CARA OPERATIONS LIMITED
Management's Discussion and Analysis
For the 13 and 26 weeks ended June 26, 2016

The following Management's Discussion and Analysis ("MD&A") for Cara Operations Limited ("Cara" or the "Company") provides information concerning the Company's financial condition and results of operations for the 13 and 26 weeks ended June 26, 2016 ("second quarter", "the quarter", "the period", or "year to date"). This MD&A should be read in conjunction with the Company's unaudited Condensed Consolidated Interim Financial Statements ("interim financial statements") and accompanying notes as at June 26, 2016, and with the Company's annual Consolidated Financial Statements for the 52 week period ended December 27, 2015. The consolidated results from operations for the 13 and 26 weeks ended June 26, 2016 are compared to the 13 and 26 weeks ended June 28, 2015. Cara's fiscal year ends on the last Sunday in December. As a result, the Company's fiscal year is usually 52 weeks in duration but includes a 53rd week every five to six years.

Some of the information contained in this MD&A contains forward-looking statements that involve risks and uncertainties. See "Forward-Looking Statements" and "Risk and Uncertainties" for a discussion of the uncertainties, risks and assumptions associated with these statements. Actual results may differ materially from those indicated or underlying forward-looking statements as a result of various factors, including those described in "Risk and Uncertainties" and elsewhere in this MD&A.

This MD&A was prepared as at August 4, 2016. Additional information relating to the Company can be found on SEDAR at www.sedar.com.

Basis of Presentation

The Interim Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and all amounts presented are in Canadian dollars unless otherwise indicated.

Highlights for the 13 and 26 weeks ended June 26, 2016:

- Operating EBITDA(1) increased to $32.8 million for the 13 weeks ended June 26, 2016 compared to $28.4 million in 2015, an improvement of $4.4 million or 15.5% for the quarter. This increase to $32.8 million also represents the highest quarterly Operating EBITDA since Cara's transformation started in 2013. Year to date, Operating EBITDA was $60.3 million compared to $53.3 million in 2015, an improvement of $7.0 million or 13.1% year to date. The increases have been driven by improved performance in all three of the Company's operating segments, being Corporate restaurants, Franchise restaurants and Central operations, and from the addition of New York Fries in the fourth quarter of 2015.

- Increased Operating EBITDA Margin on System Sales(1) to 7.3% for the quarter compared to 6.5% in 2015, representing the first quarter the Company has reached its long-term Operating EBITDA Margin target of between 7% and 8% of System Sales. Year to date, Operating EBITDA Margin on System Sales was 6.7% compared to 6.2% in 2015.

- System Sales(1) grew $13.3 million to $450.3 million for the 13 weeks ended June 26, 2016 as compared to 2015, representing an increase of 3.0%. Year to date, System Sales(1) grew $34.5 million to $900.5 million for the 26 weeks ended June 26, 2016 compared to the same period in 2015, representing an increase of 4.0%.

- Same Restaurant Sales ("SRS") Growth(1) for the second quarter was a decrease of 2.0%, representing 14 weeks compared to 14 weeks of sales instead of 13 weeks to measure and compare the impact of Easter weekend in the same (second) quarter for both 2016 and 2015 as Easter weekend occurred in the last week of the first quarter of 2016 compared to the first week of the second quarter in 2015. SRS for the 13 weeks compared to the same 13 weeks in 2015, with the impact of Easter, was a decrease of 1.3%. Year to date, SRS was a decrease of 0.7% for the 26 weeks ended June 26, 2016 compared the same period in 2015. SRS for the second quarter was impacted by a poor June overall, challenges in the western provinces, and uneven performance in certain restaurant banners. The positive results for April and May in a number of banners and in a number of provinces failed to offset these weaknesses.

Management continues to focus on both short-term and long-term strategies to improve SRS through restaurant renovations, greater emphasis on exciting food news, enhanced guest experiences, and expanded e-commerce sales through new or improved off-premise applications for most brands over the next 2 years. In addition, we will add several digital marketing initiatives that are expected to launch in 2017 to reach new customer segments and to increase the frequency of existing ones. In order to accelerate these e-commerce and digital marketing initiatives we will be increasing our investment in technology resources and we have recently hired a Chief Technology Officer and additional resources dedicated to e-commerce and digital development and data analytics. Compared to 2014 SRS remains positive over a 2 year period at 1.6% for the quarter and 2.8% year to date.

- Earnings from continuing operations before income taxes was $24.9 million for the 13 weeks ended June 26, 2016 up from $17.1 million in 2015, an improvement of $7.8 million or 45.6%. Year to date, earnings from continuing operations before income taxes increased to $45.0 million from $24.8 million, an improvement of $20.2 million or 81.5%. The increase is related to operating improvements described above, the addition of New York Fries, reduction of interest on long-term debt, offset by one-time transaction costs related to the St-Hubert acquisition.

- Net earnings increased to $18.1 million after deducting $0.9 million in one-time transaction costs primarily related to the St-Hubert transaction in the quarter compared to $15.9 million in 2015, an increase of $2.2 million or 13.8%. Year to date, net earnings increased to $32.4 million after deducting $2.0 million in one-time transaction costs, an increase of $10.2 million or 45.9%. The improvements are primarily related to operating improvements, the addition of New York Fries, and reduction of interest on long-term debt.

- 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 increased from $150.0 million up to $550.0 million (reduced from the prior $700.0 million upsize plan after confirmation of the $230.0 million private placement).

- 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 plus accrued interest and less underwriting fees. 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 are being held in escrow pending the closing of the St-Hubert transaction and are included in restricted cash on the balance sheet. Subject to customary conditions, including the receipt of relevant regulatory approvals, the transaction is targeted to close in the third quarter of 2016.

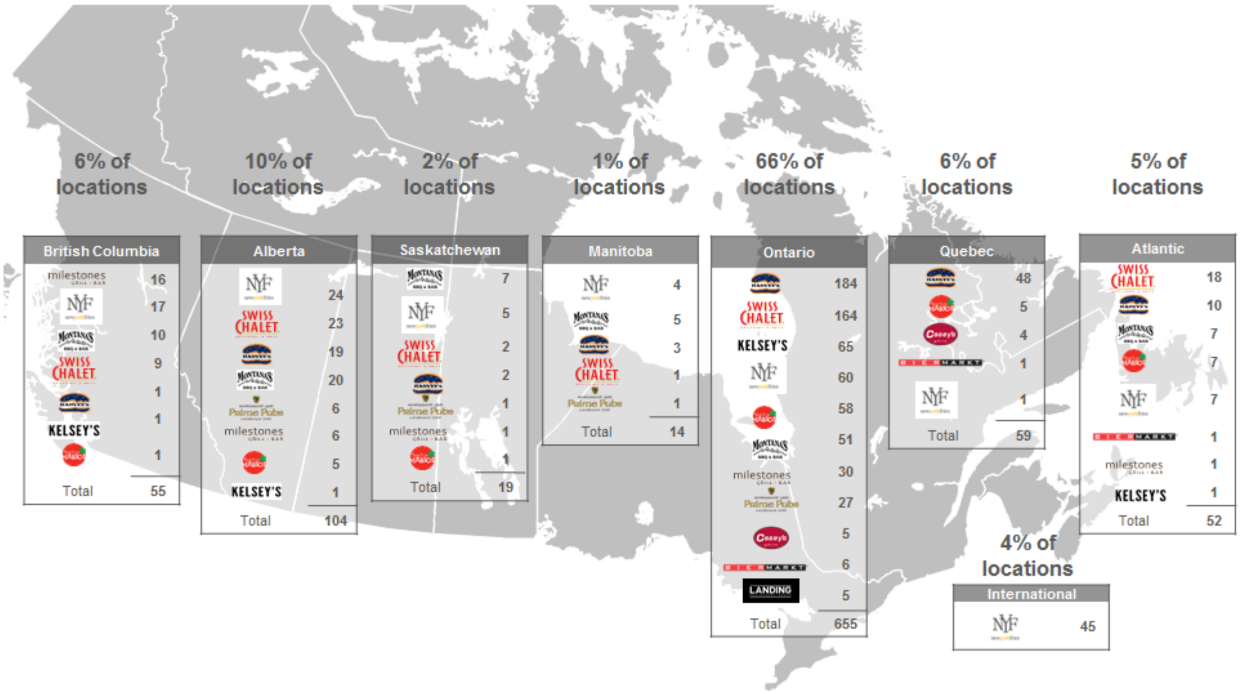
(1) See “Non-IFRS Measures” on page 24 for definitions of System Sales, SRS Growth, Operating EBITDA, Operating EBITDA Margin and Operating EBITDA on System Sales. See “Reconciliation of net earnings from continuing operations to EBITDA” for a reconciliation of Operating EBITDA.

Subsequent event

On August 4, 2016, the Company's Board of Directors declared a dividend of $0.10169 per share of subordinate voting shares, multiple voting shares, and subscription receipts outstanding. Dividends per share will be comprised of: (i) $0.05373 per share eligible dividend, and (iii) a $0.04796 per share taxable dividend. Payment of the dividend will be made on September 15, 2016 to shareholders and subscription receipt holders of record at the close of business on August 31, 2016. The Company expects to return to paying 100% eligible dividends after the third quarter.

Overview

Cara is a full-service restaurant company that franchises and operates iconic restaurant brands. As at June 26, 2016, Cara had 11 brands and 1,003 restaurants, 88% of which are operated by franchisees. Cara's restaurant network includes Harvey's, Swiss Chalet, Kelsey's, East Side Mario's, Montana's, Milestones, Prime Pubs, Casey's, Bier Markt, Landing and New York Fries restaurants. Cara's iconic brands have established Cara as a nationally recognized franchisor of choice. Cara's restaurants are located across Canada with 66% of Cara's locations based in Ontario.



Unit count (unaudited)	As at June 26, 2016			As at December 27, 2015		
	Corporate	Franchise	Total	Corporate	Franchise	Total
Swiss Chalet ………………………	9	208	217	7	210	217
Harvey's …………………………..	16	251	267	17	251	268
Montana's ………………………..	13	87	100	13	86	99
East Side Mario's (1)………………	3	74	77	4	74	78
Kelsey's……………....……………..	13	55	68	16	55	71
Casey's……………....……………..	1	8	9	1	18	19
Prime Pubs....……....………………..	5	30	35	5	28	33
Bier Markt.....……....………………….	8	0	8	7	0	7
Milestones....……....………………….	30	24	54	29	26	55
Landing…......……....………………..	5	0	5	4	0	4
New York Fries ....…………………..	16	147	163	16	143	159
Total restaurants....………………....	119	884	1,003	119	891	1,010
	12%	88%	100%	12%	88%	100%

(1) Unit count excludes East Side Mario restaurants located in the United States.

Selected Financial Information

The following table summarizes the results of Cara's operations for the 13 and 26 weeks ended June 26, 2016 and the 13 and 26 weeks ended June 28, 2015:

(C$ millions unless otherwise stated)	For the 13 weeks ended June 26, 2016 (unaudited)	For the 13 weeks ended June 28, 2015 (unaudited)	For the 26 weeks ended June 26, 2016 (unaudited)	For the 26 weeks ended June 28, 2015 (unaudited)
Sales	$ 70.6	$ 62.8	$ 136.2	$ 118.6
Franchise revenues	18.4	18.1	37.0	36.3
Development revenues	-	0.1	-	1.8
Total gross revenue from continuing operations [1]	**$ 89.0**	**$ 80.9**	**$ 173.2**	**$ 156.6**
Cost of inventories sold	(20.1)	(18.0)	(38.9)	(34.0)
Selling, general and administrative expenses	(43.5)	(41.6)	(88.3)	(82.1)
Development expenses	-	(0.1)	-	(1.7)
Restructuring	0.3	(0.4)	0.5	(0.2)
Operating Income [1]	**$ 25.7**	**$ 20.9**	**$ 46.4**	**$ 38.6**
Finance costs:				
Net interest expense and other financing charges	(0.8)	(2.0)	(1.4)	(10.3)
Loss on derivative	-	-	-	(1.6)
Write-off of deferred financing fees	-	(1.8)	-	(1.8)
Earnings from continuing operations before income taxes [1]	**$ 24.9**	**$ 17.1**	**$ 45.0**	**$ 24.8**
Income taxes - current	(0.3)	(0.5)	(0.3)	(1.6)
Income taxes - deferred	(6.5)	(0.6)	(12.3)	(1.0)
Net earnings from continuing operations [1]	**$ 18.1**	**$ 15.9**	**$ 32.4**	**$ 22.2**
Total assets	$ 697.3	$ 371.5	$ 697.3	$ 371.5
Non-current financial liabilities	$ 124.4	$ 126.7	$ 124.4	$ 126.7
Earnings per share from continuing operations attributable to common shareholders (in dollars)				
Basic EPS	$ 0.37	$ 0.34	$ 0.66	$ 0.69
Diluted EPS	$ 0.34	$ 0.31	$ 0.61	$ 0.51
Adjusted Basic EPS[2]	$ 0.50	$ 0.36	$ 0.91	$ 0.73
Adjusted Diluted EPS[2]	$ 0.46	$ 0.32	$ 0.84	$ 0.50

[1] Figures may not total due to rounding.

[2] Adjusted EPS excludes the impact related to non-cash deferred income tax expense. See "Non-IFRS Measures" on page 24 for definitions of Adjusted Basic EPS and Adjusted Diluted EPS.

(C$ millions unless otherwise stated)	For the 13 weeks ended				For the 26 weeks ended			
		June 26, 2016		June 28, 2015		June 26, 2016		June 28, 2015
		(unaudited)		(unaudited)		(unaudited)		(unaudited)
Dividends Declared (in dollars) [1]								
Subordinate Voting Shares, Multiple Voting Shares and Subscription Receipts	$	0.10	$	-	$	0.20	$	-
Common shares	$	-	$	-	$	-	$	0.06
Cash Dividend on Class A Preferred Share Liabilities	$	-	$	-	$	-	$	0.06
Cash Dividend on Class B Preferred Share Liabilities	$	-	$	-	$	-	$	0.10
Reconciliation of net earnings from continuing operations to EBITDA [(2)]**:**								
Net earnings from continuing operations	$	18.1	$	15.9	$	32.4	$	22.2
Net interest expense and other financing charges		0.8		2.0		1.4		10.3
Write-off of deferred financing fees		-		1.8		-		1.8
Loss on derivative		-		-		-		1.6
Income taxes		6.8		1.1		12.6		2.7
Depreciation of property, plant and equipment		5.5		4.7		10.4		9.4
Amortization of other assets		0.7		1.1		1.9		2.3
EBITDA [(2)]	**$**	**31.9**	**$**	**26.6**	**$**	**58.7**	**$**	**50.2**
Reconciliation of EBITDA [(2)] **to Operating EBITDA:**								
Losses on early buyout/cancellation of equipment rental contracts		-		-		-		1.2
Restructuring		(0.4)		0.4		(0.5)		0.2
Transaction costs		0.9		-		2.0		-
Conversion fees		(0.4)		(0.4)		(0.8)		(0.9)
Net (gain) loss on disposal of property, plant and equipment		(0.2)		0.3		(1.1)		(0.3)
Stock based compensation		1.1		1.5		2.2		3.2
Change in onerous contract provision		(0.2)		(0.2)		(0.3)		(0.2)
Operating EBITDA [(2)]	**$**	**32.8**	**$**	**28.4**	**$**	**60.3**	**$**	**53.3**
% change		15.5%		29.1%		13.1%		33.9%

[1] Figures may not total due to rounding.

System Sales, SRS Growth, Unit Count and Operating EBITDA

The following table summarizes Cara's System Sales Growth, SRS Growth, number of restaurants, Operating EBITDA and Operating EBITDA Margin for the 13 and 26 weeks ended June 26, 2016 and the 13 and 26 weeks ended June 28, 2015:

	For the 13 weeks ended		For the 26 weeks ended	
(C$ millions unless otherwise stated)	**June 26, 2016**	**June 28, 2015**	**June 26, 2016**	**June 28, 2015**
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
System Sales from continuing operations [1](unaudited)……………………	$ 450.3	$ 437.0	$ 900.5	$ 866.0
Total System Sales Growth [1]…………………………………………	3.0%	4.6%	4.0%	4.7%
SRS Growth [2]………………………………………………………	(2.0%)	3.3%	(0.7%)	3.3%
Number of corporate restaurants (at period end)…..................................	119	92	119	92
Number of franchised restaurants (at period end)……….............................	884	735	884	735
Total number of restaurants [1](at period end)………………………………	**1,003**	**827**	**1,003**	**827**
Operating EBITDA…………………………………..................................	$ 32.8	$ 28.4	$ 60.3	$ 53.3
Operating EBITDA Margin…..………………………...….............................	36.9%	35.1%	34.8%	34.0%
Operating EBITDA Margin on System Sales…..	7.3%	6.5%	6.7%	6.2%

[1] Results from East Side Mario restaurants in the United States are excluded in System Sales totals and number of restaurants.

[2] Results from New York Fries located outside of Canada, East Side Mario restaurants in the United States and all Casey's restaurants are excluded from SRS Growth.

See "Non-IFRS Measures" on page 24 for definitions of System Sales, System Sales Growth, SRS growth across all brands, Operating EBITDA, Operating EBITDA Margin and Operating EBITDA Margin on System Sales.

Factors Affecting Our Results of Operations

SRS Growth

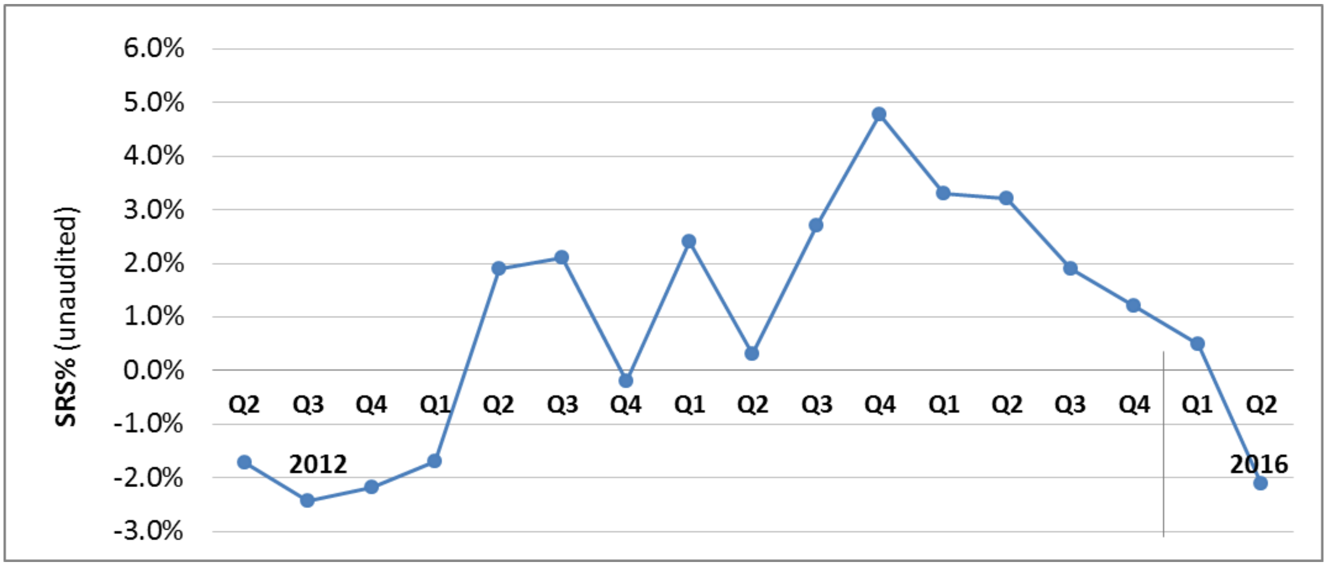
SRS Growth is a metric used in the restaurant industry to compare sales earned in established locations over a certain period of time, such as a fiscal quarter, for the current period and the same period in the previous year. SRS Growth helps explain what portion of sales growth can be attributed to growth in established locations and what portion can be attributed to the opening of net new restaurants. Cara calculates SRS Growth as the percentage increase or decrease in sales of restaurants open for at least 24 complete months. Cara's SRS Growth results exclude Casey's restaurants as the Company is in the process of winding down its operations and will either convert certain locations to other Cara brands, will license the restaurant for continuing Casey's operation, or close the location. SRS Growth also excludes sales from international operations from 45 New York Fries and 3 East Side Mario's. For the first quarter of 2016, SRS excluded the timing impact resulting from Easter weekend which occurred in the last week of the first quarter as compared to being in the first week of the second quarter in 2015. To provide comparable quarter over quarter results, SRS for the first quarter was comprised of 12 weeks compared to the same 12 weeks in 2015 and the second quarter compares 14 weeks in 2016 to the same 14 weeks in 2015 to include the impact of Easter weekend for both years in the second quarter.

SRS Growth is primarily driven by changes in the number of guest transactions and changes in average transaction size. Cara's SRS Growth results are principally impacted by both its operations and marketing efforts. Cara's SRS Growth results are also impacted by external factors, particularly macro-economic developments that affect discretionary consumer spending in Canada.

Atypical weather conditions over a prolonged period of time can adversely affect Cara's business. During the summer months, unseasonably cool or rainy weather can negatively impact the patio business that exists in five of Cara's eleven brands. During the winter months, unusually heavy snowfalls, ice storms, or other extreme weather conditions can reduce guest visits to restaurants and in turn can negatively impacts sales and profitability.

SRS for the second quarter was a decrease of 2.0% and a decrease of 0.7% year to date. SRS for the second quarter was impacted by a poor June overall, challenges in the western provinces, and uneven performance in certain restaurant banners. As Cara is a multi-branded company, not all brands will have strong results at the same time which can result in overall variable sales and SRS results. The positive results for April and May in a number of banners and in a number of provinces failed to offset these weaknesses. Compared to 2014, SRS remains positive over a 2 year period at 1.6% for the quarter and 2.8% year to date. Management continues to focus on short-term and long-term strategies to improve SRS through restaurant renovations, greater emphasis on exciting food news, enhanced guest experiences, and expanded e-commerce sales through new or improved off-premise applications for most brands over the next 2 years. In addition, we will add several digital marketing initiatives that are expected to launch in 2017 to reach new customer segments and to increase the frequency of existing ones. In order to accelerate these e-commerce and digital marketing initiatives we will be increasing our investment in technology resources and we have recently hired a Chief Technology Officer and additional resources dedicated to e-commerce and digital development and data analytics.

The following chart summarizes Cara's quarterly SRS Growth from April 2, 2012 to June 26, 2016:



See "Non-IFRS Measures" on page 24 for a description of how Cara calculates SRS growth. SRS Growth for individual brands may be higher or lower than SRS Growth for all restaurants combined, and in some cases, SRS Growth, for individual brands, may be negative.

Competition

The Canadian Restaurant Industry has been and continues to be intensely competitive. While guests' tastes and expectations have evolved over the years, many of the factors impacting their dining decision remain the same: quality, value, service, and convenience. Cara competes with a range of competitors including large national and regional restaurant chains and local independent restaurant operators. While independent restaurants continue to have a significant share in the restaurant industry, Cara's management believes larger restaurant operators (like Cara) will continue to offer competitive advantages compared to their independent counterparts. These advantages include lower food costs through greater purchasing power, the ability to generate sales through more efficient advertising dollars, stronger selection of sites and a long history and expertise in real estate negotiations.

New Restaurant Openings

The opening and success of new restaurants is dependent on a number of factors, including: availability of suitable sites; negotiation of acceptable lease terms for new locations; attracting qualified franchisees with suitable financing; availability, training and retention of management and other employees necessary to operate new corporate restaurants; and other factors, some of which are beyond Cara's control.

Financial results

System Sales from continuing operations

System Sales from continuing operations for the 13 and 26 weeks ended June 26, 2016 were $450.3 million and $900.5 million compared to $437.0 million and $866.0 million for the 13 and 26 weeks ended June 28, 2015, respectively, representing an increase of $13.3 million or 3.0% for the quarter and an increase of $34.5 million of 4.0% year to date. This increase was primarily the result of new restaurants opened since the second quarter 2015 and the addition of the New York Fries restaurants in the fourth quarter of 2015, which together generated higher sales offsetting net restaurant closures and the SRS change during the period.

Total gross revenue from continuing operations

Total gross revenue from continuing operations represents sales from corporate restaurants, franchise revenues (including royalty fees net of agreed subsidies, new franchise fees, equipment rental income and corporate to franchise conversion fees), fees generated from Cara's off-premise call centre business, and development revenue.

Total gross revenue from continuing operations was $89.0 million and $173.2 million for the 13 and 26 weeks ended June 26, 2016 compared to $80.9 million and $156.6 million in 2015, representing an increase of $8.1 million or 10.0% for the quarter and $16.6 million or 10.6% year to date. The increase in gross revenues from continuing operations was primarily the result of new openings in 2015, the addition of corporate restaurants during 2015 and 2016, and the New York Fries acquisition in the fourth quarter of 2015.

Selling, general and administrative expenses

SG&A expenses represent direct corporate restaurant costs such as labour, other direct corporate restaurant operating costs (e.g. supplies, utilities, net rent, net marketing, property taxes), overhead costs, franchisee rent assistance and bad debts, central overhead costs, lease costs and tenant inducement amortization, losses on early buyout / cancellation of equipment rental agreements and depreciation and amortization on other assets. These charges are offset by vendor purchase allowances.

Direct corporate restaurant labour costs and other direct corporate restaurant operating and overhead costs are impacted by the number of restaurants, minimum wage increases and the Company's ability to manage input costs through its various cost monitoring programs. Central overhead costs are impacted by general inflation, market conditions for attracting and retaining key personnel and management's ability to control discretionary costs. Franchisee rent assistance and bad debts are impacted by franchisee sales and overall franchisee profitability. Vendor purchase allowances are impacted by the volume of purchases, inflation and fluctuations in the price of negotiated products and services. Losses on early buyout/cancellation of equipment rental contracts, recognition of lease cost and tenant inducements, and depreciation and amortization represent non-cash expenses generally related to prior year's transactions where corporate restaurants were converted to franchise.

SG&A expenses for the 13 and 26 weeks ended June 26, 2016 were $43.5 million and $88.3 million compared to $41.6 million and $82.1 million in 2015, respectively, representing an increase of $1.9 million or 4.6% for the quarter and $6.2 million or 7.6% year to date. The increase was primarily related to one-time transaction costs related to the St-Hubert acquisition of $0.9 million during the quarter and $2.0 million year to date. In addition, the increased number of corporate restaurants operated by the Company during the period compared to 2015 resulted in increased direct restaurant labour and other direct restaurant costs. These increases were partially offset by a reduction in net overhead costs.

For the 13 weeks ended June 26, 2016, SG&A expenses as a percentage of revenue decreased from 51.4% in 2015 to 48.9%, a decrease of 2.5 percentage points. Year to date, SG&A expenses as a percentage of revenue decreased from 52.4% in 2015 to 51.0%, a decrease of 1.4 percentage points. Excluding the impact of the one-time transaction costs, SG&A expenses as a percentage of revenue decreased 3.5 percentage points for the quarter and 2.7 percentage points year to date.

Net interest expense and other financing charges

Finance costs are derived from Cara's financing activities which include the Existing Credit Facility and amortization of financing fees. Prior to the completion of the Initial Public Offering ("IPO") on April 10, 2015, finance costs also included interest on Subordinated Debentures, interest on Class A and Class B Preferred Shares, non-cash accretion expense related to the Subordinated Debentures, Class A and Class B Preferred Shares, and mark-to-market adjustments on an interest rate derivative. On April 10, 2015, the Subordinated Debentures, Class A and Class B Preferred Shares were surrendered and converted into common shares in conjunction with a cashless warrant exercise. These common shares were then converted into Subordinated Voting and Multiple Voting Shares.

Net interest expense and other financing charges were $0.8 million and $1.4 million for the 13 and 26 weeks ended June 26, 2016, compared to $2.0 million and $10.3 million in 2015, respectively, representing a decrease of $1.2 million or 60.0% for the quarter and $8.9 million or 86.4% year to date. The significant decrease in net interest expense is primarily related to the reduction of total debt from the net proceeds of the IPO, the conversion of the preferred shares and warrants into multiple voting common shares and the amendment of the existing term credit facility at reduced interest rates.

In the second quarter of 2015, in conjunction with the amended and extended term credit facility, the Company settled its $150.0 million interest rate derivative on the previous credit facility and recognized a loss of $1.6 million related to the fair value adjustment on the derivative. The Company also wrote off unamortized financing fees of $1.8 million related to the previous credit facility.

Earnings from continuing operations before income taxes

Earnings from continuing operations before income taxes were $24.9 million and $45.0 million for the 13 and 26 weeks ended June 26, 2016 compared to $17.1 million and $24.8 million in 2015, respectively, representing an improvement of $7.8 million or 45.6% for the quarter and $20.2 million or an increase of 81.5% year to date. The increase was mainly attributed to improved restaurant performance resulting in increased contribution from corporate and franchised restaurants, the addition of corporate restaurants, the addition of New York Fries, and reduced interest expense related to the reduction of debt, net of transaction costs related to the acquisition of St-Hubert.

Income taxes

Cara's earnings are subject to both federal and provincial income taxes. Cara has income tax losses available to offset taxable earnings and at present does not pay significant cash income taxes on its operational earnings. In 2015 prior to the IPO, the Company paid taxes in respect of dividend payments relating to its Class A and Class B Preferred Shares. According to Canadian income tax legislation, any dividends paid in respect of these preferred shares were subject to a special tax (Part VI.1 taxes) at a rate of 40% and were recorded as current tax expense. These taxes were eligible for a deduction from taxable income equal to 3.5 times the amount of the Part VI.1 taxes paid. For financial accounting purposes, these dividends were presented as finance costs. These taxes on dividend payments are not expected to be incurred in future periods as the preferred shares were converted into multiple voting common shares on April 10, 2015.

The Company recorded an income tax expense of $6.8 million and $12.6 million for the 13 and 26 weeks ended June 26, 2016, compared to an expense of $1.1 million and $2.7 million for the 13 and 26 weeks ended June 28, 2015, representing an income tax expense increase of $5.7 million and $9.9 million, respectively. The income tax expense is primarily a non-cash expense because of the utilization of previously recognized income tax losses available from prior years.

During the 13 weeks ended December 27, 2015 the Company recognized a deferred tax asset of $37.5 million in respect of non-capital losses and other timing differences available to offset future income tax payable on operating profits. Management determined it was appropriate to record a deferred tax asset based on the Company's financial performance, financial projections and the likelihood that future taxable profits would be available against which the asset (ie. tax losses) will be utilized.

As at December 27, 2015 the Company had $111.9 million in income tax losses available to offset future taxable earnings. These losses expire between the years 2017 and 2035. The Company had only recognized deferred tax assets in respect of $95.9 million of losses as at December 27, 2015.

Net earnings

Net earnings from continuing operations were $18.1 million and $32.4 million for the 13 and 26 weeks ended June 26, 2016 compared to $15.9 million and $22.2 million for the 13 and 26 weeks ended June 28, 2015, respectively, representing an improvement of $2.2 million or an increase of 13.8% for the quarter and $10.2 million or 45.9% year to date. The increase in net earnings was mainly attributed to improved restaurant performance resulting in increased contribution from corporate and franchised restaurants, the addition of New York Fries, reduced interest expense, net of transaction costs related to the acquisition of St-Hubert and incremental deferred income tax expenses.

Operating EBITDA

Operating EBITDA was $32.8 million and $60.3 million for the 13 and 26 weeks ended June 26, 2016 compared to $28.4 million and $53.3 million for the 13 and 26 weeks ended June 28, 2015, respectively, representing an increase of $4.4 million or 15.5% for the quarter and $7.0 million of 13.1% year to date. The increases have been driven by improved performance in all three of the Company's operating segments, being Corporate restaurants, Franchise restaurants and Central operations, and the addition of New York Fries. Improvements from the Corporate restaurant segment was primarily driven by increased sales from the addition of Landing and New York Fries, and improved labour cost controls. The improvements in the Franchise segment is related to reduced franchisee assistance. The Central segment improvements are primarily a result from a reduction in central costs from overhead cost reductions.

See "Non-IFRS Measures" on page 24 for definition of Operating EBITDA and page 5 for a reconciliation of net earnings from continuing operations to Operating EBITDA.

Restaurant Count

Cara's restaurant network consists of company-owned corporate locations and franchised locations. As at the end of June 26, 2016, there were 1,003 restaurants, a net increase of 3 restaurants year to date, excluding the impact of Casey's.

The following table presents the changes in Cara's restaurant unit count:

	For the 26 weeks ended June 26, 2016			For the 26 weeks ended June 28, 2015		
Unit count (unaudited)	**Corporate**	**Franchised**	**Total**	**Corporate**	**Franchised**	**Total**
Beginning of period[1] ………………………	119	891	1,010	91	746	837
New openings ……………………………..	3	12	15	1	5	6
Closures……..…………………..………..	(5)	(7)	(12)	(1)	(11)	(12)
Casey's closures……..……………………...	-	(10)	(10)	-	(4)	(4)
Corporate buy backs [2]…………………..	4	(4)	-	3	(3)	-
Restaurants re-franchised [3] ……………..	(2)	2	-	(2)	2	-
End of period……………………………….	119	884	1,003	92	735	827

[1] Unit count excludes East Side Marios restaurants located in the United States.

[2] Corporate buy backs represent previously franchised restaurants acquired by the Company to operate corporately.

[3] Restaurants re-franchised represent corporate restaurants re-franchised to be operated by a franchisee.

Segment Performance

Cara divides its operations into 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 rental 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 comprised of head office people and non-personnel overhead expenses, IT costs, occupancy expenses, and general and administrative support costs offset by vendor purchase allowances.

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

The following table presents the financial performance of Cara's business segments:

(C$ thousands unless otherwise stated)	For the 13 weeks ended June 26, 2016				For the 13 weeks ended June 28, 2015			
	Corporate	Franchised	Central	Total	Corporate	Franchised	Central	Total
System Sales……………….…...…..	**$68,432**	**$ 381,902**	**$ -**	**$ 450,334**	**$ 60,592**	**$ 376,362**	**$ -**	**$ 436,954**
Corporate Results								
Sales………………………………….	$ 68,432	$ -	$ 2,164	$ 70,596	$ 60,592	$ -	$ 2,194	$ 62,786
Cost of inventories sold and cost of labour……..….	(41,511)	-	-	(41,511)	(37,454)	-	-	(37,454)
Restaurant contribution before other costs………………………..	26,921	-	2,164	29,085	23,138		2,194	25,332
Restaurant contribution before other costs %……………..……..	39.3%				38.2%			
Other operating costs……………..	(18,011)	-	-	(18,011)	(15,440)	-	-	(15,440)
Total Contribution…………………...	**8,910**	**-**	**2,164**	**11,074**	**7,698**	**-**	**2,194**	**9,892**
Franchise Results								
Franchise royalty income……..….	-	17,291	-	17,291	-	16,802	-	16,802
Franchise royalty income as a % of franchise sales……………..….	-	4.5%	-	-	-	4.5%	-	-
New franchise fees and equipment rent……………..………………..	-	-	689	689	-	-	846	846
Franchise rent assistance and bad debt………..…………………..	-	(1,913)	-	(1,913)	-	(2,062)	-	(2,062)
Contribution from franchise restaurants…………………….….	**-**	**15,378**	**689**	**16,067**	**-**	**14,740**	**846**	**15,586**
Central								
Net central contribution………...	**-**	**-**	**5,665**	**5,665**	**-**	**-**	**2,898**	**2,898**
Operating EBITDA……………...	**$ 8,910**	**$ 15,378**	**$ 8,518**	**$ 32,806**	**$ 7,698**	**$ 14,740**	**$ 5,938**	**$ 28,376**
Contribution as a % of corporate sales………………………………..	13.0%	-	-	-	12.7%	-	-	-
Contribution as a % of franchise sales ………………………………..	-	4.0%	-	-	-	3.9%	-	-
Contribution as a % of total System sales……………………….	-	-	1.9%	7.3%	-	-	1.4%	6.5%

(C$ thousands unless otherwise stated)	For the 26 weeks ended June 26, 2016				For the 26 weeks ended June 28, 2015			
	Corporate	Franchised	Central	Total	Corporate	Franchised	Central	Total
System Sales…………………..…...…..	**$ 131,637**	**$ 768,901**	**$ -**	**$ 900,538**	**$ 113,738**	**$ 752,240**	**$ -**	**$ 865,978**
Corporate Results								
Sales………………………………..…	$ 131,637	$ -	$ 4,538	$ 136,175	$ 113,738	$ -	$ 4,832	$ 118,570
Cost of inventories sold and cost of labour……..….	(82,081)	-	-	(82,081)	(71,636)	-	-	(71,636)
Restaurant contribution before other costs……………………..	49,556	-	4,538	54,094	42,102		4,832	46,934
Restaurant contribution before other costs %………………..	37.6%				37.0%			
Other operating costs……………..	(35,554)	-	-	(35,554)	(30,830)	-	-	(30,830)
Total Contribution………………...	**14,002**	**-**	**4,538**	**18,540**	**11,272**	**-**	**4,832**	**16,104**
Franchise Results								
Franchise royalty income……..…..	-	34,868	-	34,868	-	33,565	-	33,565
Franchise royalty income as a % of franchise sales……………..	-	4.5%	-	-	-	4.5%	-	-
New franchise fees and equipment rent…………..……………..	-	-	1,349	1,349	-	-	1,804	1,804
Franchise rent assistance and bad debt………..………………..	-	(3,774)	-	(3,774)	-	(3,909)	-	(3,909)
Contribution from franchise restaurants…………………….…	**-**	**31,094**	**1,349**	**32,443**	**-**	**29,656**	**1,804**	**31,460**
Central								
Net central contribution………..	**-**	**-**	**9,360**	**9,360**	**-**	**-**	**5,757**	**5,757**
Operating EBITDA……………...	**$ 14,002**	**$ 31,094**	**$ 15,247**	**$ 60,343**	**$ 11,272**	**$ 29,656**	**$ 12,393**	**$ 53,321**
Contribution as a % of corporate sales………………………………..	10.6%	-	-	-	9.9%	-	-	-
Contribution as a % of franchise sales ………………………………...	-	4.0%	-	-	-	3.9%	-	-
Contribution as a % of total System sales……………………….	-	-	1.7%	6.7%	-	-	1.4%	6.2%

Corporate

As at June 26, 2016, the corporate segment restaurant count consisted of 119 restaurants compared to 92 at June 28, 2015, an increase of 27 locations. In addition to the restaurants added in 2015 related to new restaurant openings, buybacks and the acquisition of New York Fries, during the first half of 2016, the Company opened 3 new locations (including 1 Bier Markt and 1 Landing), closed 5 locations, and bought back 4 locations.

Sales

Sales represent food and beverage sales from Cara's corporate restaurants. Corporate restaurant sales are impacted by SRS Growth and the change in number of corporate restaurants. Sales were $68.4 million and $131.6 million for the 13 and 26 weeks ended June 26, 2016 compared to $60.6 million and $113.7 million in 2015, respectively, an increase of $7.8 million or 12.8% for the quarter and $17.9 million or 15.7% year to date. The increase was primarily related to the increase in number of corporate restaurants, in particular the addition of Landing and New York Fries, partially offset by the SRS decrease.

Cost of inventories sold and cost of labour

Cost of inventories sold represents the net cost of food, beverage and other inventories sold at Cara's corporate restaurants. Cost of inventories sold and cost of labour is impacted by the number of corporate restaurants, fluctuations in the volume of inventories sold, food prices, minimum wages increases, and Cara's ability to manage input costs at the restaurant level. Cara manages input costs through various cost monitoring programs and through the negotiation of favourable contracts on behalf of its corporate and franchise restaurant network.

Cost of inventories sold and cost of labour was $41.5 million and $82.1 million for the 13 and 26 weeks ended June 26, 2016 compared to $37.5 million and $71.6 million in 2015, respectively, an increase of $4.0 million or 10.7% for the quarter and $10.5 million or 14.7% year to date. The increase was primarily due to the addition of 27 corporate restaurants, including the impact from the New York Fries acquisition. The increase was offset by overall cost reductions relating to improved food and beverage cost control as well as better management of variable labour costs at the restaurant level. Cost of inventories sold and cost of labour as a percentage of sales have decreased from 61.8% to 60.7% in the 13 weeks ended June 26, 2016 compared to 2015, an improvement of 1.1 percentage points. Year to date, cost of inventories sold and cost of labour as a percentage of sales have decreased from 63.0% to 62.4%, an improvement of 0.6 percentage points.

Contribution from corporate segment

Total contribution from corporate restaurants was $8.9 million and $14.0 million for the 13 and 26 weeks ended June 26, 2016 compared to $7.7 million and $11.3 million in 2015, an improvement of $1.2 million and $2.7 million, respectively. The increase is primarily driven by the increase in number of corporate restaurants coupled with the improvement of food and labour costs as a percentage of corporate restaurant sales described above.

For the 13 and 26 weeks ended June 26, 2016, total contribution from corporate restaurants as a percentage of corporate sales was 13.0% and 10.6% compared to 12.7% and 9.9% for the 13 and 26 weeks ended June 28, 2015, an increase of 0.3 percentage points and 0.7 percentage points, respectively. The increase was driven by the acquisition of New York Fries (which included 16 corporate stores), better labour management and higher sales and contribution in premium corporate brands such as Bier Markt, Landing and Milestones.

Franchise

As at June 26, 2016, the franchise restaurant segment consisted of 884 restaurants compared to 752 at June 28, 2015, an increase of 132 locations primarily related to the acquisition of New York Fries.

Franchise segment System Sales were $381.9 million and $768.9 million during the 13 and 26 weeks ended June 26, 2016 compared to $376.4 million and $752.2 million in 2015, respectively, an increase of $5.5 million or 1.5% for the quarter and $16.7 million or 2.2% year to date. The increase was primarily attributed to the new restaurant openings in 2015, the acquisition of New York Fries partially offset by the SRS decrease, restaurant closures and franchise restaurant buybacks.

Franchise revenues

Franchise revenues represent royalty fees charged to franchisees as a percentage of restaurant sales net of contractual subsidies and temporary assistance to certain franchisees.

The primary factors impacting franchise revenues are SRS Growth and net new restaurant activity, as well as the rate of royalty fees (net of contractual subsidies and temporary assistance) paid to Cara by its franchisees. In certain circumstances, the royalty rate paid to Cara can be less than Cara's standard 5.0% royalty rate due to historical contractual subsidies primarily associated with prior year's conversion transactions or agreements to temporarily assist certain franchisees. With the majority of contractual subsidies scheduled to end at prescribed dates and the reduction in the number of restaurants requiring temporary assistance, management believes the effective royalty recovery rate will gradually increase over time closer to 5.0%.

Franchise revenues were $17.3 million and $34.9 million for the 13 and 26 weeks ended June 26, 2016 compared to $16.8 million and $33.6 million in 2015, respectively, an increase of $0.5 million or 3.0% for the quarter and $1.3 million or 3.9% year to date. The increase was primarily attributed to the New York Fries acquisition, reductions in contractual subsidies and temporary assistance to franchisees, partially offset by restaurant closures and franchise restaurant buybacks.

Contribution from franchise segment

Total contribution from franchise restaurants was $15.4 million and $31.1 million for the 13 and 26 weeks ended June 26, 2016 compared to $14.7 million and $29.7 million in 2015, respectively, an increase of $0.7 million or 4.8% for the quarter and $1.4 million or 4.7% year to date. The increase was related to increased royalty income as a result of the franchise sales increase and a reduction in franchisee subsidies and bad debts for the 13 and 26 weeks ended June 26, 2016.

The effective net royalty rate for the 13 and 26 weeks ended June 26, 2016 was 4.0% compared to 3.9% in 2015. As at June 26, 2016, a total of 160 restaurants were paying Cara a royalty of less than 5.0% as compared to 172 restaurants at December 27, 2015, a decrease of 12 restaurants year to date. 92 out of the 160 restaurants paying less than 5% royalty are related to previously agreed upon conversion agreements, an improvement of 8 restaurants compared to 100 as at December 27, 2015. 68 out of the 160 restaurants paying less than 5% royalty were related to temporary assistance provided to certain other restaurants, a decrease of 4 restaurant compared to 72 as at December 27, 2015.

Central

Sales

Sales in the central segment consist of revenue from Cara's off-premise call centre business representing fees generated from delivery, call-ahead and web and mobile-based meal orders principally associated with Swiss Chalet customers. The call centre business receives fees from restaurants to recover administrative costs associated with processing guest orders. Call centre revenues are impacted by the volume of guest orders as well as by the mix of fee types charged on the orders received (i.e. higher fees are received on phone orders compared to mobile-web orders).

Total central segment sales were $2.2 million and $4.5 million for the 13 and 26 weeks ended June 26, 2016 compared to $2.2 million and $4.8 million in 2015, respectively, representing no change for the quarter and a decrease of $0.3 million or 6.3% year to date. The decrease year to date was primarily attributed to reduced rates Cara charges to franchisees for web and mobile orders starting in 2016 compared to 2015 and prior years. The decrease from reduced rates on web and mobile orders during the quarter were offset by sales increases related through these channels which now includes East Side Mario's in addition to Swiss Chalet.

New franchise fees and equipment rent

Cara grants franchise agreements to independent operators ("franchisees") for new locations. Cara also renews franchise agreements in situations where a previous franchise agreement has expired and is extended. As part of these franchise agreements, franchisees pay new franchise and/or renewal fees and, in the case of converting established locations from corporate to franchise, conversion fees. New franchise fees and conversion fees, if applicable, are collected at the time the franchise agreement is entered into. Renewal fees are collected at the time of renewal.

Franchise fees and equipment rent revenue from franchisees were $0.7 million and $1.3 million for the 13 and 26 weeks ended June 26, 2016 compared to $0.8 million and $1.8 million in 2015, respectively, a decrease of $0.1 million or 12.5% for the quarter and $0.5 million or 27.8% year to date. The decrease was the result of buyouts and terminations of equipment rental agreements.

Contribution from central segment

Central segment contribution for the 13 and 26 weeks ended June 26, 2016 was $8.5 million and $15.2 million compared to $5.9 million and $12.4 million in 2015, respectively, representing an increase of $2.6 million or 44.1% for the quarter and $2.8 million or 22.6% year to date. Central segment contribution as a percentage of total system sales for the 13 and 26 weeks ended June 26, 2016 was 1.9% and 1.7% compared to 1.4% and 1.4% in 2015, improvement of 0.5% and 0.3% respectively. The improvements are primarily a result from a reduction in central costs from overhead cost reductions.

Selected Quarterly Information

The following table provides selected historical information and other data of the Company which should be read in conjunction with the annual consolidated financial statements of the Company.

(C$ millions unless otherwise stated) [1]	Q2 – 2016 June 26, 2016 (unaudited)	Q1 – 2016 Mar 27, 2016 (unaudited)	Q4 – 2015 Dec 27, 2015 (unaudited)	Q3 – 2015 Sept 27, 2015 (unaudited)	Q2 – 2015 June 28, 2015 (unaudited)	Q1 – 2015 Mar 29, 2015 (unaudited)	Q4 – 2014 Dec 30, 2014 (unaudited)	Q3 – 2014 Sept 30, 2014 (unaudited)
System Sales from continuing operations	$ 450.3	$ 450.2	$ 461.1	$ 438.6	$ 437.0	$ 429.0	$ 436.9	$ 427.3
Total System Sales Growth	3.0%	4.9%	5.5%	2.6%	4.6%	5.0%	12.8%	29.5%
SRS Growth	(2.0%)	0.5%	1.2%	1.9%	3.3%	3.5%	4.9%	2.9%
Number of restaurants (at period end)	1,003	997	1,010	828	827	834	837	834
Operating EBITDA	**$ 32.8**	**$ 27.5**	**$ 29.2**	**$ 28.9**	**$ 28.4**	**$ 24.9**	**$ 22.1**	**$ 21.7**
Operating EBITDA Margin on System Sales	**7.3%**	**6.1%**	**6.3%**	**6.6%**	**6.5%**	**5.8%**	**5.1%**	**5.1%**
Corporate restaurant sales	$ 68.4	$ 63.2	$ 60.6	$ 63.4	$ 60.6	$ 53.1	$ 48.5	$ 52.3
Number of corporate restaurants	119	118	119	96	92	92	91	86
Contribution from Corporate segment	$ 8.9	$ 5.1	$ 6.1	$ 7.5	$ 7.7	$ 3.6	$ 2.7	$ 3.6
Contribution as a % of corporate sales	13.0%	8.1%	10.0%	11.9%	12.7%	6.7%	5.5%	6.9%
Franchise restaurant sales	$ 381.9	$ 387.0	$ 400.5	$ 376.3	$ 376.4	$ 375.9	$ 388.4	$ 376.2
Number of franchised restaurants	884	879	891	732	735	742	746	748
Contribution from Franchise segment	$ 15.4	$ 15.7	$ 16.1	$ 14.6	$ 14.7	$ 14.9	$ 15.3	$ 14.3
Contribution as a % of Franchise sales	4.0%	4.1%	4.0%	3.9%	3.9%	4.0%	3.9%	3.8%
Contribution from Central segment	$ 8.5	$ 6.7	$ 7.0	$ 6.7	$ 5.9	$ 6.4	$ 3.8	$ 3.8
Contribution as a % of total System Sales	1.9%	1.5%	1.5%	1.5%	1.4%	1.5%	0.9%	0.9%
Total gross revenue from continuing operations	$ 89.0	$ 84.2	$ 84.0	$ 85.7	$ 80.9	$ 75.7	$ 75.4	$ 72.3
Operating EBITDA Margin	36.9%	32.7%	34.8%	33.7%	35.1%	32.9%	29.3%	30.0%
Earnings from continuing operations before income taxes	**$ 24.9**	**$ 20.1**	**$ 21.7**	**$ 19.7**	**$ 17.1**	**$ 7.7**	**$ (3.5)**	**$ 4.2**
Net earnings (loss)	$ 18.1	$ 14.3	$ 58.3	$ 19.2	$ 15.9	$ 6.2	$ (4.5)	$ 2.2
Earnings per share attributable to common shareholders of the Company (in dollars) [2]								
Basic EPS	$ 0.37	$ 0.29	$ 1.19	$ 0.39	$ 0.34	$ 0.35	$ (0.24)	$ 0.12
Diluted EPS	$ 0.34	$ 0.27	$ 1.11	$ 0.36	$ 0.31	$ 0.17	$ (0.13)	$ 0.08
Adjusted Basic EPS	**$ 0.50**	**$ 0.41**	**$ 0.45**	**$ 0.41**	**$ 0.36**	**$ 0.37**	**$ (0.32)**	**$ 0.16**
Adjusted Diluted EPS	**$ 0.46**	**$ 0.38**	**$ 0.42**	**$ 0.38**	**$ 0.32**	**$ 0.18**	**$ (0.18)**	**$ 0.11**
Net earnings from continuing operations attributable to common shareholders of the Company	$ 18.1	$ 14.5	$ 58.3	$ 19.1	$ 15.5	$ 6.3	$ (4.4)	$ 2.1
Earnings per share from continuing operations attributable to common shareholders of the Company (in dollars) [2]								
Basic EPS	$ 0.37	$ 0.29	$ 1.19	$ 0.39	$ 0.34	$ 0.35	$ (0.25)	$ 0.12
Diluted EPS	$ 0.34	$ 0.27	$ 1.11	$ 0.36	$ 0.31	$ 0.17	$ (0.14)	$ 0.08
Adjusted Basic EPS	**$ 0.50**	**$ 0.41**	**$ 0.45**	**$ 0.41**	**$ 0.36**	**$ 0.37**	**$ (0.32)**	**$ 0.16**
Adjusted Diluted EPS	**$ 0.46**	**$ 0.38**	**$ 0.42**	**$ 0.38**	**$ 0.32**	**$ 0.19**	**$ (0.18)**	**$ 0.11**

(1) See "Non-IFRS Measures" on page 24 for definitions of System Sales, System Sales Growth, SRS Growth, Operating EBITDA, Operating EBITDA Margin on System Sales, Adjusted Basic EPS, and Adjusted Diluted EPS.

(2) Amounts per share give effect on a retrospective basis for the 2.79 to 1 share consolidation for common shares outstanding as at April 10, 2015, that took place as part of the Offering.

The Company's quarterly operating results may fluctuate significantly because of numerous factors, including, but not limited to:

- restaurant acquisitions;
- the timing of restaurant openings and closures;
- royalty recovery rates and the extent to which Cara provides financial assistance to franchisees;
- restaurant operating costs for corporate-owned restaurants;
- labour availability and costs for hourly and management personnel at corporate-owned restaurants;
- profitability of the corporate-owned restaurants, especially in new markets;
- changes in interest rates;
- increases and decreases in SRS Growth;
- impairment of long-lived assets and any loss on restaurant closures for corporate-owned restaurants;
- macroeconomic conditions, both nationally and locally;
- changes in consumer preferences and competitive conditions;
- expansion in new markets;
- increases in fixed costs; and
- fluctuations in commodity prices.

Seasonal factors and the timing of holidays cause the Company's revenue to fluctuate from quarter to quarter. Revenue per restaurant is typically slightly lower in the first quarter due to holiday closures. Adverse weather conditions may also affect customer traffic. In addition, the Company has outdoor patio seating at some of its restaurants, and the effects of adverse weather may impact the use of these areas and may negatively impact the Company's revenue.

The System Sales increases quarter over quarter are primarily related to SRS Growth, the addition of new restaurants and acquisitions of Landing Restaurants in December 2014 and New York Fries in November 2015. Growth in 2014 was primarily related to full year impact of the Prime acquisition in October 2013.

Operating EBITDA margin has consistently remained between 32.7% and 36.9% quarter over quarter since 2015 from a range of 29.3% and 30.0% in 2014. The increases have been driven by improved performance in all three of the Company's operating segments, being Corporate restaurants, Franchise restaurants and Central operations.

Contribution from the corporate restaurant segment as a percentage of sales has consistently improved quarter over quarter from a range of 5.5% to 6.9% in 2014 to a range of 6.7% and 13.0% in 2015 and 2016. Contribution as a percentage of sales from the corporate restaurant segment is impacted by seasonality where the sales are traditionally lower in the first quarter and highest during the fourth quarter. The improvement is related to better cost management of food and labour costs, and the addition of higher volume, higher margin restaurant concepts such as the Bier Markts and Landing restaurants.

The franchise restaurant segment has improved steadily each quarter and is primarily attributed to the reduction of franchise assistance provided to restaurants. Contribution from the franchise segment has improved from 3.8% in the third quarter of 2014 to 4.0% in the second quarter of 2016.

Improvements in central contribution have resulted from head office cost reductions and the growth of the Company's off premise business.

Net earnings in 2016 and 2015 have increased significantly as a result of improvements in all business segments as described above as well as from significant reductions in financing costs since the second quarter of 2015 resulting from the reduction in debt with proceeds from the April 2015 IPO. The loss in the fourth quarter of 2014 was related to higher impairment charges and higher expense accruals than in previous quarters.

Liquidity and Capital Resources

Cara's principal uses of funds are for operating expenses, capital expenditures, finance costs, debt service and dividends. Management believes that cash generated from operations, together with amounts available under its credit facility (refer to page 21), will be sufficient to meet its future operating expenses, capital expenditures, future debt service costs and discretionary dividends. However, Cara's ability to fund future debt service costs, operating expenses, capital expenditures and dividends will depend on its future operating performance which will be affected by general economic, financial and other factors including factors beyond its control. See "Risk and Uncertainties". Cara's management reviews acquisition and investment opportunities in the normal course of its business and if suitable opportunities arise, may make selected acquisitions and investments to implement Cara's business strategy. Historically, the funding for any such acquisitions or investments have come from cash flow from operating activities and/or additional debt. Similarly, from time to time, Cara's management reviews opportunities to dispose of non-core assets and may, if suitable opportunities arise, sell certain non-core assets.

Working Capital

A working capital deficit is typical of restaurant operations, where the majority of sales are for cash and there are rapid turnover of inventories. In general, the turnover of accounts receivable and inventories is faster than accounts payable, resulting in negative working capital. Cara's Ultimate Gift Card sales significantly improve the Company's liquidity in the fourth quarter as cash is received within one to two weeks from time of sale. Gift card sales are highest in November and December followed by high redemptions in the January to March period. Cara's gift card liability at June 26, 2016 was $25.5 million compared to $51.9 million at December 27, 2015, a reduction of $26.4 million due to higher redemptions than sales in the first quarter.

At June 26, 2016, Cara had a working capital deficit of ($41.3) million compared to ($51.6) million at December 27, 2015. The change of $10.3 million was related to (i) reduction in cash of $15.3 million primarily related to the repayment of the credit facility in the amount of $18.0 million and capital asset additions of $16.1 million; (ii) reduction in accounts receivable of $15.1 million related to the collection of gift card sales during the December holiday period and collection of tenant inducements receivable from landlords related to restaurants built during the fourth quarter; (iii) reduction in accounts payable and accrued liabilities of $16.0 million mainly related to the payout of 2015 cash bonus; construction costs payable for new restaurants and other year end related costs; and (iv) reduction in gift card liability of $26.4 million related to high gift card redemptions following the December holiday period.

Investment in working capital may be affected by fluctuations in the prices of food and other supply costs, vendor terms and the seasonal nature of the business. While Cara has availability under its credit facility, it chooses to apply available cash flow against its facility to lower financing costs, rather than to reduce its current liabilities. Management believes it will continue to operate in a working capital deficit position as the nature of its business is not expected to change.

Cash Flows

The following table presents Cara's cash flows for the 13 and 26 weeks ended June 26, 2016 compared to the 13 and 26 weeks ended June 28, 2015:

	For the 13 weeks ended		For the 26 weeks ended	
(C$ millions unless otherwise stated)	**June 26, 2016**	**June 28, 2015**	**June 26, 2016**	**June 28, 2015**
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash flows from operating activities of continuing operations ……	$ 29.4	$ 24.3	$ 29.1	$ 12.8
Cash flows used in investing activities……………………………….…	$ (11.5)	$ (15.0)	$ (14.6)	$ (17.4)
Cash flows from (used in) financing activities……………………………	$ (16.8)	$ (7.4)	$ (29.7)	$ 3.4
Change in cash during the period [(1)]………………………………………	$ 1.1	$ 1.9	$ (15.3)	$ (1.2)

[(1)] Figures may not total due to rounding.

Cash flows from operating activities of continuing operations

Cash flows from operating activities of continuing operations were $29.4 million and $29.1 million for 13 and 26 weeks ended June 26, 2016 compared to $24.3 million and $12.8 million for the 13 and 26 weeks ended June 28, 2015, an improvement of $5.1 million and $16.3 million, respectively. The increase was primarily the result of improved earnings from continuing operations, cash received from the reduction of accounts receivable, offset by decreases in accounts payable and accrued liabilities related to the 2015 cash bonus paid in the first quarter of 2016.

Cash flows used in investing activities of continuing operations

The following table presents Cara's capital expenditures for 13 and 26 weeks ended June 26, 2016 as compared to the 13 and 26 weeks ended June 28, 2015:

	For the 13 weeks ended		For the 26 weeks ended	
(C$ millions unless otherwise stated)	**June 26, 2016**	**June 28, 2015**	**June 26, 2016**	**June 28, 2015**
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash from (used in):				
Purchase of property, plant and equipment:				
Maintenance:				
Corporate restaurants	(1.0)	(1.6)	(1.8)	(2.4)
Central / IT expenditures / Other	(5.4)	(1.5)	(6.7)	(2.7)
Total maintenance	$ (6.4)	$ (3.1)	$ (8.5)	$ (5.1)
Growth initiatives:				
Major renovations	(1.3)	(0.6)	(1.5)	(0.6)
New builds	(4.7)	(0.6)	(6.0)	(0.8)
Total growth	$ (6.0)	$ (1.2)	$ (7.5)	$ (1.4)
Total purchase of property, plant and equipment [2]	**$ (12.4)**	**$ (4.3)**	**$ (16.1)**	**$ (6.5)**
Business acquisitions, net of cash assumed:				
Buy backs [1]	-	-	(0.2)	(3.3)
Buyout of non-controlling interests	-	(11.9)	-	(12.2)
Total business acquisitions, net of cash assumed	**$ -**	**$ (11.9)**	**$ (0.2)**	**$ (15.5)**
Total purchase of property, plant and equipment	$ (12.4)	$ (4.3)	$ (16.1)	$ (6.5)
Total business acquisitions, net of cash assumed	-	(11.9)	(0.2)	(15.5)
Proceeds on disposal of property, plant and equipment	0.1	0.3	0.1	0.7
Additions to other assets	-	(0.1)	-	(0.1)
Change in long term receivables	0.8	1.0	1.6	4.0
Total cash flows used in investing activities [2]	**$ (11.5)**	**$ (15.0)**	**$ (14.6)**	**$ (17.4)**

[1] 2016 buy backs are comprised of 4 locations (2015 – 3 locations)

[2] Figures may not total due to rounding.

Cash flows used in investing activities were ($11.5) million and ($14.6) million during the 13 and 26 weeks ended June 26, 2016 compared to ($15.0) million and ($17.4) million in 2015, a decrease in use of $3.5 million and $2.8 million, respectively. In 2015, cash flows used in investing activities primarily related to the acquisition of the remaining 45% of the Landing Group. In 2016, cash flows used in investing activities is primarily the result of capital asset additions related to the purchase of 4 restaurants formerly franchised, as well as the construction of new Bier Markt and Landing restaurants.

Commitments for Capital Expenditures

The Company incurs on-going capital expenditures in relation to the operation of its corporate restaurants, maintenance and upgrades to its head office IT infrastructure, and to its call centre operations. The Company will also invest in major renovations and new corporate store growth opportunities. Cara's capital expenditures are generally funded from operating cash flows and through its Existing Credit Facility.

Cash flows (used in) from financing activities

The following table presents Cara's cash used in financing activities for the 13 and 26 weeks ended June 26, 2016 compared to the 13 and 26 weeks ended June 28, 2015:

	For the 13 weeks ended		For the 26 weeks ended	
(C$ millions unless otherwise stated)	**June 26, 2016**	**June 28, 2015**	**June 26, 2016**	**June 28, 2015**
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Changes in bank indebtness	$ -	$ (3.1)	$ -	$ 2.2
Increases in debt	-	317.8	6.0	361.8
Debt repayments	(6.0)	(527.8)	(24.0)	(551.8)
Issuance of subordinate voting shares, net of transaction costs	-	216.6	-	216.6
Net proceeds on subscription receipts offering	(228.9)	-	(228.9)	-
Liabilities from subscription receipts due upon closing of St-Hubert transaction	228.5	-	228.5	-
Change in finance leases	(0.6)	(0.6)	(1.1)	(0.9)
Interest paid	(0.1)	(7.1)	(0.5)	(10.3)
Dividends paid	(9.8)	(3.0)	(9.8)	(14.0)
Other	-	(0.2)	-	(0.2)
Cash flows from (used in) financing activities [(1)]	$ (16.8)	$ (7.4)	$ (29.7)	$ 3.4

[(1)] Figures may not total due to rounding.

Cash flows used in financing activities were ($16.8) million for the 13 weeks ended June 26, 2016. Cash used in financing activities primarily consist of a net reduction of the Company's credit facility of $6.0 million, dividends paid in the amount of $9.8 million, interest paid of $0.1 million, change in finance leases of $0.6 million, and net proceeds being held in escrow relating to the subscription receipts offering.

Year to date, cash flows used in financing activities were ($29.7) million and primarily consist of a net reduction of the Company's credit facility of $18.0 million, dividends paid in the amount of $9.8 million, interest paid of $0.5 million, change in finance leases of $1.1 million, and net proceeds being held in escrow relating to the subscription receipts offering.

For the 13 weeks ended June 28, 2015, cash flows used in financing activities were ($7.4) million. Cash used in financing activities primarily consist of a net reduction of the Company's credit facility of $213.1 million from the proceeds of the IPO of $216.6 million, dividends paid in the amount of $3.0 million, interest paid of $7.1 million and change in finance leases of $0.6 million.

Cash flows from financing activities for the 26 weeks ended June 28, 2015 were $3.4 million. Cash flows from financing activities primarily consisted of a net reduction of the Company's credit facility of $187.8 million from the proceeds of the IPO of $216.6 million, dividends paid in the amount of $14.0 million, interest paid of $10.3 million and change in finance leases of $0.9 million.

Debt

On April 10, 2015, as part of the IPO, the Company amended and extended the terms of its Existing Credit Facility. The amended and extended term credit facility is comprised of revolving credit in the amount of $150.0 million and an accordion feature up to $50.0 million, maturing on June 30, 2019. The interest rate applied on amounts drawn by the Company under its term credit facility is the effective bankers acceptance rate or prime rate plus a spread based on the Company's total funded net debt to EBITDA ratio, as defined in the agreement, measured using EBITDA for the four most recently completed fiscal quarters.

As at June 26, 2016, $47.0 million was drawn under the amended and extended term credit facility with an effective interest rate of 2.73% (December 27, 2015 - 2.5%), representing bankers acceptance rate of 0.88% plus 1.25%, standby fees and the amortization of deferred financing fees 0.60%.

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 June 26, 2016, the standby fee was 0.25%.

Off Balance Sheet Arrangements

Letters of credit

Cara has outstanding letters of credit amounting to $0.3 million as at June 26, 2016 (December 27, 2015 - $0.9 million), primarily for various utility companies that provide services to the corporate owned locations and support for certain franchisees' external financing used to fund their initial conversion fee payable to Cara.

Outstanding Share Capital

The Company's authorized share capital consists of an unlimited number of common shares and an unlimited number of non-voting common shares. As at August 4, 2016, there were 49,169,950 subordinate and multiple voting shares (December 27, 2015 – 49,162,591) issued and outstanding.

The Company has a common share stock option plan for its directors, CEO and employees. The total number of options granted and outstanding as at August 4, 2016 is 4,927,074.

On May 5, 2016, the Company's Board of Directors suspended the Dividend Reinvestment Plan ("DRIP") which enabled shareholders to acquire additional Subordinate Voting Shares from Cara by reinvesting all of their cash dividends.

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 holds 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 and 26 weeks ended June 28, 2015, the Company incurred interest of $0.1 million and $0.6 million, respectively which was included in interest expense. Additionally, subsidiaries of Fairfax owned Class A and Class B preferred shares. For the 13 and 26 weeks ended June 28, 2015, the Company approved a payment of interest on the preferred shares in the amount of $0.3 million and $2.9 million, respectively, which was included in interest expense. No interest has been incurred in 2016 as the subordinated debentures, warrants, Class A and Class B preferred shares were settled prior to the IPO on April 15, 2015.

On March 3, 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.

On May 5, 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 June 15, 2016.

On March 30, 2016, 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 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.

On April 15, 2016, 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. As at June 26, 2016, the pro-rata share of dividends payable on the subscription receipts was $0.4 million.

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 and 26 weeks ended June 26, 2016 and June 28, 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.

Outlook

Management believes the Net Earnings and Operating EBITDA improvements achieved in the first half of 2016 are significant. With Operating EBITDA growth in all 3 segments and the second quarter being the first quarter in our long term range of 7% to 8% of System Sales, we continue to increase the efficiency of our sales dollars. Cara has also greatly reduced its risk profile and its ability to weather challenges by reducing debt, increasing profits and free cash flow. Despite year to date progress, management remains cautious on the Canadian economy and its potential impact on restaurant sales stemming from challenges in western Canada, and foreign exchange fluctuations in the Canadian dollar. With respect to 2016, Management provides the following comments regarding its strategies and initiatives:

- *System Sales and SRS Growth* — While Management is satisfied with total System Sales growth of 4.0% year to date, SRS Growth year to date of negative 0.7% fell below Management's expectations. SRS in the second quarter was impacted by a poor June overall, challenges in the western provinces, and uneven performance in certain restaurant banners. As Cara is a multi-branded company, not all brands will have strong results at the same time which can result in overall variable sales and SRS results. The positive results for April and May in a number of banners and in a number of provinces failed to offset these weaknesses. Compared to 2014, SRS remains positive over a 2 year period at 2.8%. Management continues to focus on both short-term and long-term strategies to improve SRS through restaurant renovations, greater emphasis on exciting food news, enhanced guest experiences, and expanded e-commerce sales through new or improved off-premise applications for most brands over the next 2 years. In addition, we will add several digital marketing initiatives that are expected to launch in 2017 to reach new customer segments and to increase the frequency of existing ones. In order to accelerate these e-commerce and digital marketing initiatives we will be increasing our investment in technology resources and we have recently hired a Chief Technology Officer and additional resources dedicated to e-commerce and digital development and data analytics.

- *Restaurant Count* — During the first half of 2016, the Company completed 15 new openings and closed 12 restaurants for a net increase of 3 restaurants. 10 Casey's restaurants were also closed during the first half of 2016 as part of the wind down strategy. Management is targeting to open a minimum of 30 net new restaurants in 2016 before the impact of Casey's closures and any acquisitions. During the second quarter, one new Bier Markt and one new Landing restaurant were opened corporately. An additional Landing restaurant opened subsequent to the end of the second quarter on July 1. Management is also pursuing the sale of certain Kelsey's, Montana's and East Side Mario's corporate restaurants to franchisees to continue to improve the corporate-franchise portfolio mix.

- *Corporate restaurant profitability* — Management is pleased with the increase in corporate restaurant profitability from 12.7% to 13.0% as a percent of corporate sales in the second quarter and from 9.9% to 10.6% year to date. The improvement of 0.3 and 0.7 percentage points for the quarter and year to date, respectively, is primarily related to strong Landing and Bier Markt restaurant contribution and the reduction in food and labour costs across the corporate store portfolio.

- *Franchise segment* —Franchise contribution as a percentage of franchise sales improved to 4.0% in the first half of 2016 from 3.9% in 2015 reflecting improved franchise sales and profit performance resulting in less assistance provided to Cara's franchise network. Cara reduced the number of restaurants receiving assistance by 12 restaurants to 160 restaurants from a total of 172 restaurants at December 27, 2015 and from 178 restaurants at the end of the second quarter of 2015. The continued sales challenges experienced in the western provinces may require the Company to provide financial assistance to certain franchised locations which will result in slower improvements in franchise contribution rate over the short term. In 2016 and beyond, we expect to increase the franchise contribution rate by (1) adding new franchisees at the full 5% standard royalty rate and (2) by continuing to reduce the number of franchisees on assistance over the long term.

- *Central segment* — Going forward as the run rate for central expenses normalizes, the improvements in the central contribution rate will be driven by growing sales faster than head office expenses and by expanding our off premise business.

- *Total Operating EBITDA* — The combined contributions from Corporate, Franchise and Central segments resulted in Total Operating EBITDA margin of 7.3% as a percentage of total System Sales for the for the quarter compared to 6.5% in 2015, representing the first quarter the Company has reached its long-term Operating EBITDA Margin target of between 7% and 8% of System Sales. Year to date, Operating EBITDA margin was 6.7% compared to 6.2% in 2015. The Company will continue to work on all three segments to increase both segmented EBITDA Contribution and Total Operating EBITDA in relation to Total System Sales.

- *Improved net income and cash available* — The improvements in operations and reduction in interest and finance costs from the debt reduction will improve net income, EPS and cash available for growth in future periods.

- *Growth and acquisitions* — Following the closing of the St-Hubert acquisition and the related increased lending commitments from Cara's lending syndicate from $150 million up to $550 million, and the Company's expectation is to have a debt to EBITDA ratio of approximately 2.0x. Consequently, Cara will be well positioned to pursue further acquisitions for growth.

  The acquisition of St-Hubert is expected to add approximately $640 million in System Sales, including sales from the food operations division, approximately $44.8 million in Operating EBITDA, and $10 million of expected synergies within the first 3 years. Including the St-Hubert acquisition, over the next 4 to 6 years, management is targeting to achieve System Sales of between $2.9 billion to $3.7 billion and Operating EBITDA between $203 million and $296 million representing 7% to 8% of System Sales.

The foregoing description of Cara's outlook is based on management's current strategies and its assessment of the outlook for the business and the Canadian Restaurant Industry as a whole, may be considered to be forward-looking information for purposes of applicable Canadian securities legislation. Readers are cautioned that actual results may vary. See "Forward-Looking Information" and "Risk & Uncertainties" for a description of the risks and uncertainties that impact the Company's business and that could cause actual results to vary.

Future Accounting Changes

New standards and amendments to existing standards have been issued and may be applicable to the Company for its annual periods beginning on or after December 28, 2015. See note 3 of the Company's condensed consolidated interim financial statements for the 13 and 26 weeks ended June 26, 2016 for a summary of new accounting standards adopted during 2016 and note 4 for a summary of future accounting standards not yet adopted.

Controls and Procedures

There were no changes in the Company's internal controls over financial reporting during the 13 and 26 weeks ended June 26, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Critical Accounting Judgments and Estimates

The preparation of the condensed consolidated interim financial statements requires significant judgements made by management in applying the Company's accounting policies except those adopted using the judgements from the second 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.

Non-IFRS Measures

This MD&A makes reference to certain non-IFRS measures. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under IFRS. The Company uses non-IFRS measures including "System Sales", "SRS Growth", "Operating EBITDA", "Operating EBITDA Margin", "Operating EBITDA Margin on System Sales", "Adjusted Basic EPS", and "Adjusted Diluted EPS", to provide investors with supplemental measures of its operating performance and thus highlight trends in its core business that may not otherwise be apparent when relying solely on IFRS financial measures. The Company also believes that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. The Company's management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets, and to determine components of management compensation.

"System Sales" represents top-line sales received from restaurant guests at both corporate and franchise restaurants including take-out and delivery customer orders. System Sales includes sales from both established restaurants as well as new restaurants. Management believes System Sales provides meaningful information to investors regarding the size of Cara's restaurant network, the total market share of the Company's brands and the overall financial performance of its brands and restaurant owner base, which ultimately impacts Cara's consolidated financial performance.

"System Sales Growth" is a metric used in the restaurant industry to compare System Sales over a certain period of time, such as a fiscal quarter, for the current period against System Sales in the same period in the previous year.

"SRS Growth" is a metric used in the restaurant industry to compare sales earned in established locations over a certain period of time, such as a fiscal quarter, for the current period against sales in the same period in the previous year. SRS Growth helps explain what portion of sales growth can be attributed to growth in established locations and what portion can be attributed to the opening of net new restaurants. Cara defines SRS Growth as the percentage increase or decrease in sales during a period of restaurants open for at least 24 complete fiscal months relative to the sales of those restaurants during the same period in the prior year. Cara's SRS Growth results exclude Casey's restaurants as the Company is in the process of winding down its operations and will either convert certain locations to other Cara brands or close. SRS Growth also excludes sales from international operations from 45 New York Fries and 3 East Side Mario's. For the first quarter of 2016, SRS excludes the timing impact resulting from Easter weekend occurring in the last week of the first quarter of 2016 as compared to being in the first week of the second quarter in 2015. To provide comparable quarter over quarter results, SRS for the first quarter was comprised of 12 weeks compared to the same 12 weeks in 2015 and the second quarter SRS compares 14 weeks in 2016 to the same 14 weeks in 2015 to include the impact of Easter weekend.

"EBITDA" is defined as net earnings (loss) from continuing operations before: (i) net interest expense and other financing charges; (ii) loss (gain) on derivative; (iii) write-off of financing fees; (iv) income taxes; (v) depreciation of property, plant and equipment; (vi) amortization of other assets; (vii) impairment of assets, net of reversals; and (viii) transaction costs.

"Operating EBITDA" is defined as net earnings (loss) from continuing operations before: (i) net interest expense and other financing charges; (ii) gain (loss) on derivative; (iii) write-off of financing fees; (iv) income taxes; (v) depreciation of property, plant and equipment; (vi) amortization of other assets; (vii) impairment of assets, net of reversals; (viii) losses on early buyout / cancellation of equipment rental contracts; (ix) restructuring; (x) conversion fees; (xi) net (gain) / loss on disposal of property, plant and equipment; (xii) stock based compensation; (xiii) change in onerous contract provision; (xiv) lease costs and tenant inducement amortization; and transaction costs.

"Operating EBITDA Margin" is defined as Operating EBITDA divided by total gross revenue from continuing operations.

"Operating EBITDA Margin on System Sales" is defined as Operating EBITDA divided by System Sales.

"Adjusted Basic EPS" is defined as net earnings plus deferred income tax expense (reversal) divided by the weighted average number of shares outstanding.

"Adjusted Diluted EPS" is defined as net earnings plus deferred income tax expense (reversal) divided by the weighted average number of shares outstanding plus the dilutive effect of stock options and warrants issued.

The following table provides reconciliations of EBITDA and Operating EBITDA:

(C$ millions unless otherwise stated)	Q2 – 2016 June 26, 2016	Q1 – 2016 Mar 27, 2016	Q4 – 2015 Dec 27, 2015	Q3 – 2015 Sept 27, 2015
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reconciliation of net earnings from continuing operations to EBITDA:				
Net earnings from continuing operations……………………….	$ 18.1	$ 14.3	$ 58.3	$ 19.2
Net interest expense and other financing charges………………	0.8	0.6	1.0	1.0
Income taxes………………………………………………………….	6.8	5.8	(36.7)	0.5
Depreciation of property, plant and equipment…………………	5.5	4.9	5.1	4.9
Amortization of other assets……………………………………...	0.7	1.2	1.5	1.3
Impairment of assets, net of reversals……………………………	-	-	(1.1)	-
EBITDA[(1)]………………………………………………………….	**$ 31.9**	**$ 26.8**	**$ 28.1**	**$ 26.9**
Reconciliation of EBITDA to Operating EBITDA:				
Losses on early buyout/cancellation of equipment rental contracts………………………………………………………...	-	-	1.0	1.4
Restructuring………………………………………………………..	(0.4)	(0.1)	0.3	(0.1)
Transaction costs………………………………………………….	0.9	1.1	-	-
Conversion fees…………………………………………………...	(0.4)	(0.4)	(0.4)	(0.5)
Net (gain) loss on disposal of property, plant and equipment…….	(0.2)	(0.9)	(0.4)	(0.6)
Stock based compensation……………………………………….	1.1	1.1	1.2	2.0
Change in onerous contract provision…………………………..	(0.2)	(0.1)	(0.6)	(0.2)
Operating EBITDA [(1)]……………………………………………..	**$ 32.8**	**$ 27.5**	**$ 29.2**	**$ 28.9**

(C$ millions unless otherwise stated)	Q2 – 2015 June 28, 2015	Q1 – 2015 Mar 29, 2015	Q4 – 2014 Dec 30, 2014	Q3 – 2014 Sept 30, 2014
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reconciliation of net earnings from continuing operations to EBITDA:				
Net earnings from continuing operations……………………….	$ 15.9	$ 6.2	$ (4.5)	$ 2.2
Net interest expense and other financing charges………………	2.0	8.3	7.8	8.7
Write-off of deferred financing fees……………………………...	1.8	-	-	-
Loss (gain) on derivative………………………………………….	-	1.6	-	(0.1)
Income taxes………………………………………………………….	1.1	1.5	(0.3)	1.9
Depreciation of property, plant and equipment…………………	4.7	4.7	4.5	4.3
Amortization of other assets……………………………………...	1.1	1.1	1.0	0.7
Impairment of assets, net of reversals……………………………	-	-	4.9	-
EBITDA[(1)]………………………………………………………….	**$ 26.6**	**$ 23.4**	**$ 13.4**	**$ 17.8**
Reconciliation of EBITDA to Operating EBITDA:				
Losses on early buyout/cancellation of equipment rental contracts………………………………………………………...	-	1.1	1.8	1.3
Restructuring………………………………………………………..	0.4	(0.2)	3.0	2.1
Conversion fees…………………………………………………...	(0.4)	(0.5)	(0.5)	(0.5)
Net (gain) loss on disposal of property, plant and equipment….	0.3	(0.6)	(0.3)	0.6
Stock based compensation……………………………………….	1.5	1.7	5.2	0.4
Change in onerous contract provision…………………………..	(0.2)	-	(0.5)	0.1
Operating EBITDA [(1)]……………………………………………..	**$ 28.4**	**$ 24.9**	**$ 22.1**	**$ 21.7**

[(1)] Figures may not total due to rounding.

Forward-Looking Information

Certain statements in this MD&A may constitute "forward-looking" statements within the meaning of applicable Canadian securities legislation which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company or the industry in which they operate, to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this MD&A, such statements use words such as "may", "will", "expect", "believe", "plan" and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this MD&A. These forward-looking statements involve a number of risks and uncertainties, including those related to: (a) the Company's ability to maintain profitability and manage its growth including SRS Growth, System Sales Growth, increases in net income, Operating EBITDA and Operating EBITDA Margin on System Sales (b) competition in the industry in which the Company operates; (c) the general state of the economy; (d) integration of acquisitions by the Company; (e) risk of future legal proceedings against the Company. These risk factors and others are discussed in detail under the heading "Risk Factors" in the Company's Annual Information Form dated March 3, 2016. New risk factors may arise from time to time and it is not possible for management of the Company to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance or achievements of the Company to be materially different from those contained in forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this MD&A.

Risks and Uncertainties

The financial performance of the Company is subject to a number of factors that affect the commercial food service industry generally and the full-service restaurant and limited-service restaurant segments of this industry in particular. The Canadian restaurant industry is intensely competitive with respect to price, value proposition, service, location and food quality. There are many well-established competitors, including those with greater financial and other resources than the Company. Competitors include national and regional chains, as well as numerous individually owned restaurants. Recently, competition has increased in the mid-price, full-service, casual dining segment of this industry in which many of the Company's restaurants operate. Some of the Company's competitors may have restaurant brands with longer operating histories or may be better established in markets where the Company's restaurants are located or may be located. If the Company is unable to successfully compete in the segments of the Canadian Restaurant industry in which it operates, the financial condition and results of operations of the Company may be adversely affected.

The Canadian restaurant industry business is also affected by changes in demographic trends, traffic patterns, and the type, number and locations of competing restaurants. In addition, factors such as inflation, increased food, labour and benefit costs, and the availability of experienced management and hourly employees may adversely affect the restaurant industry in general and the Company in particular. Changing consumer preferences and discretionary spending patterns and factors affecting the availability of certain foodstuffs could force the Company to modify its restaurant content and menu and could result in a reduction of revenue. Even if the Company is able to successfully compete with other restaurant companies, it may be forced to make changes in one or more of its concepts in order to respond to changes in consumer tastes or dining patterns. If the Company changes a restaurant concept, it may lose additional customers who do not prefer the new concept and menu, and it may not be able to attract a sufficient new customer base to produce the revenue needed to make the restaurant profitable. Similarly, the Company may have different or additional competitors for its intended customers as a result of such a concept change and may not be able to successfully compete against such competitors. The Company's success also depends on numerous other factors affecting discretionary consumer spending, including general economic conditions, disposable consumer income, consumer confidence and consumer concerns over food safety, the genetic origin of food products, public health issues and related matters. Adverse changes in these factors could reduce guest traffic or impose practical limits on pricing, either of which could reduce revenue and operating income, which would adversely affect the Company.

Please refer to the Company's Annual Information Form available on SEDAR at www.sedar.com for a more comprehensive list.