares	Total Share Capital
Balance at December 30, 2014 and March 29, 2015	50,468	-	-	50,468	\$ 29,285	\$ -	\$ -	\$ 29,285
Share consolidation	(32,379)	-	-	(32,379)	-	-	-	-
Share conversion	(18,089)	14,493	3,596	-	(29,285)	11,526	17,759	-
Issuance of common stock	-	19,903	11,157	31,060	-	181,022	227,274	408,296
Shares issued under dividend reinvestment plan	-	-	14	14	-	-	420	420
Balance at December 27, 2015 and March 27, 2016	-	34,396	14,767	49,163	\$ -	\$ 192,548	\$ 245,453	\$ 438,001

Subsequent to March 27, 2016, the Company completed an offering of 7,863,280 subscription receipts on a private placement for gross proceeds of approximately \$230.0 million. Each Subscription Receipt represents the right of the holder to receive one subordinate voting share of Cara. See note 28.

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 27, 2016 and March 29, 2015

(unaudited)

22 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 after giving effect, on a retrospective basis, to the 2.79 to 1 share consolidation for shares outstanding as at April 10, 2015, that occurred as part of the IPO on April 10, 2015.

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 adjusted for the effects of potentially dilutive warrants and stock options after giving effect, on a retrospective basis, to a 2.79 to 1 share consolidation for shares outstanding as at April 10, 2015, that occurred as part of the IPO on April 10, 2015.

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

	<u>For the 13 weeks ended March 27, 2016</u>			<u>For the 13 weeks ended March 29, 2015</u>		
	<u>Attributable to Common Shareholders</u>			<u>Attributable to Common Shareholders</u>		
	<u>Net earnings (loss)</u>	<u>Weighted average number of shares ('000)</u>	<u>EPS</u>	<u>Net earnings (loss)</u>	<u>Weighted average number of shares ('000)</u>	<u>EPS</u>
Basic						
Continuing Operations	\$ 14,498	49,163	\$ 0.29	\$ 6,306	18,089	\$ 0.35
Discontinued Operations	(2)	49,163	(0.00)	(3)	18,089	(0.00)
	<u>\$ 14,496</u>	<u>49,163</u>	<u>\$ 0.29</u>	<u>\$ 6,303</u>	<u>18,089</u>	<u>\$ 0.35</u>
Diluted						
Continuing Operations	\$ 14,498	52,742	\$ 0.27	\$ 6,306	36,411	\$ 0.17
Discontinued Operations	(2)	52,742	(0.00)	(3)	36,411	(0.00)
	<u>\$ 14,496</u>	<u>52,742</u>	<u>\$ 0.27</u>	<u>\$ 6,303</u>	<u>36,411</u>	<u>\$ 0.17</u>

The weighted average number of shares used in the calculation of basic and diluted earnings per share, after giving effect on a retrospective basis to the share consolidation for shares outstanding as at March 27, 2016, is summarized below:

	<u>For the 13 weeks ended</u>	
	<u>March 27, 2016</u>	<u>March 29, 2015</u>
Common shares (note 21)	49,162,591	18,088,785
Effect of warrants issued	-	14,642,940
Effect of stock options issued	3,579,235	3,678,975
	<u>52,741,826</u>	<u>36,410,700</u>

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 27, 2016 and March 29, 2015

(unaudited)

23 Cash flows

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

(in thousands of Canadian dollars)	For the 13 weeks ended	
	March 27, 2016	March 29, 2015
Accounts receivable	\$ 17,101	\$ 8,340
Inventories	106	1,014
Assets held for sale	(142)	-
Income taxes payable	(236)	(3,923)
Prepaid expenses and other assets	164	(1,216)
Accounts payable and accrued liabilities	(19,226)	(6,289)
Provisions	(534)	(1,746)
Gift card liability	(22,836)	(22,507)
Income taxes paid	326	5,008
Change in interest payable	(284)	(4,035)
Net change in non-cash operating working capital	\$ (25,561)	\$ (25,354)

24 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 \$0.3 million (March 29, 2015 - \$0.9 million) primarily for various utility companies that provide services to corporate owned or franchised locations and support for certain franchisees' external financing used to fund their initial franchise fees and conversion fees, if applicable, payable to the Company. The probability of the letters of credit being drawn as a result of default by a franchisee is low.

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 27, 2016 and March 29, 2015

(unaudited)

Indemnification provisions

In addition to the above guarantees, the Company has also provided customary indemnifications in the normal course of business and in connection with business dispositions. 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.

25 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. To manage this exposure, the Company uses purchase arrangements for a portion of its needs for certain consumer products that may be commodities based.

Liquidity and capital availability risk

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

Should the Company's financial performance and condition deteriorate, the Company's ability to obtain funding from external sources may be restricted. In addition, credit and capital markets are subject to inherent global risks that may negatively affect the Company's access and ability to fund its long-term debt as it matures. The Company mitigates these risks by maintaining appropriate availability under the credit facilities and varying maturity dates of long-term obligations and by actively monitoring market conditions.

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.

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 27, 2016 and March 29, 2015

(unaudited)

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

The following is an aging of the Company's accounts receivable, net of the allowance, as at March 27, 2016, December 27, 2015 and March 29, 2015:

(in thousands of Canadian dollars)	March 27, 2016			
	Current	> 30 days past due	> 60 days past due	Total
Accounts receivable	\$ 29,703	\$ 1,783	\$ 7,735	\$ 39,221
Less: allowance for doubtful accounts	621	271	6,575	7,467
Accounts receivable, net	\$ 29,082	\$ 1,512	\$ 1,160	\$ 31,754
Balances at December 27, 2015	\$ 46,015	\$ 2,135	\$ 887	\$ 49,037
Balances at March 29, 2015	\$ 22,446	\$ 1,811	\$ 189	\$ 24,446

There are no significant impaired receivables that have not been provided for in the allowance. As of March 27, 2016, the Company believes that the \$7.5 million (December 27, 2015 - \$7.2 million; March 29, 2015 - \$6.4 million) allowance sufficiently covers any credit risk related to the receivable balances past due. The remaining amounts past due were not classified as impaired as the past due status was reasonably expected to be remedied.

Fair value of financial instruments

The 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.

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 27, 2016 and March 29, 2015

(unaudited)

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 27, 2016.

Other financial instruments

Other financial instruments of the Company consist of cash, accounts receivable, bank indebtedness 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.

26 Related parties

Shareholders

Prior to the IPO, Cara Holdings held 96.7% of the voting common shares. As part of the IPO, these voting common shares were exchanged into Multiple Voting Shares. Subsequent to the IPO and subsequent disposition of a portion of their ownership, Cara Holdings held 29.5% of the total issued and outstanding shares, representing 41.4% voting control.

On April 10, 2015, as part of the IPO, subsidiaries of Fairfax exchanged non-voting preferred shares in conjunction with a cashless warrant exercise into Multiple Voting Shares of the Company. As a result of the conversion and subsequent purchases of Subordinate Voting Shares, Fairfax holds 40.5% of the total issued and outstanding shares, representing 56.9% voting control.

Fairfax and Cara Holdings together hold 70.0% of the total issued and outstanding shares and have 98.3% of the voting control attached to all the shares.

Prior to the IPO, subsidiaries of Fairfax owned subordinated debentures and warrants bearing interest at 9.0% per annum. During the 13 weeks ended March 27, 2016, the Company incurred interest of \$nil (March 29, 2015 - \$0.6 million) which has been included in interest expense. Additionally, subsidiaries of Fairfax owned Class A and Class B preferred shares. For the 13 weeks ended March 27, 2016, the Company approved a payment of interest on the preferred shares in the amount of \$nil (March 29, 2015 - \$3.3 million), which has been included in interest expense.

During the 13 weeks ended March 27, 2016, the Company declared a dividend of \$0.102 per share of Subordinate and Multiple Voting Shares of which Fairfax and Cara Holdings received \$2.0 million and \$1.5 million, respectively on April 15, 2016.

Subsequent to March 27, 2016, on March 30, 2015, the Company entered into an Equity Commitment Agreement with Fairfax, where Fairfax provided a commitment that Fairfax will either exercise its pre-emptive right in full to purchase its pro-rata share of any Subordinate Voting Shares the Company offers to the public

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 27, 2016 and March 29, 2015

(unaudited)

provided that the offering price does not exceed \$30.00 per share or, alternatively, will purchase \$200 million of Subordinate Voting Shares at a price of \$26.20. Fairfax shall also maintain its pre-emptive right to purchase its pro rata share of any Subordinate Voting Shares the Company offers to the public at a price above \$30.00. In consideration for Fairfax's commitment, the Company will pay Fairfax a fee of \$4.0 million. See note 28.

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 restaurants) to source shared services and purchasing arrangements for any aspect of Cara's operations, including food and beverages, information technology, payment processing, marketing and advertising or other logistics. There were no transactions during the 13 weeks ended March 27, 2016 and March 29, 2015.

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 Cara's insurance policies are held by a company that is a subsidiary of Fairfax. The transaction is on market terms and conditions.

27 Segmented information

Cara divides its operations into the following three business segments: corporate restaurants, franchise restaurants, and central operations.

The Corporate restaurant segment includes the operations of the company-owned restaurants which generate revenues from the direct sale of prepared food and beverages to customers.

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 restaurant sales. Cara provides financial assistance to certain franchisees and the franchise royalty income reported is net of any assistance being provided

Central operations includes call centre services which earn fees from off-premise phone, mobile and web orders processed for corporate and franchised restaurants and income generated from the lease of certain equipment to franchisees as well as the collection of new franchise and franchise renewal fees. Central operations also include 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 did not reflect how the Company manages the business and has not allocated these revenues and expenses to a specific segment.

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

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 27, 2016 and March 29, 2015

(unaudited)

accounting policies. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

For the 13 weeks ended March 27, 2016	Corporate	Franchise	Central	Total
Sales	\$ 63,205	\$ -	\$ 2,374	\$ 65,579
Franchise revenues	-	17,577	660	18,237
Cost of inventories sold and cost of labour	(40,570)	-	-	(40,570)
Other revenues (costs)	(17,543)	(1,861)	3,695	(15,709)
	<u>\$ 5,092</u>	<u>\$ 15,716</u>	<u>\$ 6,729</u>	<u>\$ 27,537</u>
Amortization of unearned conversion fees income	-	-	398	398
Restructuring	-	-	134	134
Non-allocated selling, general and administrative expenses	-	-	(7,309)	(7,309)
Operating income	<u>\$ 5,092</u>	<u>\$ 15,716</u>	<u>\$ (48)</u>	<u>\$ 20,760</u>
For the 13 weeks ended March 29, 2015	Corporate	Franchise	Central	Total
Sales	\$ 53,146	\$ -	\$ 2,638	\$ 55,784
Franchise revenues	-	16,763	958	17,721
Cost of inventories sold and cost of labour	(34,182)	-	-	(34,182)
Other revenues (costs)	(15,390)	(1,847)	2,859	(14,378)
	<u>\$ 3,574</u>	<u>\$ 14,916</u>	<u>\$ 6,455</u>	<u>\$ 24,945</u>
Amortization of unearned conversion fees income	-	-	475	475
Development revenues	-	-	1,686	1,686
Development expenses	-	-	(1,645)	(1,645)
Restructuring	-	-	205	205
Non-allocated selling, general and administrative expenses	-	-	(8,008)	(8,008)
Operating income	<u>\$ 3,574</u>	<u>\$ 14,916</u>	<u>\$ (832)</u>	<u>\$ 17,658</u>

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 27, 2016 and March 29, 2015

(unaudited)

28 Subsequent Events

On March 31, 2016, the Company announced that it entered into a definitive agreement to acquire 100% of Groupe St-Hubert Inc. ("St-Hubert"), Québec's leading full-service restaurant operator as well as fully integrated food manufacturer for \$537.0 million. As of St-Hubert's financial year ended September 30, 2015, it had 117 restaurants consisting of 11 corporately-owned restaurants and 106 franchised restaurants. The transaction will be funded by a combination of approximately \$230.0 million through its private placement (announced on April 15, 2016, see details below), \$50.0 million vendor take-back to be settled in Cara subordinate voting common shares and an increased lending commitment from Cara's syndicate upsized from \$150.0 million up to \$700.0 million.

On April 15, 2016, the Company announced that it had completed an offering of 7,863,280 subscription receipts (the "Subscription Receipts"), on a private placement basis at a price of \$29.25 per Subscription Receipt (the "Offering") for gross proceeds of approximately \$230.0 million. Each Subscription Receipt represents the right of the holder to receive, upon closing of the St-Hubert transaction and without payment of additional consideration, one subordinate voting share of Cara (a "Subordinate Voting Share") plus an amount per Subordinate Voting Share equal to the amount per Subordinate Voting Share of any dividends for which record dates have occurred during the period from the closing date of the Offering to the date immediately preceding the closing of the St-Hubert transaction, less applicable withholding taxes. The Offering proceeds, less a 50% portion of the agents' fees, are being held in escrow pending the closing of the St-Hubert transaction.

As part of the Offering, Fairfax purchased 3,487,180 Subscription Receipts, accounting for approximately \$102.0 million of the total \$230.0 million gross proceeds, resulting in Fairfax maintaining their approximately 40% equity interest and approximately 57% voting interest in the Company.

Subject to customary conditions, including the receipt of relevant regulatory approvals, the transaction is targeted to close in the summer of 2016.

On May 5, 2016, the Company's Board of Directors declared a dividend of \$0.1017 per share of subordinate and voting common stock, multiple voting common stock, and subscription receipts outstanding. Payment of the dividend will be made on June 15, 2016 to shareholders of record at the close of business on May 31, 2016.

On May 5, 2016, the Company's Board of Directors suspended the Dividend Reinvestment Plan (the "DRIP" or the "Plan") which provided holders of Subordinate Voting Shares of Cara and Multiple Voting Shares of Cara, to acquire additional Subordinate Voting Shares by reinvesting all of their cash dividends at a purchase price discount of 3%.