

**Cara Operations Limited**

Condensed Consolidated Interim Financial Statements (unaudited)

**For the 13 and 39 weeks ended September 25, 2016 and September 27, 2015**

**Cara Operations Limited**

Condensed Consolidated Interim Statements of Earnings and Comprehensive Income

**For the 13 and 39 weeks ended September 25, 2016 and September 27, 2015**

(unaudited)

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

	For the 13 weeks ended		For the 39 weeks ended	
	September 25, 2016	September 27, 2015	September 25, 2016	September 27, 2015
Sales (note 6)	\$ 94,634	\$ 65,547	\$ 230,809	\$ 184,117
Franchise revenues (note 7)	19,893	18,134	56,905	54,400
Development revenues	-	2,044	-	3,811
<b>Total gross revenue from continuing operations</b>	<b>\$ 114,527</b>	<b>\$ 85,725</b>	<b>\$ 287,714</b>	<b>\$ 242,328</b>
Cost of inventories sold	(36,341)	(18,934)	(75,276)	(52,911)
Selling, general and administrative expenses (note 8)	(54,285)	(44,193)	(142,559)	(126,316)
Development expenses	-	(2,042)	-	(3,763)
Impairment of assets	(1,536)	-	(1,536)	-
Restructuring (note 9)	(41)	124	424	(107)
<b>Operating income</b>	<b>\$ 22,324</b>	<b>\$ 20,680</b>	<b>\$ 68,767</b>	<b>\$ 59,231</b>
<b>Finance costs</b>				
Net interest expense and other financing charges (note 10)	(1,235)	(988)	(2,670)	(11,288)
Write-off of deferred financing fees (note 19)	(387)	-	(387)	(1,800)
Loss on derivative	-	-	-	(1,623)
<b>Earnings from continuing operations before income taxes</b>	<b>\$ 20,702</b>	<b>\$ 19,692</b>	<b>\$ 65,710</b>	<b>\$ 44,520</b>
<b>Income taxes</b> (note 11)				
Current	(1,501)	339	(1,847)	(1,272)
Deferred	(4,272)	(833)	(16,529)	(1,873)
<b>Net earnings from continuing operations</b>	<b>\$ 14,929</b>	<b>\$ 19,198</b>	<b>\$ 47,334</b>	<b>\$ 41,375</b>
Discontinued operations - net of income taxes	(2)	(2)	(6)	(8)
<b>Net earnings and comprehensive income</b>	<b>\$ 14,927</b>	<b>\$ 19,196</b>	<b>\$ 47,328</b>	<b>\$ 41,367</b>
<b>Net earnings attributable to</b>				
Shareholders of the Company	\$ 14,787	\$ 19,067	\$ 47,375	\$ 40,888
Non-controlling interest	140	129	(47)	479
	<b>\$ 14,927</b>	<b>\$ 19,196</b>	<b>\$ 47,328</b>	<b>\$ 41,367</b>
<b>Net earnings per share attributable to the Common</b>				
<b>Shareholders of the Company</b> (note 23) (in dollars)				
Basic earnings per share	\$ 0.29	\$ 0.39	\$ 0.95	\$ 1.09
Diluted earnings per share	\$ 0.27	\$ 0.36	\$ 0.88	\$ 0.89
Basic earnings per share from continuing operations	\$ 0.29	\$ 0.39	\$ 0.95	\$ 1.09
Diluted earnings per share from continuing operations	\$ 0.27	\$ 0.36	\$ 0.88	\$ 0.89

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

**Cara Operations Limited**

Condensed Consolidated Interim Statements of Total Equity

**For the 39 weeks ended September 25, 2016 and September 27, 2015**

(unaudited)

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

	<b>Attributable to the Common Shareholders of the Company</b>						
	<b>Number of shares</b> (in thousands)	<b>Share Capital</b> (note 22)	<b>Warrant certificates</b>	<b>Contributed surplus</b>	<b>Deficit</b>	<b>Non-controlling interest</b>	<b>Total equity</b>
<b>Balance at December 27, 2015</b>	<b>49,163</b>	<b>\$ 438,001</b>	<b>\$ -</b>	<b>\$ 13,622</b>	<b>\$ (226,916)</b>	<b>\$ -</b>	<b>\$ 224,707</b>
Net earnings and comprehensive income	-	-	-	-	47,375	-	47,375
Dividends	-	-	-	-	(15,001)	-	(15,001)
Shares issued under dividend reinvestment plan	7	227	-	-	-	-	227
Issuance of common stock (note 22)	9,651	277,614	-	-	-	-	277,614
Stock-based compensation (note 21)	-	-	-	3,403	-	-	3,403
	<b>9,658</b>	<b>277,841</b>	<b>-</b>	<b>3,403</b>	<b>32,374</b>	<b>-</b>	<b>313,618</b>
<b>Balance at September 25, 2016</b>	<b>58,821</b>	<b>\$ 715,842</b>	<b>\$ -</b>	<b>\$ 17,025</b>	<b>\$ (194,542)</b>	<b>\$ -</b>	<b>\$ 538,325</b>

	<b>Attributable to the Common Shareholders of the Company</b>						
	<b>Number of shares</b> (in thousands)	<b>Share Capital</b> (note 22)	<b>Warrant certificates</b>	<b>Contributed surplus</b>	<b>Deficit</b>	<b>Non-controlling interest</b>	<b>Total equity</b>
<b>Balance at December 30, 2014</b>	<b>50,468</b>	<b>\$ 29,285</b>	<b>\$ 18,490</b>	<b>\$ 7,204</b>	<b>\$ (308,040)</b>	<b>\$ 15,020</b>	<b>\$ (238,041)</b>
Net earnings and comprehensive income	-	-	-	-	40,888	479	41,367
Dividends	-	-	-	-	(7,556)	-	(7,556)
Consideration paid in excess of non-controlling interest resulting from buyouts	-	-	-	-	(5,958)	-	(5,958)
Share consolidation	(32,379)	-	-	-	-	-	-
Issuance of common stock	31,060	404,157	(18,490)	-	-	-	385,667
Buyout of non-controlling interest	-	-	-	-	-	(15,749)	(15,749)
Shares issued under dividend reinvestment plan	6	190	-	-	-	-	190
Stock-based compensation (note 21)	-	-	-	5,103	-	-	5,103
	<b>(1,313)</b>	<b>404,347</b>	<b>(18,490)</b>	<b>5,103</b>	<b>27,374</b>	<b>(15,270)</b>	<b>403,064</b>
<b>Balance at September 27, 2015</b>	<b>49,155</b>	<b>\$ 433,632</b>	<b>\$ -</b>	<b>\$ 12,307</b>	<b>\$ (280,666)</b>	<b>\$ (250)</b>	<b>\$ 165,023</b>

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

**Cara Operations Limited**

Condensed Consolidated Interim Balance Sheets

As at September 25, 2016, December 27, 2015 and September 27, 2015

(in thousands of Canadian dollars)

	As at September 25, 2016 (unaudited)	As at December 27, 2015	As at September 27, 2015 (unaudited)
<b>Assets</b>			
<b>Current Assets</b>			
Cash	\$ 11,100	\$ 19,409	\$ 3,184
Accounts receivable (note 26)	70,408	49,037	28,454
Inventories (note 12)	24,907	3,779	3,274
Assets held for sale (note 13)	1,791	7,274	849
Current taxes receivable	921	-	187
Prepaid expenses and other assets	5,579	2,450	2,663
<b>Total Current Assets</b>	<b>\$ 114,706</b>	<b>\$ 81,949</b>	<b>\$ 38,611</b>
<b>Long-term receivables</b> (note 14)	<b>31,629</b>	<b>35,198</b>	<b>37,668</b>
<b>Property, plant and equipment</b> (note 15)	<b>302,666</b>	<b>94,513</b>	<b>85,114</b>
<b>Brands and other assets</b> (note 16)	<b>495,196</b>	<b>201,301</b>	<b>163,217</b>
<b>Goodwill</b> (note 17)	<b>178,838</b>	<b>49,540</b>	<b>47,530</b>
<b>Deferred tax asset</b> (note 11)	<b>24,272</b>	<b>41,300</b>	<b>-</b>
<b>Total Assets</b>	<b>\$ 1,147,307</b>	<b>\$ 503,801</b>	<b>\$ 372,140</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	95,895	74,180	64,523
Provisions (note 18)	5,187	5,004	5,153
Gift card liability	22,543	51,946	20,713
Income taxes payable	303	69	-
Current portion of long-term debt (note 19)	2,346	2,156	2,206
Discontinued operations	113	144	154
<b>Total Current Liabilities</b>	<b>\$ 126,387</b>	<b>\$ 133,499</b>	<b>\$ 92,749</b>
<b>Long-term debt</b> (note 19)	<b>326,535</b>	<b>83,152</b>	<b>52,622</b>
<b>Provisions</b> (note 18)	<b>7,387</b>	<b>7,002</b>	<b>7,310</b>
<b>Other long-term liabilities</b> (note 20)	<b>52,154</b>	<b>51,044</b>	<b>53,269</b>
<b>Deferred tax liability</b> (note 11)	<b>96,519</b>	<b>4,397</b>	<b>1,167</b>
<b>Total Liabilities</b>	<b>\$ 608,982</b>	<b>\$ 279,094</b>	<b>\$ 207,117</b>
<b>Shareholders' Equity</b>			
Share capital	\$ 715,842	\$ 438,001	\$ 433,632
Contributed surplus	17,025	13,622	12,307
Deficit	(194,542)	(226,916)	(280,666)
<b>Total Shareholders' Equity</b>	<b>\$ 538,325</b>	<b>\$ 224,707</b>	<b>\$ 165,273</b>
Non-controlling interest	-	-	(250)
<b>Total Equity</b>	<b>\$ 538,325</b>	<b>\$ 224,707</b>	<b>\$ 165,023</b>
<b>Total Liabilities and Equity</b>	<b>\$ 1,147,307</b>	<b>\$ 503,801</b>	<b>\$ 372,140</b>

**Commitments, contingencies and guarantees** (note 25)

**Subsequent event** (note 29)

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

**Cara Operations Limited**  
Condensed Consolidated Statements of Cash Flows  
**For the 13 and 39 weeks ended September 25, 2016 and September 27, 2015**  
(unaudited)

(in thousands of Canadian dollars)

	For the 13 weeks ended		For the 39 weeks ended	
	September 25, 2016	September 27, 2015	September 25, 2016	September 27, 2015
<b>Cash from (used in)</b>				
<b>Operating Activities</b>				
Net earnings from continuing operations	\$ 14,929	\$ 19,198	\$ 47,334	\$ 41,375
Depreciation and amortization	8,067	6,168	20,394	17,840
Net gain on disposal of property, plant and equipment	(124)	(599)	(1,221)	(908)
Loss on early buyout/cancellation of equipment rental contracts	516	1,434	471	2,603
Impairment of assets	1,536	-	1,536	-
Net interest expense and other financing charges (note 10)	1,235	988	2,670	11,288
Write-off of deferred financing fees	387	-	387	1,800
Stock based compensation	1,181	1,951	3,403	5,103
Loss on derivative	-	-	-	1,623
Income taxes paid	(166)	(557)	(467)	(5,565)
Change in restructuring provision	(269)	(1,610)	(2,398)	(5,120)
Change in deferred tax (note 11)	4,697	799	16,529	1,838
Change in onerous contract provision	192	(180)	(63)	(425)
Other non-cash items	2,080	1,172	(1,382)	(4,391)
Net change in non-cash operating working capital (note 24)	(2,041)	(3,228)	(25,884)	(28,684)
Cash flows from operating activities of continuing operations	32,220	25,536	61,309	38,377
Cash flows used in operating activities of discontinued operations	(12)	(12)	(37)	(38)
Cash flows from operating activities	32,208	25,524	61,272	38,339
<b>Investing Activities</b>				
Business acquisitions, net of cash assumed (note 5)	(484,204)	(3,063)	(484,438)	(6,375)
Buyout of non-controlling interests	-	339	-	(11,861)
Purchase of property, plant and equipment	(14,949)	(6,432)	(31,018)	(12,888)
Proceeds on disposal of property, plant and equipment	-	60	-	260
Proceeds on early buyout of equipment rental contracts	410	2,003	510	2,455
Additions to other assets	-	(11)	-	(96)
Change in long-term receivables	640	(1,628)	2,205	2,391
Cash flows used in investing activities	(498,103)	(8,732)	(512,741)	(26,114)
<b>Financing Activities</b>				
Change in bank indebtedness	-	(2,224)	-	-
Issuance of long-term credit facility, net of financing costs	346,380	-	352,380	361,811
Repayment of long-term credit facility	(90,000)	(7,000)	(114,000)	(558,811)
Issuance of subordinate common voting shares, net of transaction costs	221,561	-	221,561	216,557
Change in finance leases	255	(554)	(865)	(1,473)
Interest paid net of interest received	(689)	(489)	(1,142)	(10,748)
Dividends paid on common shares	-	-	-	(14,044)
Dividends paid on subordinate and multiple voting common shares	(5,000)	(4,322)	(14,774)	(4,322)
Other	375	(1,651)	-	(1,819)
Cash flows from (used in) financing activities	472,882	(16,240)	443,160	(12,849)
<b>Change in cash during the period</b>	6,987	552	(8,309)	(624)
<b>Cash - Beginning of period</b>	4,113	2,632	19,409	3,808
<b>Cash - End of period</b>	\$ 11,100	\$ 3,184	\$ 11,100	\$ 3,184

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

## **Cara Operations Limited**

Notes to the Condensed Consolidated Interim Financial Statements

**For the 13 and 39 weeks ended September 25, 2016 and September 27, 2015**

(unaudited)

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### **1 Nature and description of the reporting entity**

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

The Company's subordinate voting shares are listed on the Toronto Stock Exchange under the stock symbol "CAO". As part of the Company's initial public offering ("IPO") during fiscal 2015, the Company issued multiple voting shares to Fairfax Financial Holdings Limited and its affiliates ("Fairfax") and the Phelan family through Cara Holdings Limited and its affiliates ("Cara Holdings", and together with Fairfax, the "Principal Shareholders"). As at September 25, 2016, the Principal Shareholders hold 64.6% of the total issued and outstanding shares and have 97.6% of the voting control attached to all the shares.

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

### **2 Basis of Presentation**

#### **Statement of compliance**

The unaudited condensed consolidated interim financial statements ("interim financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). The unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's 2015 audited annual consolidated financial statements and accompanying notes.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors ("Board") on November 9, 2016.

#### **Functional and presentation currency**

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

## **Cara Operations Limited**

Notes to the Condensed Consolidated Interim Financial Statements

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(unaudited)

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### **Seasonality of interim operations**

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

### **Critical accounting judgements and estimates**

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Company's accounting policies, except those adopted using the judgements from the first quarter of 2016, and the key sources of estimation of uncertainty were the same as those that applied to the Company's audited annual consolidated financial statements as at and for the year ended December 27, 2015.

The Company, as a result of the acquisition of St-Hubert, identified the following as an area of judgment and estimation.

### **Business combinations**

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

## **3 Significant accounting policies**

In addition to the accounting policies noted in the Company's most recent annual consolidated financial statements as at and for the year ended December 27, 2015, as a result of the acquisition of St. Hubert, the following accounting policies have been introduced during this period:

**Cara Operations Limited**

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**Revenue Recognition**

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

**Other Intangible Assets**

As part of the acquisition of St. Hubert, the Company has certain definite life intangible assets, primarily related to customer relationships, which are measured at fair value on the date of acquisition. These assets are subsequently measured cost less accumulated amortization and any net accumulated impairment losses. Amortization is recognized in the consolidated statements of earnings and comprehensive income on a straight-line basis over their estimated useful lives as follows:

Customer Relationships	20 to 33 years
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Customer Relationships will be tested for impairment annually in the fourth quarter and otherwise as required if events occur that indicate that the net carrying value may not be recoverable.

**Accounting standards implemented in 2016****Business Combinations**

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



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### **Other standards**

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

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

## **4 Future accounting standards**

### **Revenue**

In May 2014, the IASB issued IFRS 15 “Revenue from Contracts with Customers” (“IFRS 15”). IFRS 15 will replace IAS 11, “Construction Contracts”, IAS 18 “Revenue”, IFRIC 13, “Customer Loyalty Programmes”, IFRIC 15, “Agreements for the Construction of Real Estate”, IFRIC 18, “Transfer of Assets from Customers”, and SIC 31, “Revenue – Barter Transactions Involving Advertising Services”. On April 12, 2016, the IASB issued “Clarifications to IFRS 15, Revenue from Contracts with Customers”, which is effective at the same time as IFRS 15. The standard contains a single model that applies to contracts with customers and two approaches for recognizing revenue. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The clarifications to IFRS 15 provide additional guidance with respect to the five-step analysis, transition, and the application of the Standard to licenses of intellectual property. The new standard is effective for annual periods beginning on or after January 1, 2018, but earlier application is permitted either following a full retrospective approach or a modified retrospective approach. The modified retrospective approach allows the standard to be applied to existing contracts beginning with the initial period of adoption and restatements to the comparative periods are not required. The Company intends to adopt IFRS 15 and the clarifications in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

### **Financial Instruments**

In July 2014, the IASB issued the complete IFRS 9 (IFRS 9 (2014)), “Financial Instruments” (“IFRS 9 (2014)”) which will ultimately replace IAS 39, “Financial Instruments: Recognition and Measurement”. IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new ‘expected credit loss’ model for calculating impairment. IFRS 9 (2014) also includes a new general hedge accounting standard which aligns

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

### **Leases**

In January 2016, the IASB issued IFRS 16 Leases with a mandatory effective date of January 1, 2019. The new standard will replace IAS 17 Leases and will carry forward the accounting requirements for lessors. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on December 31, 2018. The extent of the impact of adoption of the standard has not yet been determined.

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

On January 19, 2016 the IASB issued Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12). The amendments apply retrospectively for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences. The Company intends to adopt the amendments to IAS 12 in its financial statements for the annual period beginning on December 26, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

### **Disclosure Initiative**

On January 7, 2016 the IASB issued Disclosure Initiative (Amendments to IAS 7). The amendments apply prospectively for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. One way to meet this new disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities from financing activities. The Company intends to adopt the amendments to IAS 7 in its financial statements for the annual period beginning on December 26, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

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(unaudited)

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### **Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)**

On June 20, 2016, the IASB issued amendments to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments apply for annual periods beginning on or after January 1, 2018. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Company intends to adopt the amendments to IFRS 2 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

## **5 Acquisitions**

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

### **St-Hubert**

On September 2, 2016 (the "Acquisition Date"), the Company completed the acquisition of 100% of Groupe St-Hubert Inc. ("St-Hubert"), Québec's leading full-service restaurant operator as well as fully integrated food manufacturer for consideration of \$538.1 million. The transaction was settled through the issuance of \$53.9 million in Cara Subordinate Voting Shares to the vendor and certain management shareholders, approximately \$230.0 million in gross proceeds from the offering of subscription receipts, on a private placement basis, and through upsizing the Company's credit facility with Scotiabank and a syndicate of lenders. The transaction was accounted for as a business combination, with the Company controlling St-Hubert and consolidating 100% of their operations as at the Acquisition Date.

The assets and liabilities and results of operations of St-Hubert are included in the Company's consolidated financial statements from the Acquisition Date. For the 13 week period ended September 25, 2016, St-Hubert contributed total gross revenue of \$21.8 million and net loss of \$0.7 million which includes a \$2.5 million expense related to the fair value increase in inventory recognized on the Acquisition Date that has been sold during third quarter. If the acquisition had occurred on December 28, 2015, management estimates that the Company's consolidated gross revenue for the 39 weeks ended September 25, 2016 would have been \$484.9 million and the Company's consolidated net income from continuing operations would have been \$57.2 million. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the Acquisition Date would have been the same if the acquisition had occurred on December 28, 2015.

**Cara Operations Limited**

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The preliminary determination of the identifiable assets acquired and liabilities assumed at fair value, in connection with the acquisition of St-Hubert is summarized in the table below:

<b>Consideration</b>	
Cash paid to vendor	\$ 386,240
Cash paid "in trust" relating to holdback	55,500
Payment of St-Hubert long-term debt	42,450
<b>Total cash paid for shares</b>	<b>\$ 484,190</b>
Cara subordinated voting shares issued	\$ 53,891
<b>Total Consideration</b>	<b>\$ 538,081</b>
<b>Fair Value of Net Assets Acquired</b>	
<b>Assets</b>	
Accounts receivable	\$ 21,183
Inventories	24,761
Prepaid expenses and other assets	4,070
Income taxes receivable	2,067
<b>Total Current Assets</b>	<b>52,081</b>
Long-term receivables	318
Property, plant and equipment	194,063
Brands and other assets	297,647
<b>Total Assets</b>	<b>\$ 544,109</b>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ 30,239
Provisions	1,101
Other long-term liabilities	9,203
Deferred income tax liabilities	94,783
<b>Total liabilities</b>	<b>\$ 135,326</b>
<b>Total net assets acquired</b>	<b>\$ 408,783</b>
<b>Goodwill</b>	<b>129,298</b>
<b>Total</b>	<b>\$ 538,081</b>

## Cara Operations Limited

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### Original Joe's

On September 1, 2016, the Company announced that it had entered into an agreement to acquire a majority ownership interest in Original Joe's Franchise Group Inc. ("Original Joe's") for \$93.0 million. Original Joe's operates and franchises 99 full-service restaurants in Canada and the United States across three brands - Original Joe's Restaurant & Bar, State & Main Kitchen Bar and Elephant & Castle Pub and Restaurant. The transaction will be funded by drawing on the Company's existing credit facility. Subject to customary conditions, the transaction is targeted to close by the end of 2016.

### New York Fries

On October 31, 2015, the Company completed the acquisition of 100% interest in the assets used in the New York Fries business from 122164 Canada Ltd. for a purchase price of \$40.6 million. There are no further changes to the fair value of the assets and liabilities acquired in connection with the acquisition of New York Fries.

### Re-acquired franchise locations

In the normal course of business, the Company may acquire or re-acquire franchise restaurants and operate them as corporate restaurants. During the 13 and 39 weeks ended September 25, 2016, there were 4 and 8 franchised locations (September 27, 2015 – 5 and 8 franchised locations), respectively were re-acquired by the Company. The determination of the identifiable net assets acquired at fair value, in connection with the re-acquired franchised locations, are summarized in the table below.

(in thousands of Canadian dollars)	For the 13 weeks ended		For the 39 weeks ended	
	September 25, 2016	September 27, 2015	September 25, 2016	September 27, 2015
<b>Consideration</b>				
Cash	\$ 14	\$ 3,063	\$ 248	\$ 6,375
Accounts receivable	49	91	231	218
Extinguishment of net finance leases	-	882	-	1,342
<b>Total Consideration</b>	<b>\$ 63</b>	<b>\$ 4,036</b>	<b>\$ 479</b>	<b>\$ 7,935</b>
<b>Net assets acquired</b>				
Inventories	\$ -	\$ -	\$ 12	\$ -
Property, plant and equipment	35	289	270	465
Brands and other assets	28	2,198	197	2,991
<b>Total Assets</b>	<b>63</b>	<b>2,487</b>	<b>479</b>	<b>3,456</b>
Goodwill	-	1,549	-	4,479
<b>Total</b>	<b>\$ 63</b>	<b>\$ 4,036</b>	<b>\$ 479</b>	<b>\$ 7,935</b>

**Cara Operations Limited**

Notes to the Condensed Consolidated Interim Financial Statements

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**6 Sales**

Sales are made up of the direct sale of prepared food and beverage to customers at company-owned restaurants, sales of St-Hubert branded and other private label products **produced and shipped** from the Company's manufacturing plant and distribution centers to retail grocery customers and to its network of St-Hubert restaurants and revenue from processing off-premise phone, web and mobile orders for franchised locations.

(in thousands of Canadian dollars)	<u>For the 13 weeks ended</u>		<u>For the 39 weeks ended</u>	
	<u>September 25, 2016</u>	<u>September 27, 2015</u>	<u>September 25, 2016</u>	<u>September 27, 2015</u>
Sales at corporate restaurants	\$ 74,737	\$ 63,431	\$ 206,374	\$ 177,169
Food processing and distribution	17,693	-	17,693	-
Call centre service charge revenues	2,204	2,116	6,742	6,948
	<u>\$ 94,634</u>	<u>\$ 65,547</u>	<u>\$ 230,809</u>	<u>\$ 184,117</u>

**7 Franchise revenues**

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

(in thousands of Canadian dollars)	<u>For the 13 weeks ended</u>		<u>For the 39 weeks ended</u>	
	<u>September 25, 2016</u>	<u>September 27, 2015</u>	<u>September 25, 2016</u>	<u>September 27, 2015</u>
Royalty revenue	\$ 18,348	\$ 16,960	\$ 53,216	\$ 50,525
Franchise fees on new and renewal licenses	42	67	173	446
Income on finance leases	441	540	1,443	1,681
Other rental income	663	105	879	389
Amortization of unearned conversion fees income	399	462	1,194	1,359
	<u>\$ 19,893</u>	<u>\$ 18,134</u>	<u>\$ 56,905</u>	<u>\$ 54,400</u>

**Cara Operations Limited**

Notes to the Condensed Consolidated Interim Financial Statements

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(unaudited)

**8 Selling, general and administrative expenses**

(in thousands of Canadian dollars)	For the 13 weeks ended		For the 39 weeks ended	
	September 25, 2016	September 27, 2015	September 25, 2016	September 27, 2015
Corporate restaurant expenses	\$ 44,122	\$ 36,878	\$ 122,823	\$ 105,368
Franchise assistance and bad debt	2,335	2,344	6,109	6,253
Franchisor over-contribution to advertising funds	566	1,072	1,949	3,179
Depreciation of property, plant and equipment (note 15)	6,608	4,898	16,586	14,319
Amortization of other assets (note 16)	1,459	1,270	3,808	3,521
Other	(805)	(2,269)	(8,716)	(6,324)
	<u>\$ 54,285</u>	<u>\$ 44,193</u>	<u>\$ 142,559</u>	<u>\$ 126,316</u>

**9 Restructuring**

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

The following table provides a summary of the costs recognized and cash payments made, as well as the corresponding net liability as at September 25, 2016:

(in thousands of Canadian dollars)	For the 13 weeks ended		For the 39 weeks ended	
	September 25, 2016	September 27, 2015	September 25, 2016	September 27, 2015
<b>Net liability, beginning of period</b>	\$ 1,533	\$ 6,828	\$ 3,662	\$ 10,338
<b>Cost/(recovery) recognized</b>				
Employee termination benefits	41	(3)	(451)	233
Site closing costs and other	-	(121)	27	(126)
<b>Total</b>	<u>41</u>	<u>(124)</u>	<u>(424)</u>	<u>107</u>
<b>Cash payments</b>				
Employee termination benefits	276	1,419	1,869	4,987
Site closing costs and other	34	67	105	240
<b>Total</b>	<u>310</u>	<u>1,486</u>	<u>1,974</u>	<u>5,227</u>
<b>Net liability, end of period</b>	<u>\$ 1,264</u>	<u>\$ 5,218</u>	<u>\$ 1,264</u>	<u>\$ 5,218</u>

**Cara Operations Limited**

Notes to the Condensed Consolidated Interim Financial Statements

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(unaudited)

**Recorded in the consolidated balance sheets as follows:**

(in thousands of Canadian dollars)	<u>September 25, 2016</u>	<u>December 27, 2015</u>	<u>September 27, 2015</u>
Employee termination benefits:			
Accounts payable and accrued liabilities	\$ 833	\$ 3,078	\$ 4,833
Other long-term liabilities	95	170	174
Site closing costs and other:			
Provisions - current	141	132	145
Provisions - long-term	195	282	66
	<u>\$ 1,264</u>	<u>\$ 3,662</u>	<u>\$ 5,218</u>

**10 Net interest expense and other financing charges**

(in thousands of Canadian dollars)	<u>For the 13 weeks ended</u>		<u>For the 39 weeks ended</u>	
	<u>September 25, 2016</u>	<u>September 27, 2015</u>	<u>September 25, 2016</u>	<u>September 27, 2015</u>
Interest expense on long-term debt	\$ 727	\$ 297	\$ 1,414	\$ 4,411
Interest expense on preferred shares	-	-	-	3,130
Interest on finance leases	403	422	1,166	1,354
Financing costs	74	63	143	457
Interest expense - other	70	231	260	788
Accretion expense	-	-	-	1,034
Interest expense related to derivative	-	-	-	192
Interest income	(39)	(25)	(313)	(78)
	<u>\$ 1,235</u>	<u>\$ 988</u>	<u>\$ 2,670</u>	<u>\$ 11,288</u>



**Cara Operations Limited**

Notes to the Condensed Consolidated Interim Financial Statements

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(unaudited)

**11 Income taxes**

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

(in thousands of Canadian dollars)	For the 13 weeks ended		For the 39 weeks ended	
	September 25, 2016	September 27, 2015	September 25, 2016	September 27, 2015
Current income tax expense (recovery)				
Current period	\$ 1,501	\$ (337)	\$ 1,866	\$ 41
Part VI.1 taxes on preferred share dividends	-	-	-	1,252
Adjustment for prior years	-	(2)	(19)	(21)
	<u>1,501</u>	<u>(339)</u>	<u>1,847</u>	<u>1,272</u>
Deferred income tax expense (recovery)				
Origination and reversal of temporary differences	4,840	6,201	17,123	13,028
Adjustments for prior years	(6)	(16)	(182)	(15)
Benefit from previously unrecognized tax asset	(562)	(5,352)	(412)	(11,140)
	<u>4,272</u>	<u>833</u>	<u>16,529</u>	<u>1,873</u>
Net income tax expense	\$ <u>5,773</u>	\$ <u>494</u>	\$ <u>18,376</u>	\$ <u>3,145</u>

*Recognized deferred tax assets and liabilities*

(in thousands of Canadian dollars)	As at September 25, 2016	As at December 27, 2015	As at September 27, 2015
Opening balance	\$ 36,903	\$ 671	\$ 671
Deferred income tax (expense)/recovery	(16,529)	35,080	(1,873)
Transaction costs associated with the Offering	-	4,131	-
Transaction costs associated with subscription receipts	2,162	-	-
New York Fries acquisition	-	(2,695)	-
Landing Group acquisition	-	(160)	35
St Hubert Group acquisition	(94,783)	-	-
Income taxes recognized in other comprehensive income	-	(124)	-
	\$ <u>(72,247)</u>	\$ <u>36,903</u>	\$ <u>(1,167)</u>
<b>Recorded in the consolidated balance sheets as follows:</b>			
Deferred tax asset	\$ 24,272	\$ 41,300	\$ -
Deferred tax liability	(96,519)	(4,397)	(1,167)
	\$ <u>(72,247)</u>	\$ <u>36,903</u>	\$ <u>(1,167)</u>

**Cara Operations Limited**

Notes to the Condensed Consolidated Interim Financial Statements

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(unaudited)

**12 Inventories**

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

(in thousands of Canadian dollars)	<u>September 25, 2016</u>	<u>December 27, 2015</u>	<u>September 27, 2015</u>
Raw materials	\$ 6,207	\$ -	\$ -
Work in progress	802	-	-
Finished goods	13,714	-	-
Food and beverage supplies	4,184	3,779	3,274
	<u>\$ 24,907</u>	<u>\$ 3,779</u>	<u>\$ 3,274</u>

**13 Assets held for sale**

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

(in thousands of Canadian dollars)	<u>September 25, 2016</u>	<u>December 27, 2015</u>	<u>September 27, 2015</u>
Assets held for sale	\$ 1,791	\$ 7,274	\$ 849

During the 13 weeks ended September 25, 2016, no restaurants were sold to franchisees and 2 restaurants were reclassified to property, plant and equipment (13 weeks ended September 27, 2015 – no restaurants were sold or reclassified). During the 39 weeks ended September 25, 2016, 3 restaurants were sold to franchisees for a total purchase price of \$2.4 million (39 weeks ended September 27, 2015 – \$nil).

**Cara Operations Limited**

Notes to the Condensed Consolidated Interim Financial Statements

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(unaudited)

**14 Long-term receivables**

(in thousands of Canadian dollars)	<b>September 25, 2016</b>	<b>December 27, 2015</b>	<b>September 27, 2015</b>
Franchise receivable	\$ 30,209	\$ 33,896	\$ 36,248
Promissory notes	1,420	1,289	1,403
Franchise licence notes	-	13	17
	<u>\$ 31,629</u>	<u>\$ 35,198</u>	<u>\$ 37,668</u>

**Franchise receivable**

In prior years, the Company converted certain corporate restaurants to franchise and sold the restaurants to independent operators (“franchisees”). As part of these conversion agreements, certain franchisees entered into rental agreements to rent certain restaurant assets from the Company. Franchise receivables of \$30.2 million (December 27, 2015 - \$33.9 million; September 27, 2015 - \$36.2 million) relate primarily to the long-term obligation of the franchisees to pay the Company over the term of the rental agreement which is equal to the term of the license agreement or the term to the expected buyout date assuming that the franchisee is more likely than not to acquire the rented assets from the Company.

Long-term franchise receivables are reviewed for impairment when a triggering event has occurred. An impairment loss is recorded when the carrying amount of the long-term franchise receivable exceeds its estimated net realizable value. For the 13 and 39 weeks ended September 25, 2016, the Company recorded \$nil (13 and 39 weeks ended September 27, 2015 - \$nil) of impairment losses on long-term franchise receivables.

**Long-term receivables**

Long-term receivables have maturity dates ranging from 2017 to 2034 and bear an average effective interest rate of 8%.

## Cara Operations Limited

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(unaudited)

### 15 Property, plant and equipment

(in thousands of Canadian dollars)	As at September 25, 2016						
	Land	Buildings	Equipment	Leasehold improvements	Assets under finance lease	Construction-in-progress	Total
<b>Cost</b>							
Balance, beginning of year	\$ 2,291	\$ 3,073	\$ 144,352	\$ 99,274	\$ 30,888	\$ 3,576	\$ 283,454
Additions	-	-	832	430	-	2,857	4,119
Additions from business acquisitions (note 5)	-	-	225	-	-	-	225
Disposals and adjustments	-	-	(902)	(4,555)	-	770	(4,687)
<b>Balance at March 27, 2016</b>	<b>\$ 2,291</b>	<b>\$ 3,073</b>	<b>\$ 144,507</b>	<b>\$ 95,149</b>	<b>\$ 30,888</b>	<b>\$ 7,203</b>	<b>\$ 283,111</b>
Additions	-	4	2,051	18	-	12,763	14,836
Additions from business acquisitions (note 5)	-	-	10	-	-	-	10
Disposals and adjustments	-	(4)	227	311	-	(605)	(71)
Transfer to/(from) construction-in-progress	-	-	4,588	7,635	-	(12,223)	-
<b>Balance at June 26, 2016</b>	<b>\$ 2,291</b>	<b>\$ 3,073</b>	<b>\$ 151,383</b>	<b>\$ 103,113</b>	<b>\$ 30,888</b>	<b>\$ 7,138</b>	<b>\$ 297,886</b>
Additions	-	7	730	438	833	10,899	12,907
Additions from business acquisitions (note 5)	36,205	115,338	23,391	6,059	5,529	7,576	194,098
Disposals and adjustments	-	(3)	(803)	(2,443)	-	176	(3,073)
Transfer to/(from) construction-in-progress	-	230	7,249	4,267	-	(11,746)	-
<b>Balance at September 25, 2016</b>	<b>\$ 38,496</b>	<b>\$ 118,645</b>	<b>\$ 181,950</b>	<b>\$ 111,434</b>	<b>\$ 37,250</b>	<b>\$ 14,043</b>	<b>\$ 501,818</b>

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(unaudited)

(in thousands of Canadian dollars)	As at September 25, 2016						
	Land	Buildings	Equipment	Leasehold improvements	Assets under finance lease	Construction-in-progress	Total
<b>Accumulated depreciation and impairment losses</b>							
Balance, beginning of year	\$ -	\$ 2,448	\$ 109,918	\$ 62,696	\$ 13,879	\$ -	\$ 188,941
Depreciation expense		26	2,833	1,536	542		4,937
Disposals and adjustments	-	-	(2,100)	(2,587)	-	-	(4,687)
<b>Balance end of period, March 27, 2016</b>	<b>\$ -</b>	<b>\$ 2,474</b>	<b>\$ 110,651</b>	<b>\$ 61,645</b>	<b>\$ 14,421</b>	<b>\$ -</b>	<b>\$ 189,191</b>
Depreciation expense	-	26	3,132	1,345	538	-	5,041
Disposals	-	(4)	(24)	(43)	-	-	(71)
<b>Balance end of period, June 27, 2016</b>	<b>\$ -</b>	<b>\$ 2,496</b>	<b>\$ 113,759</b>	<b>\$ 62,947</b>	<b>\$ 14,959</b>	<b>\$ -</b>	<b>\$ 194,161</b>
Depreciation expense	-	676	3,730	1,658	544	-	6,608
Impairment losses	-	-	169	1,226	-	-	1,395
Disposals	-	(3)	(750)	(2,259)	-	-	(3,012)
<b>Balance end of period, September 25, 2016</b>	<b>\$ -</b>	<b>\$ 3,169</b>	<b>\$ 116,908</b>	<b>\$ 63,572</b>	<b>\$ 15,503</b>	<b>\$ -</b>	<b>\$ 199,152</b>
<b>Net carrying amount as at:</b>							
<b>September 25, 2016</b>	<b>\$ 38,496</b>	<b>\$ 115,476</b>	<b>\$ 65,042</b>	<b>\$ 47,855</b>	<b>\$ 21,747</b>	<b>\$ 14,043</b>	<b>\$ 302,666</b>
December 27, 2015	\$ 2,291	\$ 625	\$ 34,434	\$ 36,578	\$ 17,009	\$ 3,576	\$ 94,513
September 27, 2015	\$ 2,291	\$ 641	\$ 30,929	\$ 30,117	\$ 16,803	\$ 4,333	\$ 85,114

**Cara Operations Limited**

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**16 Brands and other assets**

Brands and other assets including re-acquired franchise rights are recorded at their fair value at the date of acquisition. The Company assesses each intangible asset and other assets for legal, regulatory, contractual, competitive or other factors to determine if the useful life is definite. Brands are measured at cost less net accumulated impairment losses and are not amortized as they are considered to have an indefinite useful life. Indefinite life intangible assets are tested for impairment at least annually and whenever there is an indication that the asset may be impaired. Re-acquired franchise rights and other assets are amortized on a straight-line basis over their estimated useful lives, ranging from approximately 5 to 33 years and are tested for impairment whenever there is an indication that the asset may be impaired.

(in thousands of Canadian dollars)	<u>Brands</u>	<u>Other assets</u>	<u>Total</u>
<b>Cost</b>			
Balance, beginning of year	\$ 179,288	\$ 30,343	\$ 209,631
Additions from business acquisitions (note 5)	-	169	169
Balance as at March 27 & June 26, 2016	\$ 179,288	\$ 30,512	\$ 209,800
Additions from business acquisitions (note 5)	238,380	59,295	297,675
<b>Balance as at September 25, 2016</b>	<b>\$ 417,668</b>	<b>\$ 89,807</b>	<b>\$ 507,475</b>
<b>Accumulated amortization</b>			
Balance, beginning of year	\$ -	\$ 8,330	\$ 8,330
Amortization	-	1,176	1,176
Balance end of period March 27, 2016	\$ -	\$ 9,506	\$ 9,506
Amortization	-	1,173	1,173
Balance end of period June 26, 2016	\$ -	\$ 10,679	\$ 10,679
Impairment losses	-	141	141
Amortization	-	1,459	1,459
<b>Balance end of period September 25, 2016</b>	<b>\$ -</b>	<b>\$ 12,279</b>	<b>\$ 12,279</b>
<b>Net carrying amount as at:</b>			
<b>September 25, 2016</b>	<b>\$ 417,668</b>	<b>\$ 77,528</b>	<b>\$ 495,196</b>
December 27, 2015	\$ 179,288	\$ 22,013	\$ 201,301
September 27, 2015	\$ 140,723	\$ 22,494	\$ 163,217

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Notes to the Condensed Consolidated Interim Financial Statements

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(unaudited)

**17 Goodwill**

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

(in thousands of Canadian dollars)	<u>September 25, 2016</u>	<u>December 27, 2015</u>	<u>September 27, 2015</u>
<b>Cost</b>			
Balance, beginning of year	\$ 49,540	\$ 43,051	\$ 43,051
Additions <sup>1</sup> (note 5)	129,298	6,589	4,479
Impairment	-	(100)	-
<b>Balance, end of period</b>	<u>\$ 178,838</u>	<u>\$ 49,540</u>	<u>\$ 47,530</u>

<sup>1</sup> Goodwill additions as at December 27, 2015 comprised of \$2.1 million related to New York Fries which was acquired on October 31, 2015 and \$4.5 million for re-acquired franchise locations during 2015.

**Cara Operations Limited**

Notes to the Condensed Consolidated Interim Financial Statements

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**18 Provisions**

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

(in thousands of Canadian dollars)	<b>Asset retirement obligations</b>	<b>Lease obligations for closed restaurants</b>	<b>Franchise onerous contracts</b>	<b>Other</b>	<b>Total</b>
Balance, beginning of year	\$ 5,374	\$ 2,491	\$ 2,511	1,630	\$ 12,006
Additions	115	-	-	-	115
Accretion	75	-	-	-	75
Payments	(48)	(337)	(129)	-	(514)
Adjustments	(661)	525	-	10	(126)
<b>Balance, end of period</b>					
<b>March 27, 2016</b>	<b>4,855</b>	<b>2,679</b>	<b>2,382</b>	<b>1,640</b>	<b>11,556</b>
Additions	23	-	-	-	23
Accretion	74	-	-	-	74
Payments	(4)	(300)	(126)	(60)	(490)
Adjustments	(36)	176	-	-	140
<b>Balance, end of period</b>					
<b>June 26, 2016</b>	<b>4,912</b>	<b>2,555</b>	<b>2,256</b>	<b>1,580</b>	<b>11,303</b>
Additions from business acquisitions (note 5)	501	-	-	600	1,101
Additions	25	-	325	-	350
Accretion	63	-	-	-	63
Payments	-	(286)	(133)	-	(419)
Adjustments	(23)	221	-	(22)	176
<b>Balance, end of period</b>					
<b>September 25, 2016</b>	<b>\$ 5,478</b>	<b>\$ 2,490</b>	<b>\$ 2,448</b>	<b>2,158</b>	<b>\$ 12,574</b>
December 27, 2015	\$ 5,374	\$ 2,491	\$ 2,511	\$ 1,630	\$ 12,006
September 27, 2015	\$ 5,466	\$ 2,365	\$ 3,036	\$ 1,596	\$ 12,463



**Cara Operations Limited**

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(unaudited)

**Recorded in the consolidated balance sheets as follows:**

(in thousands of Canadian dollars)	<u>September 25, 2016</u>	<u>December 27, 2015</u>	<u>September 27, 2015</u>
Provisions - current	\$ 5,187	\$ 5,004	\$ 5,153
Provisions - long-term	<u>7,387</u>	<u>7,002</u>	<u>7,310</u>
	<u>\$ 12,574</u>	<u>\$ 12,006</u>	<u>\$ 12,463</u>

**19 Long-term debt**

(in thousands of Canadian dollars)	<u>September 25, 2016</u>	<u>December 27, 2015</u>	<u>September 27, 2015</u>
Term credit facility - revolving	\$ 156,000	\$ 65,000	\$ 34,000
Term credit facility - non-revolving	<u>150,000</u>	-	-
Finance leases	<u>25,450</u>	<u>20,785</u>	<u>21,340</u>
	<u>331,450</u>	<u>85,785</u>	<u>55,340</u>
Less: Financing costs	<u>2,569</u>	<u>477</u>	<u>512</u>
	<u>\$ 328,881</u>	<u>\$ 85,308</u>	<u>\$ 54,828</u>

**Recorded in the consolidated balance sheets as follows:**

Current portion of long-term debt	\$ 2,346	\$ 2,156	\$ 2,206
Long-term portion of long-term debt	<u>326,535</u>	<u>83,152</u>	<u>52,622</u>
	<u>\$ 328,881</u>	<u>\$ 85,308</u>	<u>\$ 54,828</u>

**Term credit facility**

On September 2, 2016, the Company amended and extended the terms of its existing term credit facility. The fourth amended and restated term credit facility is comprised of a revolving credit facility in the amount of \$400 million with an accordion feature of up to \$50 million maturing on September 2, 2021 and a non-revolving term credit facility in the amount of \$150 million maturing on September 2, 2019. A maximum amount of \$26.3 million per year may be repayable on the term credit facility if certain covenant levels are exceeded by the Company.

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

## Cara Operations Limited

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In conjunction with the amended and extended term credit facilities, the Company wrote off unamortized deferred financing fees of \$0.4 million (September 27, 2015 - \$1.8 million) related to the previous credit facility.

As at September 25, 2016, \$306.0 million (December 27, 2015 - \$65.0 million; September 27, 2015 - \$34.0 million) was drawn under the amended and extended term credit facilities with an effective interest rate of 2.6% (December 27, 2015 - 4.2%; September 27, 2015 - 2.6%) representing bankers acceptance rate of 0.87% plus 1.5%, standby fee and the amortization of deferred financing fees of 0.2%.

As at September 25, 2016, the Company has not exceeded any covenant levels requiring early repayments.

The Company is required to pay a standby fee between 0.25% to 0.60% per annum, on the unused portion of the credit facility, for the term of its credit facilities. The standby fee rate is based on the Company's total funded net debt to EBITDA ratio. As of September 25, 2016, the standby fee was 0.3%.

### Finance leases

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

## 20 Other long-term liabilities

(in thousands of Canadian dollars)	<u>September 25, 2016</u>	<u>December 27, 2015</u>	<u>September 27, 2015</u>
Accrued pension and other benefit plans	\$ 24,130	\$ 21,448	\$ 22,147
Deferred rental income	12,400	14,344	15,504
Deferred income	12,712	13,808	13,457
Accrued rent expense	4,099	3,898	3,801
Restructuring (note 9)	95	170	174
Long-term incentive plans (note 21)	279	166	99
Other long-term liabilities	1,758	1,805	1,798
	<u>\$ 55,473</u>	<u>\$ 55,639</u>	<u>\$ 56,980</u>

### Recorded in the consolidated balance sheets as follows:

(in thousands of Canadian dollars)	<u>September 25, 2016</u>	<u>December 27, 2015</u>	<u>September 27, 2015</u>
Accounts payable and accrued liabilities	\$ 3,319	\$ 4,595	\$ 3,711
Other long-term liabilities	52,154	51,044	53,269
	<u>\$ 55,473</u>	<u>\$ 55,639</u>	<u>\$ 56,980</u>

## **Cara Operations Limited**

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### **Accrued pension and other benefit plans**

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

With the acquisition of St-Hubert (note 5), the Company acquired St-Hubert's defined benefit plan, a funded supplementary defined benefit pension plan guaranteeing a pension benefit to certain employees. As at September 25, 2016, there was a deficit of \$3.3 million in the plan.

For the 13 and 39 weeks ended September 25, 2016, the Company recorded expenses of \$0.2 million and \$0.6 million, respectively (13 and 39 weeks ended September 27, 2015 - \$0.1 million and \$0.6 million, respectively) related to pension benefits. No contributions are required as at September 25, 2016.

### **Deferred rental income**

In prior years, the Company converted certain corporate restaurants to franchise and sold the restaurants to independent operators ("franchisees"). As part of these conversion agreements, certain franchisees entered into rental agreements to rent certain restaurant assets from the Company. The \$12.4 million (December 27, 2015 - \$14.3 million; September 27, 2015 - \$15.5 million) represents the unearned revenue associated with the rental agreements calculated as the present value of the minimum lease payments using an interest rate implicit in the rental agreement.

### **Deferred income**

#### *Unearned franchise and conversion fee income*

At September 25, 2016, the Company had deferred \$6.8 million (December 27, 2015 - \$7.5 million; September 27, 2015 - \$7.8 million) of initial franchise fees and conversion fees received from franchisees that will be recognized over the remaining term of the respective franchise agreements for future services.

#### *Sale-leaseback transactions*

At September 25, 2016, the Company had deferred \$4.5 million (December 27, 2015 - \$5.1 million; September 27, 2015 - \$5.4 million) related to gains realized on sale-leaseback transactions.

## **21 Long-term incentive plans**

Under the various stock option plans, Cara may grant options to buy up to 15% of its total Subordinate and Multiple Voting Shares outstanding, a total of 8.8 million shares, a guideline the Company has set on the number of stock option grants. As at September 25, 2016, approximately 5.0 million shares were granted.

Stock options outstanding as at September 25, 2016 have a term of up to eight years from the initial grant date. Each stock option is exercisable into one Subordinate Voting Share at the price specified in the terms of the

## Cara Operations Limited

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option agreement. There were no accelerated vesting features upon the initial public offering under any of the plans described below.

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

The following table summarizes the options granted post share consolidation:

	For the 13 and 39 weeks ended September 25, 2016							
	Director stock option plan		CEO stock option plan		Employee stock option plan		Total	
	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share
Outstanding options, December 27, 2015	86,021	\$ 0.01	3,504,624	\$ 5.97	1,351,603	\$ 14.06	4,942,248	\$ 8.08
Granted	-	-	-	-	12,635	\$ 27.85	12,635	\$ 27.85
Forfeited	-	-	-	-	(3,042)	18.31	(3,042)	18.32
Outstanding options, March 27, 2016	86,021	\$ 0.01	3,504,624	\$ 5.97	1,361,196	\$ 14.18	4,951,841	\$ 8.12
Granted	-	-	-	-	4,917	\$ 30.42	4,917	\$ 30.42
Forfeited	-	-	-	-	(20,628)	\$ 13.72	(20,628)	\$ 13.72
Outstanding options, June 26, 2016	86,021	\$ 0.01	3,504,624	\$ 5.97	1,345,485	\$ 14.24	4,936,130	\$ 8.12
Granted	-	-	-	-	63,550	\$ 30.05	63,550	\$ 30.05
Forfeited	-	-	-	-	(23,707)	\$ 29.66	(23,707)	\$ 29.66
Outstanding options, end of period	86,021	\$ 0.01	3,504,624	\$ 5.97	1,385,328	\$ 14.71	4,975,973	\$ 8.30
Options exercisable, end of period	53,763	\$ 0.01	1,747,312	\$ 5.89	-	\$ -	1,801,075	\$ 5.72

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For the 13 and 39 weeks ended September 25, 2016 and September 27, 2015

(unaudited)

	For the 13 and 39 weeks ended September 27, 2015 <sup>(1)</sup>							
	Director stock option plan		CEO stock option plan		Employee stock option plan		Total	
	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share
Outstanding options, December 30, 2014	86,021	\$ 0.01	3,494,624	\$ 5.89	1,166,379	\$ 8.51	4,747,024	\$ 6.42
Forfeited	-	-	-	-	(2,688)	8.51	(2,688)	8.51
Outstanding options, March 29, 2015	86,021	\$ 0.01	3,494,624	\$ 5.89	1,163,691	\$ 8.51	4,744,336	\$ 6.43
Granted	-	-	-	-	40,000	\$ 34.10	40,000	\$ 34.10
Forfeited	-	-	-	-	(93,320)	\$ 8.51	(93,320)	\$ 8.51
Outstanding options, June 28, 2015	86,021	0.01	3,494,624	5.89	1,110,371	9.43	4,691,016	6.62
Forfeited	-	-	-	-	(26,874)	\$ 8.51	(26,874)	\$ 8.51
Outstanding options, end of period	86,021	\$ 0.01	3,494,624	\$ 5.89	1,083,497	\$ 9.45	4,664,142	\$ 6.61
Options exercisable, end of period	21,505	\$ 0.01	-	\$ -	-	\$ -	21,505	\$ 0.01

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

### Director stock option plan

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

During the 13 and 39 weeks ended September 25, 2016 and September 27, 2015, no stock options were granted under the Director Plan.

For the 13 and 39 weeks ended September 25, 2016, the Company recognized stock-based compensation costs of \$29.0 thousand and \$87.2 thousand, respectively (13 and 39 weeks ended September 27, 2015 - \$72.5 thousand and \$217.6 thousand, respectively) related to the Director Plan Options with a corresponding increase to contributed surplus.

Certain non-employee board members receive Deferred Share Units (“DSU”) as compensation for their participation on the board. These DSUs are settled for cash when members cease to participate on the board of directors. For the 13 and 39 weeks ended September 25, 2016, the Company expensed \$47.5 thousand and \$113.1 thousand, respectively, (13 and 39 weeks ended September 27, 2015 - \$nil and \$98.8 thousand,

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respectively) and a liability recorded as part of Other Long-Term Liabilities in the amount of \$0.3 million as at September 25, 2016 (September 27, 2015 - \$0.1 million).

### **CEO stock option plan**

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

On April 10, 2015, all stock options granted prior to the IPO were consolidated at a ratio of 2.79 to 1 to entitle holders of the options to purchase Subordinate Voting Shares of the Company. Under this plan, the CEO now has 1,075,269 options at an exercise price of \$0.01, 2,419,355 options at an exercise price of \$8.51 and 10,000 options at an exercise price of \$32.37 for a total of 3,504,624 options at a weighted average exercise price of \$5.97.

During the 13 and 39 weeks ended September 25, 2016 and September 27, 2015, no stock options were granted under the CEO Plan.

For the 13 and 39 weeks ended September 25, 2016, the Company recognized stock-based compensation costs of \$0.5 million and \$1.4 million, respectively (13 and 39 weeks ended September 27, 2015 - \$2.2 million and \$3.5 million, respectively) related to the CEO Plan with a corresponding increase to contributed surplus.

### **Employee stock option plan**

The employee stock option plan consists of options granted to the CFO and to various members of the Company’s management team.

On October 31, 2013, the Company granted options in accordance with certain terms of the CFO employment agreement to purchase 675,000 non-voting shares of the Company at an exercise price per share of \$3.05. Under the Employee Stock Option Plan (“Employee Plan”), these 675,000 options vested on the third anniversary of the grant date (October 31, 2016). Vested CFO options can be exercised upon the earlier of an initial public offering of the Company and the fifth anniversary of the grant date. On April 10, 2015, all stock options granted prior to the IPO were consolidated at a ratio of 2.79 to 1 to entitle holders of the options to purchase Subordinate Voting Shares of the Company. Under this plan, the CFO now has 268,377 options at an average exercise price of \$8.51.

Options granted to the various members of the Company’s management team vest over a three year period and may not be exercised until January 1, 2019. The options expire after eight years.

During the 13 and 39 weeks ended September 25, 2016, the Company granted an additional 63,550 and 81,102 stock options, respectively, at a weighted average exercise price of \$30.05 and \$29.73, respectively (no options were granted for the 13 weeks ended September 27, 2015 and for the 39 weeks ended September 27, 2015 –

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40,000 options with a weighted average exercise price of \$34.10) per Subordinate Voting Share under its existing stock option plans, which only allows for settlement in shares.

During the 13 and 39 weeks ended September 25, 2016, 23,707 and 47,377 stock options, respectively, with an weighted average exercise price of \$29.66 and \$21.99, respectively, were forfeited (13 and 39 weeks ended September 27, 2015 – 26,874 and 122,882 stock options, respectively, with an exercise price of \$8.51).

For the 13 and 39 weeks ended September 25, 2016, the Company recognized stock-based compensation costs of \$0.7 million and \$1.9 million, respectively (13 and 39 week ended September 27, 2015 - \$0.3 million and \$1.4 million, respectively) related to the Employee Plan with a corresponding increase to contributed surplus.

## **22 Share capital**

Prior to the IPO in fiscal 2015, the Company's authorized share capital consisted of an unlimited number of common shares and an unlimited number of non-voting common shares.

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

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

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

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

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

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

For the period ended December 27, 2015, the Company paid dividends on Subordinate Voting Shares and Multiple Voting Shares totaling \$9.5 million, of which \$9.1 million was cash settled and \$0.4 million was settled through the issue of 13,911 Subordinate Voting Shares through the Company's Dividend Reinvestment Plan ("DRIP") which enabled shareholders to acquire additional Subordinate Voting Shares from Cara by reinvesting all of their cash dividends. On May 5, 2016, the Company's Board of Directors suspended the DRIP.

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

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. On September 2, 2016, in conjunction with the closing of the St-Hubert transaction (see note 5), each outstanding subscription receipt was exchanged for one Subordinate Voting Share resulting in the issuance of 7,863,280 Subordinate Voting Shares for gross proceeds of \$230.0 million. The Company also issued an additional 1,788,034 Subordinate Voting Shares to the vendor at a price of \$30.14, or approximately \$53.9 million, as part of the St-Hubert transaction (see note 5).

On May 5, 2016, the Company's Board of Directors declared the 2016 first quarter dividend of \$0.1017 per share on its outstanding Subordinate Voting Shares and Multiple Voting Shares payable, and subscription receipts outstanding payable on June 15, 2016 to shareholders of record as of May 31, 2016.

During the 13 and 39 weeks ended September 25, 2016, the Company paid \$5.0 and \$15.0 million, respectively, of dividends on Subordinate Voting Shares and Multiple Voting Shares outstanding.

During the 13 and 39 weeks ended September 27, 2015, the Company declared \$nil and \$3.0 million, respectively, in dividends on common shares to Cara Holdings and paid \$nil and \$14.0 million, respectively. These common shares were subsequently exchanged to Multiple Voting common shares as part of the IPO on April 10, 2015.



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As at September 25, 2016, there were 34,396,284 Multiple Voting Shares and 24,424,980 Subordinate Voting Shares issued and outstanding.

	Number of Common Shares (in thousands)				Share Capital (in thousands of dollars)			
	Common shares (prior to IPO)	Multiple voting common shares	Subordinate voting common shares	Total Common Shares	Common shares (prior to the IPO)	Multiple voting common shares	Subordinate voting common shares	Total Share Capital
Balance at December 30, 2014 and March 29, 2015	50,468	-	-	50,468	\$ 29,285	\$ -	\$ -	\$ 29,285
Share consolidation	(32,379)	-	-	(32,379)	-	-	-	-
Share conversion	(18,089)	17,493	596	-	(29,285)	28,321	964	-
Issuance of common stock	-	19,903	11,157	31,060	-	181,022	227,274	408,296
<b>Balance as at June 28, 2015</b>	<b>-</b>	<b>37,396</b>	<b>11,753</b>	<b>49,149</b>	<b>-</b>	<b>209,343</b>	<b>228,238</b>	<b>437,581</b>
Share conversion	-	(3,000)	3,000	-	-	(16,795)	16,795	-
Shares issued under dividend reinvestment plan	-	-	14	14	-	-	420	420
<b>Balance at December 27, 2015 and March 27, 2016</b>	<b>-</b>	<b>34,396</b>	<b>14,767</b>	<b>49,163</b>	<b>\$ -</b>	<b>\$ 192,548</b>	<b>\$ 245,453</b>	<b>\$ 438,001</b>
Shares issued under dividend reinvestment plan	-	-	7	7	-	-	227	227
<b>Balance at June 26, 2016</b>	<b>-</b>	<b>34,396</b>	<b>14,774</b>	<b>49,170</b>	<b>-</b>	<b>192,548</b>	<b>245,680</b>	<b>438,228</b>
Subscription receipts, net of costs, exchanged for shares	-	-	7,863	7,863	-	-	223,723	223,723
Shares issued as part of St-Hubert transaction	-	-	1,788	1,788	-	-	53,891	53,891
<b>Balance at September 25, 2016</b>	<b>-</b>	<b>34,396</b>	<b>24,425</b>	<b>58,821</b>	<b>\$ -</b>	<b>\$ 192,548</b>	<b>\$ 523,294</b>	<b>\$ 715,842</b>

## 23 Earnings per share

Basic earnings per share amounts are calculated by dividing the net earnings attributable to common shareholders of the Company by the weighted average number of shares issued during the period after giving effect, on a retrospective basis, to the 2.79 to 1 share consolidation for shares outstanding as at April 10, 2015, that occurred as part of the IPO on April 10, 2015.

Diluted earnings per share amounts are calculated by dividing the net earnings attributable to common shareholders of the Company by the weighted average number of shares issued during the period adjusted for the effects of potentially dilutive warrants and stock options after giving effect, on a retrospective basis, to a 2.79 to 1 share consolidation for shares outstanding as at April 10, 2015, that occurred as part of the IPO on April 10, 2015.

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

	For the 13 weeks ended						
	September 25, 2016			September 27, 2015			
	Attributable to Common Shareholders			Attributable to Common Shareholders			
	Net earnings (loss)	Weighted average number of shares ('000)	EPS		Net earnings (loss)	Weighted average number of shares ('000)	EPS
Basic							
Continuing Operations	\$ 14,789	51,715	\$ 0.29	\$ 19,069	49,150	\$ 0.39	
Discontinued Operations	(2)	51,715	(0.00)	(2)	49,150	(0.00)	
	\$ 14,787	51,715	\$ 0.29	\$ 19,067	49,150	\$ 0.39	
Diluted							
Continuing Operations	\$ 14,789	55,705	\$ 0.27	\$ 19,069	52,900	\$ 0.36	
Discontinued Operations	(2)	55,705	(0.00)	(2)	52,900	(0.00)	
	\$ 14,787	55,705	\$ 0.27	\$ 19,067	52,900	\$ 0.36	

  

	For the 39 weeks ended						
	September 25, 2016			September 27, 2015			
	Attributable to Common Shareholders			Attributable to Common Shareholders			
	Net earnings (loss)	Weighted average number of shares ('000)	EPS		Net earnings (loss)	Weighted average number of shares ('000)	EPS
Basic							
Continuing Operations	\$ 47,381	50,015	\$ 0.95	\$ 40,896	37,485	\$ 1.09	
Discontinued Operations	(6)	50,015	(0.00)	(8)	37,485	(0.00)	
	\$ 47,375	50,015	\$ 0.95	\$ 40,888	37,485	\$ 1.09	
Diluted							
Continuing Operations	\$ 47,381	54,030	\$ 0.88	\$ 40,896	46,088	\$ 0.89	
Discontinued Operations	(6)	54,030	(0.00)	(8)	46,088	(0.00)	
	\$ 47,375	54,030	\$ 0.88	\$ 40,888	46,088	\$ 0.89	

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

	For the 13 weeks ended		For the 39 weeks ended	
	September 25, 2016	September 27, 2015	September 25, 2016	September 27, 2015
Common shares	51,715,351	49,149,522	50,015,479	37,485,068
Effect of warrants issued	-	-	-	5,470,989
Effect of stock options issued	3,989,154	3,750,846	4,014,171	3,132,329
	<u>55,704,505</u>	<u>52,900,368</u>	<u>54,029,650</u>	<u>46,088,386</u>

## Cara Operations Limited

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For the 13 and 39 weeks ended September 25, 2016 and September 27, 2015

(unaudited)

### 24 Cash flows

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

(in thousands of Canadian dollars)	For the 13 weeks ended		For the 39 weeks ended	
	September 25, 2016	September 27, 2015	September 25, 2016	September 27, 2015
Accounts receivable	\$ (15,388)	\$ (3,721)	\$ (525)	\$ 3,709
Inventories	3,585	(774)	3,645	(176)
Assets held for sale	3,375	1,529	5,483	276
Income taxes recoverable	1,335	(781)	1,380	(4,178)
Prepaid expenses and other assets	544	(887)	941	(107)
Accounts payable and accrued liabilities	7,790	5,059	(6,069)	(2,562)
Provisions	(23)	49	(417)	(1,751)
Gift card liability	(2,952)	(3,822)	(29,403)	(28,748)
Income taxes paid	166	557	467	5,565
Change in interest payable	(473)	(437)	(1,386)	(712)
Net change in non-cash operating working capital	\$ (2,041)	\$ (3,228)	\$ (25,884)	\$ (28,684)

### 25 Commitments, contingencies and guarantees

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

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

The Company has outstanding letters of credit amounting to \$0.2 million (September 27, 2015 - \$0.9 million) primarily for various utility companies that provide services to corporate owned or franchised locations and support for certain franchisees' external financing used to fund their initial franchise fees and conversion fees, if applicable, payable to the Company. The probability of the letters of credit being drawn as a result of default by a franchisee is low.

## **Cara Operations Limited**

Notes to the Condensed Consolidated Interim Financial Statements

**For the 13 and 39 weeks ended September 25, 2016 and September 27, 2015**

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### **Indemnification provisions**

In addition to the above guarantees, the Company has also provided customary indemnifications in the normal course of business and in connection with business dispositions. These indemnifications include items relating to taxation, litigation or claims that may be suffered by a counterparty as a consequence of the transaction. Until such times as events take place and/or claims are made under these provisions, it is not possible to reasonably determine the amount of liability under these arrangements. Historically, the Company has not made significant payments relating to these types of indemnifications.

## **26 Financial instruments and risk management**

### **Market risk**

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

#### *Interest rate risk*

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

#### *Commodity price risk*

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

### **Liquidity and capital availability risk**

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

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

### **Credit risk**

Credit risk refers to the risk of losses due to failure of the Company's customers or other counterparties to meet their payment obligations.

## Cara Operations Limited

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

The following is an aging of the Company's accounts receivable, net of the allowance, as at September 25, 2016, December 27, 2015 and September 27, 2015:

(in thousands of Canadian dollars)

	September 25, 2016			
	Current	> 30 days past due	> 60 days past due	Total
Accounts receivable	\$ 64,645	\$ 4,517	\$ 10,669	\$ 79,831
Less: allowance for doubtful accounts	862	339	8,222	9,423
Accounts receivable, net	<u>\$ 63,783</u>	<u>\$ 4,178</u>	<u>\$ 2,447</u>	<u>\$ 70,408</u>
Balances at December 27, 2015	\$ 46,015	\$ 2,135	\$ 887	\$ 49,037
Balances at September 27, 2015	\$ 25,151	\$ 2,970	\$ 333	\$ 28,454

There are no significant impaired receivables that have not been provided for in the allowance. As of September 25, 2016, the Company believes that the \$9.4 million (December 27, 2015 - \$7.2 million; September 27, 2015 - \$6.7 million) allowance sufficiently covers any credit risk related to the receivable balances past due. The remaining amounts past due were not classified as impaired as the past due status was reasonably expected to remedied.

### Fair value of financial instruments

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

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

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The following describes the fair value determinations of financial instruments:

### *Long-term debt*

Fair value (Level 2) is based on the Company's current incremental borrowing rate for similar types of borrowing arrangements. The carrying amount of the debt associated with the Company's current financing would approximate its fair value as at September 25, 2016.

### *Other financial instruments*

Other financial instruments of the Company consist of cash, accounts receivable, long-term receivables, bank indebtedness and accounts payable and accrued liabilities. The carrying amount for these financial instruments approximates fair value due to the short term maturity of these instruments.

## **27 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 24.6% of the total issued and outstanding shares, representing 41.0% 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 39.9% of the total issued and outstanding shares, representing 56.7% voting control.

Fairfax and Cara Holdings together hold 64.6% of the total issued and outstanding shares and have 97.6% of the voting control attached to all the shares.

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 paid 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. On September 2, 2016, in conjunction with the closing of the St-Hubert transaction (see note 5), each outstanding subscription receipt was exchanged for one Subordinate Voting Share and as a result Fairfax now holds 39.9% of the total issued and outstanding shares, representing 56.7% voting control. As at September 25, 2016, the pro-rata share of dividends equivalents paid on the subscription receipts was \$0.7 million.

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(unaudited)

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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 39 weeks ended September 25, 2016 and September 27, 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.

## **28 Segmented information**

Cara divides its operations into the following four business segments: corporate restaurants, franchise restaurants, food processing and distribution 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.

Food processing and distribution represent sales of St-Hubert branded and other private label products produced and shipped from the Company's manufacturing plant and distribution centers to retail grocery customers and to its network of St-Hubert restaurants.

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

The CEO and CFO are the chief operating decision makers and they regularly review the operations and performance by segment. The CEO and CFO reviews operating income as a key measure of performance for each segment and to make decisions about the allocation of resources. The accounting policies of the reportable operating segments are the same as those described in the Company's summary of significant

**Cara Operations Limited**

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

(in thousands of Canadian dollars)	For the 13 weeks ended		For the 39 weeks ended	
	September 25, 2016	September 27, 2015	September 25, 2016	September 27, 2015
<b>Gross revenue</b>				
Corporate	\$ 74,737	\$ 63,431	\$ 206,374	\$ 177,169
Franchise	18,348	16,960	53,216	50,525
Food processing and distribution	17,693	-	17,693	-
Central	3,350	4,872	9,237	13,275
Non-allocated revenue	399	462	1,194	1,359
	<u>\$ 114,527</u>	<u>\$ 85,725</u>	<u>\$ 287,714</u>	<u>\$ 242,328</u>
<b>Operating income</b>				
Corporate	\$ 5,521	\$ 4,884	\$ 13,887	\$ 11,573
Franchise	16,014	14,616	47,108	44,272
Food processing and distribution	(414)	-	(414)	-
Central	5,192	3,200	13,748	8,502
Non-allocated costs	(3,989)	(2,020)	(5,562)	(5,116)
	<u>\$ 22,324</u>	<u>\$ 20,680</u>	<u>\$ 68,767</u>	<u>\$ 59,231</u>
<b>Depreciation and amortization</b>				
Corporate	\$ 3,553	\$ 2,635	\$ 9,189	\$ 7,317
Franchise	-	-	-	-
Food processing and distribution	575	-	575	-
Central	3,939	3,533	10,630	10,523
	<u>\$ 8,067</u>	<u>\$ 6,168</u>	<u>\$ 20,394</u>	<u>\$ 17,840</u>
<b>Capital expenditures</b>				
Corporate	\$ 8,370	\$ 2,834	\$ 22,164	\$ 6,800
Franchise	-	-	-	-
Food processing and distribution	568	-	568	-
Central	3,969	3,598	9,130	6,472
	<u>\$ 12,907</u>	<u>\$ 6,432</u>	<u>\$ 31,862</u>	<u>\$ 13,272</u>



**Cara Operations Limited**

Notes to the Condensed Consolidated Interim Financial Statements

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**29 Subsequent Event**

On November 9, 2016, the Company's Board of Directors declared a dividend of \$0.10169 per share of subordinate and multiple voting common stock. Payment of the dividend will be made on December 15, 2016 to shareholders of record at the close of business on November 30, 2016.