

**Cara Operations Limited**

Condensed Consolidated Interim Financial Statements (unaudited)

**For the 13 and 39 weeks ended September 24, 2017 and September 25, 2016**

**Cara Operations Limited**

Condensed Consolidated Interim Statements of Earnings and Comprehensive Income

**For the 13 and 39 weeks ended September 24, 2017 and September 25, 2016**

(unaudited)

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

	For the 13 weeks ended		For the 39 weeks ended	
	September 24, 2017	September 25, 2016	September 24, 2017	September 25, 2016
Sales (note 6)	\$ 162,174	\$ 94,634	\$ 471,175	\$ 230,809
Franchise revenues (note 7)	26,508	19,893	78,598	56,905
<b>Total gross revenue</b>	<b>\$ 188,682</b>	<b>\$ 114,527</b>	<b>\$ 549,773</b>	<b>\$ 287,714</b>
Cost of inventories sold	(72,728)	(36,341)	(210,970)	(75,276)
Selling, general and administrative expenses (note 8)	(80,814)	(54,287)	(242,736)	(142,565)
Impairment of assets (notes 14 and 15)	(715)	(1,536)	(4,337)	(1,536)
Restructuring and other (note 9)	(685)	(41)	(3,356)	424
<b>Operating income</b>	<b>33,740</b>	<b>22,322</b>	<b>\$ 88,374</b>	<b>\$ 68,761</b>
Net interest expense and other financing charges (note 10)	(3,216)	(1,622)	(8,986)	(3,057)
Share of (loss) gain from investment in associates and joint ventures	(128)	-	143	-
<b>Earnings before income taxes</b>	<b>30,396</b>	<b>20,700</b>	<b>\$ 79,531</b>	<b>\$ 65,704</b>
<b>Income taxes (note 11)</b>				
Current	(3,136)	(1,501)	(6,684)	(1,847)
Deferred (expense) recovery	(6,030)	(4,272)	9,642	(16,529)
<b>Net earnings</b>	<b>21,230</b>	<b>14,927</b>	<b>\$ 82,489</b>	<b>\$ 47,328</b>
<b>Net earnings attributable to</b>				
Shareholders of the Company	\$ 20,974	\$ 14,787	\$ 82,349	\$ 47,375
Non-controlling interest	256	140	140	(47)
	<b>\$ 21,230</b>	<b>\$ 14,927</b>	<b>\$ 82,489</b>	<b>\$ 47,328</b>
<b>Net earnings per share attributable to the Common</b>				
<b>Shareholders of the Company</b> (note 22) (in dollars)				
Basic earnings per share	\$ 0.35	\$ 0.29	\$ 1.38	\$ 0.95
Diluted earnings per share	\$ 0.34	\$ 0.27	\$ 1.33	\$ 0.88

**Cara Operations Limited**  
Condensed Consolidated Interim Statements of Total Equity  
**For the 39 weeks ended September 24, 2017 and September 25, 2016**  
(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>	<b>Share Capital</b>	<b>Contributed</b>		<b>Deficit</b>	<b>Total equity</b>
	<b>(in thousands)</b>	<b>(note 21)</b>	<b>surplus</b>			
<b>Balance at December 25, 2016</b>	<b>59,982</b>	<b>\$ 723,724</b>	<b>\$ 9,764</b>	<b>\$</b>	<b>(179,546)</b>	<b>\$ 553,942</b>
Net earnings and comprehensive income	-	-	-		<b>82,349</b>	<b>82,349</b>
Dividends	-	-	-		<b>(18,176)</b>	<b>(18,176)</b>
Share re-purchase (note 21)	<b>(1,251)</b>	<b>(28,584)</b>	-		-	<b>(28,584)</b>
Stock options exercised (note 21)	<b>14</b>	<b>146</b>	<b>(27)</b>		-	<b>119</b>
Stock-based compensation (note 20)	-	-	<b>1,807</b>		-	<b>1,807</b>
	<b>(1,237)</b>	<b>(28,438)</b>	<b>1,780</b>		<b>64,173</b>	<b>37,515</b>
<b>Balance at September 24, 2017</b>	<b>58,745</b>	<b>\$ 695,286</b>	<b>\$ 11,544</b>	<b>\$</b>	<b>(115,373)</b>	<b>\$ 591,457</b>

<b>Attributable to the Common Shareholders of the Company</b>						
	<b>Number of shares</b>	<b>Share Capital</b>	<b>Contributed</b>		<b>Deficit</b>	<b>Total equity</b>
	<b>(in thousands)</b>	<b>(note 21)</b>	<b>surplus</b>			
<b>Balance at December 27, 2015</b>	<b>49,163</b>	<b>\$ 438,001</b>	<b>\$ 13,622</b>	<b>\$</b>	<b>(226,916)</b>	<b>\$ 224,707</b>
Net earnings and comprehensive income	-	-	-		<b>47,375</b>	<b>47,375</b>
Dividends	-	-	-		<b>(15,001)</b>	<b>(15,001)</b>
Shares issued under dividend reinvestment plan (note 21)	<b>7</b>	<b>227</b>	-		-	<b>227</b>
Issuance of common stock (note 21)	<b>9,651</b>	<b>277,614</b>	-		-	<b>277,614</b>
Stock-based compensation (note 20)	-	-	<b>3,403</b>		-	<b>3,403</b>
	<b>9,658</b>	<b>277,841</b>	<b>3,403</b>		<b>32,374</b>	<b>313,618</b>
<b>Balance at September 25, 2016</b>	<b>58,821</b>	<b>\$ 715,842</b>	<b>\$ 17,025</b>	<b>\$</b>	<b>(194,542)</b>	<b>\$ 538,325</b>

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

**Cara Operations Limited**

Condensed Consolidated Interim Balance Sheets

**As at September 24, 2017, December 25, 2016 and September 25, 2016**

(in thousands of Canadian dollars)

	As at September 24, 2017 (unaudited)	As at December 25, 2016	As at September 25, 2016 (unaudited)
<b>Assets</b>			
<b>Current Assets</b>			
Cash	\$ 11,843	\$ 26,764	\$ 11,100
Accounts receivable (note 25)	68,483	83,905	70,408
Inventories (note 12)	30,180	27,837	24,907
Assets held for sale	-	-	1,791
Current taxes receivable	-	146	921
Prepaid expenses and other assets	7,704	5,937	5,579
<b>Total Current Assets</b>	<b>\$ 118,210</b>	<b>\$ 144,589</b>	<b>\$ 114,706</b>
<b>Long-term receivables</b> (note 13)	<b>47,470</b>	<b>41,427</b>	<b>31,629</b>
<b>Property, plant and equipment</b> (note 14)	<b>330,551</b>	<b>327,893</b>	<b>302,666</b>
<b>Brands and other assets</b> (note 15)	<b>604,585</b>	<b>594,512</b>	<b>495,196</b>
<b>Goodwill</b> (note 16)	<b>189,448</b>	<b>188,998</b>	<b>178,838</b>
<b>Deferred tax asset</b> (note 11)	<b>29,168</b>	<b>18,604</b>	<b>24,272</b>
<b>Total Assets</b>	<b>\$ 1,319,432</b>	<b>\$ 1,316,023</b>	<b>\$ 1,147,307</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	\$ 93,600	\$ 93,077	\$ 96,008
Provisions (note 17)	7,423	5,159	5,187
Gift card liability	29,161	62,889	22,543
Income taxes payable	3,892	4,768	303
Current portion of long-term debt (note 18)	2,517	2,443	2,346
<b>Total Current Liabilities</b>	<b>\$ 136,593</b>	<b>\$ 168,336</b>	<b>\$ 126,387</b>
<b>Long-term debt</b> (note 18)	<b>414,375</b>	<b>410,703</b>	<b>326,535</b>
<b>Provisions</b> (note 17)	<b>7,473</b>	<b>11,436</b>	<b>7,387</b>
<b>Other long-term liabilities</b> (note 19)	<b>66,912</b>	<b>67,971</b>	<b>52,154</b>
<b>Deferred tax liability</b> (note 11)	<b>102,622</b>	<b>103,635</b>	<b>96,519</b>
<b>Total Liabilities</b>	<b>\$ 727,975</b>	<b>\$ 762,081</b>	<b>\$ 608,982</b>
<b>Shareholders' Equity</b>			
Common share capital (note 21)	\$ 695,286	\$ 723,724	\$ 715,842
Contributed surplus	11,544	9,764	17,025
Deficit	(115,373)	(179,546)	(194,542)
<b>Total Shareholders' Equity</b>	<b>\$ 591,457</b>	<b>\$ 553,942</b>	<b>\$ 538,325</b>
<b>Total Liabilities and Equity</b>	<b>\$ 1,319,432</b>	<b>\$ 1,316,023</b>	<b>\$ 1,147,307</b>

**Commitments, contingencies and guarantees** (note 24)

**Subsequent events** (note 28)

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

**Cara Operations Limited**  
Condensed Consolidated Statements of Cash Flows  
**For the 13 and 39 weeks ended September 24, 2017 and September 25, 2016**  
(unaudited)

(in thousands of Canadian dollars)

	For the 13 weeks ended		For the 39 weeks ended	
	September 24, 2017	September 25, 2016	September 24, 2017	September 25, 2016
<b>Cash from (used in)</b>				
<b>Operating Activities</b>				
Net earnings	\$ 21,230	\$ 14,927	\$ 82,489	\$ 47,328
Depreciation and amortization	12,889	8,067	36,812	20,394
Net gain on disposal of property, plant and equipment	(380)	(124)	(1,966)	(1,221)
Losses on early buyout/cancellation of equipment rental contracts	122	516	241	471
Impairment of assets, net of reversals	715	1,536	4,337	1,536
Net interest expense and other financing charges (note 10)	3,216	1,622	8,986	3,057
Stock based compensation	494	1,181	1,807	3,403
Income taxes paid	(3,250)	(166)	(6,604)	(467)
Change in assets held for sale	1,721	3,375	-	5,483
Change in restructuring provision	230	(269)	2,344	(2,398)
Change in deferred tax (note 11)	6,030	4,697	(9,642)	16,529
Change in onerous contract provision	(383)	192	(856)	(63)
Other non-cash items	2,863	2,070	(626)	(1,413)
Net change in non-cash operating working capital (note 23)	(8,450)	(5,416)	(20,615)	(31,367)
Cash flows from operating activities	<u>37,047</u>	<u>32,208</u>	<u>96,707</u>	<u>61,272</u>
<b>Investing Activities</b>				
Business acquisitions, net of cash assumed	(10)	(484,204)	1,276	(484,438)
Purchase of property, plant and equipment	(15,192)	(14,949)	(42,276)	(31,018)
Proceeds on disposal of property, plant and equipment	165	-	1,570	-
Proceeds on early buyout of equipment rental contracts	470	410	570	510
Investment in joint ventures	833	-	(14,653)	-
Share of loss (gain) from investment in joint ventures	106	-	(165)	-
Additions to other assets	(182)	-	(314)	-
Change in long-term receivables	(8,419)	640	(7,356)	2,205
Cash flows used in investing activities	<u>(22,229)</u>	<u>(498,103)</u>	<u>(61,348)</u>	<u>(512,741)</u>
<b>Financing Activities</b>				
Issuance of long-term credit facility, net of financing costs	18,775	346,380	36,025	352,380
Repayment of long-term credit facility (note 18)	-	(90,000)	(32,000)	(114,000)
Issuance of subordinated voting common shares (note 21)	-	221,561	119	221,561
Share re-purchase (note 21)	(28,038)	-	(28,584)	-
Change in finance leases (note 18)	(626)	255	(757)	(865)
Interest paid	(2,547)	(689)	(6,907)	(1,142)
Dividends paid subordinate and multiple voting common shares	(5,974)	(5,000)	(18,176)	(14,774)
Other	-	375	-	-
Cash flows (used in) from financing activities	<u>(18,410)</u>	<u>472,882</u>	<u>(50,280)</u>	<u>443,160</u>
<b>Change in cash during the period</b>	<b>(3,592)</b>	<b>6,987</b>	<b>(14,921)</b>	<b>(8,309)</b>
<b>Cash - Beginning of period</b>	<b>15,435</b>	<b>4,113</b>	<b>26,764</b>	<b>19,409</b>
<b>Cash - End of period</b>	<b>\$ 11,843</b>	<b>\$ 11,100</b>	<b>\$ 11,843</b>	<b>\$ 11,100</b>

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

## **Cara Operations Limited**

Notes to the Condensed Consolidated Interim Financial Statements

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(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 "CARA". As part of the Company's initial public offering ("IPO") during fiscal 2015, the Company issued multiple voting shares to Fairfax Financial Holdings Limited and its affiliates ("Fairfax") and to the Phelan family through Cara Holdings Limited and its affiliates ("Cara Holdings", and together with Fairfax, the "Principal Shareholders"). As at September 24, 2017, the Principal Shareholders hold 64.6% of the total issued and outstanding shares and have 97.7% 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 condensed consolidated interim financial statements as "Cara" or "the Company".

### **2 Basis of Presentation**

#### **Statement of compliance**

The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). The unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's 2016 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 3, 2017.

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

The condensed consolidated interim financial statements are presented in Canadian dollars which is the Company's functional currency. The Company determines its foreign subsidiaries' functional currency by reviewing the currencies in which their respective operating activities occur. The Company translates assets and liabilities of its non-Canadian dollar functional currency subsidiaries into Canadian dollars using the rate in effect at the balance sheet date and revenues and expenses are translated at the average exchange rates during the year. Foreign currency translation gains and losses are included in Shareholders' equity as a component of accumulated other comprehensive loss in the accompanying consolidated financial statements.

Monetary assets and liabilities denominated in a currency that is different from a reporting entity's functional currency must be first remeasured from the applicable currency to the legal entity's functional currency.

All financial information presented in Canadian dollars has been rounded to the nearest thousands of dollars except where otherwise indicated.

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Notes to the Condensed Consolidated Interim Financial Statements

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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. Total gross revenues 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 the 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 during 2017 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 25, 2016.

**Comparative information**

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

**3 Significant accounting policies****Accounting standards implemented in 2017****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. There was no impact on the Company's condensed consolidated interim financial statements as a result of the amendments.

## **Cara Operations Limited**

Notes to the Condensed Consolidated Interim Financial Statements

**For the 13 and 39 weeks ended September 24, 2017 and September 25, 2016**

(unaudited)

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### **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 has adopted this disclosure in the condensed consolidated interim financial statements, see note 18.

### **Other Standards**

On December 8, 2016 the IASB issued narrow-scope amendments to two standards as part of its annual improvements process (Annual Improvements to IFRS Standards (2014-2016) cycle). Amendments were made to clarify items including interests that are classified as held for sale, held for distribution or discontinued operations that apply to IFRS 12 “Disclosures of Interests in other Entities”. There was no impact on the Company’s condensed consolidated interim financial statements as a result of the amendments.

## **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 Company has begun preliminary assessments to determine the impact of adoption on the consolidated financial statements, the impact is not expected to result in a material change to how revenue is currently recognized.

### **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



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(2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will 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. The Company has begun preliminary assessments to determine the impact of adoption on the consolidated financial statements, the extent of the impact 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 Company is in the preliminary assessment stages on the impact of this standard, however, as the Company is a lessee with numerous leases and subleases to franchisees, this standard is expected to have a significant impact on assets, liabilities and the statements of earnings.

**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 Transactions, 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. Cash settled awards do not have any vesting or non-vesting conditions, therefore, the Company does not expect the adoption of the amendment to have a material impact on the consolidated financial statements.

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Notes to the Condensed Consolidated Interim Financial Statements

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(unaudited)

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### **Foreign Currency Transactions**

On December 8, 2016, the IASB issued IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration. The Interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. The Company intends to adopt the amendments of IFRIC 22 for annual periods beginning on January 1, 2018. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

### **Transfer of assets between an investor and its associate or joint venture**

On September 11, 2014 the IASB issued Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28). The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture (JV). Specifically, under the existing consolidation standard the parent recognises the full gain on the loss of control, whereas under the existing guidance on associates and JVs the parent recognises the gain only to the extent of unrelated investors' interests in the associate or JV. The main consequence of the amendments is that a full gain/loss is recognised when the assets transferred meet the definition of a 'business' under IFRS 3 Business Combinations. A partial gain/loss is recognised when the assets transferred do not meet the definition of a business, even if these assets are housed in a subsidiary. The Company did not adopt these amendments in its financial statements for the annual period beginning December 26, 2016, as the effective date for these amendments has been deferred indefinitely.

### **IFRIC 23 Uncertainty over Income Tax Treatments**

On June 7, 2017, the IASB issued IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation requires an entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution, reflect an uncertainty in the amount of income tax payable (recoverable) if it is probable that it will pay (or recover) an amount for the uncertainty, and measure a tax uncertainty based on the most likely amount or expected value depending on whichever method better predicts the amount payable (recoverable). The Company intends to adopt the Interpretation in its financial statements for the annual period beginning on December 31, 2018. The extent of the impact of adoption of the Interpretation has not yet been determined.

### **Other Standards**

On December 8, 2016 the IASB issued narrow-scope amendments to two standards as part of its annual improvements process (Annual Improvements to IFRS Standards (2014-2016) cycle). There was clarification that the election to measure an associate or joint venture at fair value under IAS 28 "Investments in Associates and Joint Ventures" for investments held directly, or indirectly, through a venture capital or other qualifying entity can be made on an investment-by-investment basis which the Company intends to adopt in its financial

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Notes to the Condensed Consolidated Interim Financial Statements

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(unaudited)

statements for the annual period beginning on January 1, 2018. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

**5 Acquisitions**

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

**Re-acquired franchise locations**

In the normal course of business, the Company may acquire or re-acquire franchise restaurants and convert them into corporate restaurants. During the 13 and 39 weeks ended September 24, 2017, 2 and 5 franchised locations, respectively, were re-acquired by the Company (13 and 39 weeks ended September 25, 2016 – 4 and 8 franchised locations, respectively).

(in thousands of Canadian dollars)

	<b>For the 13 weeks ended</b>		<b>For the 39 weeks ended</b>	
	<b>September 24, 2017</b>	<b>September 25, 2016</b>	<b>September 24, 2017</b>	<b>September 25, 2016</b>
<b>Consideration</b>				
Cash	\$ 10	\$ 14	\$ 244	\$ 248
Accounts receivable	-	49	84	231
<b>Total Consideration</b>	<b>\$ 10</b>	<b>\$ 63</b>	<b>\$ 328</b>	<b>\$ 479</b>
<b>Net assets acquired</b>				
Inventories	\$ -	\$ -	\$ 30	\$ 12
Property, plant and equipment	10	35	69	270
Brands and other assets	-	28	54	197
<b>Total Assets</b>	<b>10</b>	<b>63</b>	<b>153</b>	<b>479</b>
Goodwill	-	-	175	-
<b>Total</b>	<b>\$ 10</b>	<b>\$ 63</b>	<b>\$ 328</b>	<b>\$ 479</b>

**Cara Operations Limited**

Notes to the Condensed Consolidated Interim Financial Statements

**For the 13 and 39 weeks ended September 24, 2017 and September 25, 2016**

(unaudited)

**Original Joe's**

On November 28, 2016, the Company completed the investment in the majority ownership of Original Joe's Franchise Group Inc. ("Original Joe's") for cash consideration of \$93.0 million plus an earn-out liability if certain targets are met over a period of time. The preliminary determination of the identifiable assets acquired and liabilities assumed at fair value, in connection with the acquisition of Original Joe's was adjusted for changes in estimates during the 13 and 39 weeks ended September 24, 2017. The changes are summarized in the table below:

	<b>September 24, 2017</b>	<b>December 25, 2016</b>
<b>Consideration</b>		
Cash paid to vendor	\$ 93,000	\$ 93,000
Contingent consideration for Non-Controlling Interest <sup>(1)</sup>	19,511	19,511
<b>Total cash paid for shares</b>	<b>\$ 112,511</b>	<b>\$ 112,511</b>
<b>Fair Value of Net Assets Acquired</b>		
<b>Assets</b>		
Cash	\$ 2,893	\$ 2,893
Accounts receivable	6,824	6,824
Due from related parties	2,443	2,443
Inventories	1,752	1,752
Prepaid expenses and other assets	1,153	1,153
Income taxes receivable	2,300	2,300
<b>Total Current Assets</b>	<b>17,365</b>	<b>17,365</b>
Due from related parties	10,310	10,310
Property, plant and equipment	24,963	24,963
Investment in associates and joint ventures	4,189	4,189
Brands and other assets	96,971	96,971
<b>Total Assets</b>	<b>\$ 153,798</b>	<b>\$ 153,798</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 10,272	\$ 10,272
Income taxes payable	1,960	1,960
Long-term debt	26,745	26,745
Provisions	2,106	2,106
Other long-term liabilities	793	793
Deferred income tax liabilities	527	1,458
<b>Total liabilities</b>	<b>\$ 42,403</b>	<b>\$ 43,334</b>
<b>Total net assets acquired</b>	<b>\$ 111,395</b>	<b>\$ 110,464</b>
<b>Goodwill</b>	<b>1,116</b>	<b>2,047</b>
<b>Total</b>	<b>\$ 112,511</b>	<b>\$ 112,511</b>

<sup>(1)</sup> Contingent consideration recorded as part of Other long-term liabilities (see note 19)

**Cara Operations Limited**

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(unaudited)

**St-Hubert**

On September 2, 2016 ("the St-Hubert Acquisition Date"), the Company completed the acquisition of 100% of Groupe St-Hubert Inc. ("St-Hubert"). The transaction was accounted for as a business combination, with the Company controlling St-Hubert and consolidating 100% of their operations as at the St-Hubert Acquisition Date. The Company has completed the fair value determination of the identifiable assets acquired and liabilities assumed in connection with the acquisition of St-Hubert, with changes from year end being:

	<u>September 24, 2017</u>	<u>December 25, 2016</u>
<b>Consideration</b>		
Cash paid to vendor	\$ 386,826	\$ 388,346
Cash paid "in trust" relating to holdback	55,500	55,500
Payment of St-Hubert long-term debt	42,450	42,450
<b>Total cash paid for shares</b>	<b>\$ 484,776</b>	<b>\$ 486,296</b>
Cara subordinated voting shares issued	\$ 53,891	\$ 53,891
<b>Total Consideration</b>	<b>\$ 538,667</b>	<b>\$ 540,187</b>
<b>Fair Value of Net Assets Acquired</b>		
<b>Assets</b>		
Accounts receivable	\$ 22,054	\$ 22,054
Inventories	24,762	24,762
Prepaid expenses and other assets	4,070	4,070
Income taxes receivable	438	438
<b>Total Current Assets</b>	51,324	51,324
Long-term receivables	318	318
Property, plant and equipment	189,943	193,673
Brands and other assets	297,647	297,647
<b>Total Assets</b>	<b>\$ 539,232</b>	<b>\$ 542,962</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 30,100	\$ 30,100
Provisions	501	501
Income taxes payable	600	600
Long-term debt	5,140	5,140
Other long-term liabilities	3,674	3,674
Deferred income tax liabilities	99,167	100,171
<b>Total liabilities</b>	<b>\$ 139,182</b>	<b>\$ 140,186</b>
<b>Total net assets acquired</b>	<b>\$ 400,050</b>	<b>\$ 402,776</b>
<b>Goodwill</b>	<b>138,617</b>	<b>137,411</b>
<b>Total</b>	<b>\$ 538,667</b>	<b>\$ 540,187</b>

## Cara Operations Limited

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For the 13 and 39 weeks ended September 24, 2017 and September 25, 2016

(unaudited)

### 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)	For the 13 weeks ended		For the 39 weeks ended	
	September 24, 2017	September 25, 2016	September 24, 2017	September 25, 2016
Sales at corporate restaurants	\$ 101,697	\$ 74,737	\$ 292,492	\$ 206,374
Food processing and distribution	57,774	17,693	170,009	17,693
Call centre service charge revenues	2,703	2,204	8,674	6,742
	<u>\$ 162,174</u>	<u>\$ 94,634</u>	<u>\$ 471,175</u>	<u>\$ 230,809</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 property rents.

(in thousands of Canadian dollars)	For the 13 weeks ended		For the 39 weeks ended	
	September 24, 2017	September 25, 2016	September 24, 2017	September 25, 2016
Royalty revenue	\$ 23,232	\$ 18,348	\$ 68,426	\$ 53,216
Franchise fees on new and renewal licenses	648	42	1,214	173
Income on finance leases	610	441	1,367	1,443
Other rental income	1,757	663	6,793	879
Amortization of unearned conversion fees income	261	399	798	1,194
	<u>\$ 26,508</u>	<u>\$ 19,893</u>	<u>\$ 78,598</u>	<u>\$ 56,905</u>

## Cara Operations Limited

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For the 13 and 39 weeks ended September 24, 2017 and September 25, 2016

(unaudited)

### 8 Selling, general and administrative expenses

(in thousands of Canadian dollars)	For the 13 weeks ended		For the 39 weeks ended	
	September 24, 2017	September 25, 2016	September 24, 2017	September 25, 2016
Corporate restaurant expenses	\$ 60,589	\$ 44,122	\$ 177,581	\$ 122,823
Franchise assistance and bad debt	2,906	2,335	7,230	6,109
Franchisor over-contribution to advertising funds	484	566	1,654	1,949
Depreciation of property, plant and equipment (note 14)	10,329	6,608	29,485	16,586
Amortization of other assets (note 15)	1,737	1,459	4,843	3,808
Other	4,769	(803)	21,943	(8,710)
	<u>\$ 80,814</u>	<u>\$ 54,287</u>	<u>\$ 242,736</u>	<u>\$ 142,565</u>

For the 13 and 39 weeks ended September 24, 2017, \$0.8 million and \$2.5 million, respectively, of depreciation related to property, plant and equipment has been included in cost of inventories sold as part of food processing and distribution.

### 9 Restructuring and other

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 lease settlement costs. Restructuring costs also consist of closure costs related to phasing out the Casey's concept and repositioning certain brands.

#### Home office and brand reorganization

In conjunction with the Original Joe's investment on November 28, 2016, the Company approved the restructuring of certain home office and brand operations positions to consolidate Original Joe's with Cara's existing infrastructure. During the 13 and 39 weeks ended September 24, 2017, the Company recorded an expense of \$0.2 million and \$0.5 million, respectively, comprised primarily of Boston office closure costs, severance and other benefits.

#### Restaurant operations – repositioning of certain brands

The Company approved the repositioning of the Milestones brand to a more suburban concept with select urban locations. The total restructuring costs under this plan were estimated to be approximately \$2.2 million; comprised of approximately \$2.0 million related to expected lease exit and de-branding costs and \$0.2 million related to employee severance costs. During the 13 and 39 weeks ended September 24, 2017, the Company recorded an expense of \$0.5 million and \$2.3 million, respectively.

## Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 24, 2017 and September 25, 2016

(unaudited)

### Other

Other costs include lease exit costs related to lease contracts previously entered into that do not fit the overall economic model of the brands and long-term do not fit the strategic direction of the Company. During the 13 and 39 weeks ended September 24, 2017, the Company recorded an expense of \$nil and \$0.6 million, respectively, related to expected lease exit costs.

The following table provides a summary of the costs recognized and cash payments made, as well as the corresponding net liability as at September 24, 2017:

(in thousands of Canadian dollars)	For the 13 weeks ended		For the 39 weeks ended	
	September 24, 2017	September 25, 2016	September 24, 2017	September 25, 2016
<b>Net liability, beginning of period</b>	\$ 3,761	\$ 1,533	\$ 1,647	\$ 3,662
<b>Cost/(recovery) recognized</b>				
Employee termination benefits	215	41	505	(451)
Site closing costs and other	470	-	2,851	27
<b>Total</b>	<b>685</b>	<b>41</b>	<b>3,356</b>	<b>(424)</b>
<b>Cash payments</b>				
Employee termination benefits	269	276	659	1,869
Site closing costs and other	186	34	353	105
<b>Total</b>	<b>455</b>	<b>310</b>	<b>1,012</b>	<b>1,974</b>
<b>Net liability, end of period</b>	<b>\$ 3,991</b>	<b>\$ 1,264</b>	<b>\$ 3,991</b>	<b>\$ 1,264</b>

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

(in thousands of Canadian dollars)	September 24, 2017	December 25, 2016	September 25, 2016
Employee termination benefits:			
Accounts payable and accrued liabilities	\$ 837	\$ 962	\$ 833
Other long-term liabilities	-	37	95
Site closing costs and other:			
Accounts payable and accrued liabilities	2,745	-	-
Provisions - current	296	253	141
Provisions - long-term	113	395	195
	<b>\$ 3,991</b>	<b>\$ 1,647</b>	<b>\$ 1,264</b>



**Cara Operations Limited**

Notes to the Condensed Consolidated Interim Financial Statements

**For the 13 and 39 weeks ended September 24, 2017 and September 25, 2016**

(unaudited)

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

(in thousands of Canadian dollars)	For the 13 weeks ended		For the 39 weeks ended	
	September 24, 2017	September 25, 2016	September 24, 2017	September 25, 2016
Interest expense on long-term debt	\$ 2,711	\$ 727	\$ 7,816	\$ 1,414
Interest on finance leases	430	403	1,365	1,166
Financing costs	165	74	494	143
Interest expense - other	106	70	315	260
Write-off of deferred financing fees	-	387	-	387
Interest income	(196)	(39)	(1,004)	(313)
	<u>\$ 3,216</u>	<u>\$ 1,622</u>	<u>\$ 8,986</u>	<u>\$ 3,057</u>

**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 24, 2017	September 25, 2016	September 24, 2017	September 25, 2016
Current income tax expense (recovery)				
Current period	\$ 3,388	\$ 1,501	7,780	\$ 1,866
Adjustment for prior years	(252)	-	(1,096)	(19)
	<u>3,136</u>	<u>1,501</u>	<u>6,684</u>	<u>1,847</u>
Deferred income tax expense (recovery)				
Origination and reversal of temporary differences	4,288	4,840	13,785	17,123
Adjustments for prior years	1,062	(6)	337	(182)
Benefit from previously unrecognized tax asset	680	(562)	(23,764)	(412)
	<u>6,030</u>	<u>4,272</u>	<u>(9,642)</u>	<u>16,529</u>
Net income tax expense (recovery)	<u>\$ 9,166</u>	<u>\$ 5,773</u>	<u>(2,958)</u>	<u>\$ 18,376</u>

**Cara Operations Limited**

Notes to the Condensed Consolidated Interim Financial Statements

**For the 13 and 39 weeks ended September 24, 2017 and September 25, 2016**

(unaudited)

*Recognized deferred tax assets and liabilities*

(in thousands of Canadian dollars)	<u>September 24, 2017</u>	<u>December 25, 2016</u>	<u>September 25, 2016</u>
Opening balance	\$ (85,031)	\$ 36,903	\$ 36,903
Deferred income tax (expense)/recovery	9,642	(22,008)	(16,529)
Transaction costs	-	2,160	2,162
St-Hubert acquisition	1,004	(100,171)	(94,783)
Original Joe's acquisition	931	(1,458)	-
Income taxes recognized in other comprehensive income	-	(457)	-
	<u>\$ (73,454)</u>	<u>\$ (85,031)</u>	<u>\$ (72,247)</u>

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

Deferred tax asset	\$ 29,168	\$ 18,604	\$ 24,272
Deferred tax liability	<u>(102,622)</u>	<u>(103,635)</u>	<u>(96,519)</u>
	<u>\$ (73,454)</u>	<u>\$ (85,031)</u>	<u>\$ (72,247)</u>

**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 of corporate restaurant inventory. Costs consist of the cost to purchase, direct labour, an allocation of variable and fixed manufacturing overheads, and other costs incurred in bringing the inventory to its present location reduced by vendor allowances. The cost of inventories is determined using the first-in, first-out method.

(in thousands of Canadian dollars)	<u>September 24, 2017</u>	<u>December 25, 2016</u>	<u>September 25, 2016</u>
Raw materials	\$ 6,088	\$ 7,390	\$ 6,207
Work in progress	1,006	708	802
Finished goods	17,518	13,407	13,714
Food and beverage supplies	5,568	6,332	4,184
	<u>\$ 30,180</u>	<u>\$ 27,837</u>	<u>\$ 24,907</u>

**Cara Operations Limited**

Notes to the Condensed Consolidated Interim Financial Statements

**For the 13 and 39 weeks ended September 24, 2017 and September 25, 2016**

(unaudited)

**13 Long-term receivables**

(in thousands of Canadian dollars)	<u>September 24, 2017</u>	<u>December 25, 2016</u>	<u>September 25, 2016</u>
Franchise receivable	\$ 25,439	\$ 28,812	\$ 30,209
Due from related parties (note 26)	20,519	10,727	-
Promissory notes	<u>1,512</u>	<u>1,888</u>	<u>1,420</u>
	<u>\$ 47,470</u>	<u>\$ 41,427</u>	<u>\$ 31,629</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 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 24, 2017 and September 25, 2016, the Company recorded \$nil of impairment losses on long-term franchise receivables.

**Long-term receivable maturities**

Long-term receivables have maturity dates ranging from 2018 to 2034.

**Cara Operations Limited**  
Notes to the Condensed Consolidated Interim Financial Statements  
**For the 13 and 39 weeks ended September 24, 2017 and September 25, 2016**  
(unaudited)

**14 Property, plant and equipment**

(in thousands of Canadian dollars)	Land	Buildings	Equipment	Leasehold improvements	Assets under finance lease	Construction-in-progress	Total
<b>Cost</b>							
Balance, beginning of period	\$ 38,546	\$ 119,223	\$ 199,244	\$ 128,436	\$ 36,027	\$ 5,796	\$ 527,272
Additions	-	-	(216)	572	1,189	11,436	12,981
Adjustment to purchase price (note 5)	-	(3,730)	-	-	-	-	(3,730)
Disposals and adjustments	-	(2)	(1,173)	(2,497)	-	-	(3,672)
Transfer to/(from) construction-in-progress	-	214	1,731	528	-	(2,473)	-
<b>Balance at March 26, 2017</b>	<b>\$ 38,546</b>	<b>\$ 115,705</b>	<b>\$ 199,586</b>	<b>\$ 127,039</b>	<b>\$ 37,216</b>	<b>\$ 14,759</b>	<b>\$ 532,851</b>
Additions	-	4	3,142	2,324	-	12,965	18,435
Acquisitions (note 5)	-	-	59	-	-	-	59
Disposals and adjustments	-	-	(3,180)	(5,408)	-	-	(8,588)
Transfer to/(from) construction-in-progress	-	636	4,649	5,604	-	(10,889)	-
<b>Balance at June 25, 2017</b>	<b>\$ 38,546</b>	<b>\$ 116,345</b>	<b>\$ 204,256</b>	<b>\$ 129,559</b>	<b>\$ 37,216</b>	<b>\$ 16,835</b>	<b>\$ 542,757</b>
Additions	-	-	739	(45)	-	12,296	12,990
Acquisitions (note 5)	-	10	-	-	-	-	10
Disposals and adjustments	-	-	(4,455)	(8,754)	-	44	(13,165)
Transfer to/(from) construction-in-progress	-	1,413	7,034	11,750	-	(20,197)	-
<b>Balance at September 24, 2017</b>	<b>\$ 38,546</b>	<b>\$ 117,768</b>	<b>\$ 207,574</b>	<b>\$ 132,510</b>	<b>\$ 37,216</b>	<b>\$ 8,978</b>	<b>\$ 542,592</b>
<b>Accumulated depreciation and impairment losses</b>							
Balance, beginning of period	\$ -	\$ 3,946	\$ 117,741	\$ 61,564	\$ 16,128	\$ -	\$ 199,379
Depreciation expense	-	1,828	5,421	2,111	623	-	9,983
Impairment losses	-	-	315	683	-	-	998
Disposals and adjustments	-	-	(1,053)	(1,885)	-	-	(2,938)
<b>Balance at March 26, 2017</b>	<b>\$ -</b>	<b>\$ 5,774</b>	<b>\$ 122,424</b>	<b>\$ 62,473</b>	<b>\$ 16,751</b>	<b>\$ -</b>	<b>\$ 207,422</b>
Depreciation expense	-	1,807	5,334	3,050	643	-	10,834
Impairment losses	-	-	-	2,438	-	-	2,438
Disposals and adjustments	-	(2)	(2,957)	(4,484)	-	-	(7,443)
<b>Balance at June 25, 2017</b>	<b>\$ -</b>	<b>\$ 7,579</b>	<b>\$ 124,801</b>	<b>\$ 63,477</b>	<b>\$ 17,394</b>	<b>\$ -</b>	<b>\$ 213,251</b>
Depreciation expense	-	1,827	5,608	3,086	631	-	11,152
Impairment losses	-	-	142	489	-	-	631
Disposals and adjustments	-	-	(4,304)	(8,689)	-	-	(12,993)
<b>Balance at September 24, 2017</b>	<b>\$ -</b>	<b>\$ 9,406</b>	<b>\$ 126,247</b>	<b>\$ 58,363</b>	<b>\$ 18,025</b>	<b>\$ -</b>	<b>\$ 212,041</b>
<b>Carrying amount as at:</b>							
<b>September 24, 2017</b>	<b>\$ 38,546</b>	<b>\$ 108,362</b>	<b>\$ 81,327</b>	<b>\$ 74,147</b>	<b>\$ 19,191</b>	<b>\$ 8,978</b>	<b>\$ 330,551</b>
December 25, 2016	\$ 38,546	\$ 115,277	\$ 81,503	\$ 66,872	\$ 19,899	\$ 5,796	\$ 327,893
September 25, 2016	\$ 38,496	\$ 115,476	\$ 65,042	\$ 47,862	\$ 21,747	\$ 14,043	\$ 302,666

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### 15 Brands and other assets

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

(in thousands of Canadian dollars)	<u>Brands</u>	<u>Other assets</u>	<u>Investment in joint ventures and associates</u> (note 26)	<u>Total</u>
<b>Cost</b>				
Balance, beginning of period	\$ 514,639	\$ 89,585	\$ 4,042	\$ 608,266
Additions	-	56	-	56
Share of gain (loss) from investment in joint ventures and associates	-	-	(123)	(123)
Balance as at March 26, 2017	\$ 514,639	\$ 89,641	\$ 3,919	\$ 608,199
Additions	-	130	15,486	15,616
Share of gain (loss) from investment in joint ventures and associates	-	-	394	394
Balance as at June 25, 2017	\$ 514,639	\$ 89,771	\$ 19,799	\$ 624,209
Additions	-	182	-	182
Adjustments	-	(160)	(833)	(993)
Share of gain (loss) from investment in joint ventures and associates	-	-	(106)	(106)
<b>Balance as at September 24, 2017</b>	<b>\$ 514,639</b>	<b>\$ 89,793</b>	<b>\$ 18,860</b>	<b>\$ 623,292</b>
<b>Accumulated amortization</b>				
Balance, beginning of period	\$ -	\$ 13,754	\$ -	\$ 13,754
Amortization	-	1,539	-	1,539
Impairment loss	-	186	-	186
Balance as at March 26, 2017	\$ -	\$ 15,479	\$ -	\$ 15,479
Amortization	-	1,567	-	1,567
Balance as at June 25, 2017	\$ -	\$ 17,046	\$ -	\$ 17,046
Amortization	-	1,737	-	1,737
Adjustments	-	(160)	-	(160)
Impairment loss	-	84	-	84
<b>Balance as at September 24, 2017</b>	<b>\$ -</b>	<b>\$ 18,707</b>	<b>\$ -</b>	<b>\$ 18,707</b>
<b>Net carrying amount as at:</b>				
<b>September 24, 2017</b>	<b>\$ 514,639</b>	<b>\$ 71,086</b>	<b>\$ 18,860</b>	<b>\$ 604,585</b>
December 25, 2016	\$ 514,639	\$ 75,831	\$ 4,042	\$ 594,512
September 25, 2016	\$ 417,668	\$ 77,528	\$ -	\$ 495,196

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(unaudited)

**16 Goodwill**

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

(in thousands of Canadian dollars)	<u>September 24, 2017</u>	<u>December 25, 2016</u>	<u>September 25, 2016</u>
<b>Cost</b>			
Balance, beginning of period	\$ 188,998	\$ 49,540	\$ 49,540
Additions (note 5)	175	139,458	129,298
Additions resulting from change in Preliminary Purchase Equation (note 5)	<u>275</u>	<u>-</u>	<u>-</u>
<b>Balance, end of period</b>	<b><u>\$ 189,448</u></b>	<b><u>\$ 188,998</u></b>	<b><u>\$ 178,838</u></b>

**Cara Operations Limited**

Notes to the Condensed Consolidated Interim Financial Statements

**For the 13 and 39 weeks ended September 24, 2017 and September 25, 2016**

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**17 Provisions**

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

(in thousands of Canadian dollars)	<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	\$ 6,150	\$ 2,715	\$ 4,690	\$ 3,040	\$ 16,595
Additions	63	-	-	-	63
Accretion	81	-	-	-	81
Payments	-	(306)	-	-	(306)
Gain/Loss	(162)	-	-	-	(162)
Adjustments	(105)	133	(284)	140	(116)
Balance as at March 26, 2017	\$ 6,027	\$ 2,542	\$ 4,406	\$ 3,180	\$ 16,155
Additions	276	-	50	-	326
Accretion	80	-	-	-	80
Payments	-	(182)	-	-	(182)
Gain/Loss	(774)	-	-	-	(774)
Adjustments	-	(122)	(239)	140	(221)
Balance as at June 25, 2017	\$ 5,609	\$ 2,238	\$ 4,217	\$ 3,320	\$ 15,384
Additions	113	-	-	-	113
Accretion	60	-	-	-	60
Payments	-	(267)	-	(50)	(317)
Gain/Loss	(24)	-	-	-	(24)
Adjustments	(169)	336	(383)	(104)	(320)
<b>Balance as at September 24, 2017</b>	<b>\$ 5,589</b>	<b>\$ 2,307</b>	<b>\$ 3,834</b>	<b>\$ 3,166</b>	<b>\$ 14,896</b>
December 25, 2016	\$ 6,150	\$ 2,715	\$ 4,690	\$ 3,040	\$ 16,595
September 25, 2016	\$ 5,478	\$ 2,490	\$ 2,448	\$ 2,158	\$ 12,574

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

(in thousands of Canadian dollars)	<u>September 24, 2017</u>	<u>December 25, 2016</u>	<u>September 25, 2016</u>
Provisions - current	\$ 7,423	\$ 5,159	\$ 5,187
Provisions - long-term	7,473	11,436	7,387
	<u>\$ 14,896</u>	<u>\$ 16,595</u>	<u>\$ 12,574</u>

**18 Long-term debt**

(in thousands of Canadian dollars)	<u>September 24, 2017</u>	<u>December 25, 2016</u>	<u>September 25, 2016</u>
Term credit facility - revolving	\$ 246,025	\$ 242,000	\$ 156,000
Term credit facility - non-revolving	150,000	150,000	150,000
Finance leases	<u>22,936</u>	<u>23,693</u>	<u>25,450</u>
	<u>418,961</u>	<u>415,693</u>	<u>331,450</u>
Less: Financing costs	<u>2,069</u>	<u>2,547</u>	<u>2,569</u>
	<u>\$ 416,892</u>	<u>\$ 413,146</u>	<u>\$ 328,881</u>

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

Current portion of long-term debt	\$ 2,517	\$ 2,443	\$ 2,346
Long-term portion of long-term debt	<u>414,375</u>	<u>410,703</u>	<u>326,535</u>
	<u>\$ 416,892</u>	<u>\$ 413,146</u>	<u>\$ 328,881</u>



**Cara Operations Limited**

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The movement in long-term debt from December 25, 2016 to September 24, 2017 is as follows:

(in thousands of Canadian dollars)	<b>Term Credit facility</b>	<b>Finance leases</b>	<b>Total</b>
Balance at December 25, 2016	\$ 392,000	\$ 23,693	\$ 415,693
Less Financing costs	(2,547)	-	(2,547)
	<b>389,453</b>	<b>23,693</b>	<b>413,146</b>
<b>Changes from financing cash flows</b>			
Repayment of borrowings	(32,000)	-	(32,000)
Payment of finance lease liabilities	-	(1,180)	(1,180)
Balance due to changes from financing cash flows as at March 26, 2017	\$ 357,453	\$ 22,513	\$ 379,966
Issuance of borrowings	17,250	-	17,250
Payment of finance lease liabilities	-	(1,076)	(1,076)
Balance due to changes from financing cash flows as at June 25, 2017	\$ 374,703	\$ 21,437	\$ 396,140
Issuance of borrowings	18,775	-	18,775
Payment of finance lease liabilities	-	(1,056)	(1,056)
<b>Balance due to changes from financing cash flows as at September 24, 2017</b>	\$ 393,478	\$ 20,381	\$ 413,859
<b>Non-cash movements</b>			
New finance leases	-	1,190	1,190
Adjustment to capitalized borrowing costs	(17)	-	(17)
Interest expense	166	502	668
Balance at March 26, 2017	\$ 393,627	\$ 22,073	\$ 415,700
Interest expense	164	433	597
Balance at June 25, 2017	\$ 393,791	\$ 22,506	\$ 416,297
Interest expense	165	430	595
<b>Balance at September 24, 2017</b>	\$ <b>393,956</b>	\$ <b>22,936</b>	\$ <b>416,892</b>

## Cara Operations Limited

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### 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 \$400.0 million with an accordion feature of up to \$50.0 million maturing on September 2, 2021 and a non-revolving term credit facility in the amount of \$150.0 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.

As at September 24, 2017, \$396.0 million (December 25, 2016 - \$392.0 million; September 25, 2016 - \$306.0 million) was drawn under the amended and extended credit facilities with an effective interest rate of 2.94% representing bankers acceptance rate of 0.92% plus 1.69% borrowing spread, standby fees and the amortization of deferred financing fees of 0.33%.

The Company is required to pay a standby fee of 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 24, 2017, the standby fee rate was 0.35%.

As at September 24, 2017, the Company was in compliance with all covenants and has not exceeded any covenant levels requiring early repayments.

### Finance leases

Included in finance leases are obligations that bear interest at an average rate of 7.0% (December 25, 2016 – 7.0%; September 25, 2016 – 7.3%).

## 19 Other long-term liabilities

(in thousands of Canadian dollars)	September 24, 2017	December 25, 2016	September 25, 2016
Accrued pension and other benefit plans	\$ 21,873	\$ 22,435	\$ 24,130
Non-controlling interest liability	19,511	19,511	-
Deferred income	10,779	12,080	12,712
Deferred rental income	9,936	11,690	12,400
Accrued rent expense	4,730	4,451	4,099
Restructuring	3,991	999	95
Long-term incentive plans (note 20)	516	315	279
Other long-term liabilities	2,990	3,951	1,758
	<u>\$ 74,326</u>	<u>\$ 75,432</u>	<u>\$ 55,473</u>

**Cara Operations Limited**

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(unaudited)

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

(in thousands of Canadian dollars)	<u>September 24, 2017</u>	<u>December 25, 2016</u>	<u>September 25, 2016</u>
Accounts payable and accrued liabilities	\$ 7,414	\$ 7,461	\$ 3,319
Other long-term liabilities	<u>66,912</u>	<u>67,971</u>	<u>52,154</u>
	<u>\$ 74,326</u>	<u>\$ 75,432</u>	<u>\$ 55,473</u>

**Accrued pension and other benefit plans**

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

For the 13 and 39 weeks ended September 24, 2017, the Company recorded expenses of \$0.2 million and \$0.6 million, respectively (13 and 39 weeks ended September 25, 2016 - \$0.2 million and \$0.6 million, respectively) related to pension benefits.

**Deferred income***Unearned franchise and conversion fee income*

At September 24, 2017, the Company had deferred \$5.8 million (December 25, 2016 - \$6.6 million; September 25, 2016 - \$6.8 million) of initial franchise fees and conversion fees received from franchisees that will be recognized over the remaining term of the respective franchise agreements.

*Sale-leaseback transactions*

At September 24, 2017, the Company had deferred \$3.7 million (December 25, 2016 - \$4.2 million; September 25, 2016 - \$4.5 million) related to gains realized on sale-leaseback transactions.

**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 \$9.9 million (December 25, 2016 - \$11.7 million; September 25, 2016 - \$12.4 million) represents the unearned revenue associated with the rental agreements calculated as the present value of the minimum lease payments using an interest rate implicit in the rental agreement.

**Cara Operations Limited**

Notes to the Condensed Consolidated Interim Financial Statements

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**20 Long-term incentive plans**

Under the various stock option plans, Cara may grant options to buy up to 15% of its total Subordinate and Multiple Voting Shares outstanding, a total of 9.0 million shares, a guideline the Company has set on the number of stock option grants. As at September 24, 2017, approximately 4.2 million stock options were granted and outstanding.

Stock options outstanding as at September 24, 2017 have a term of up to eight years from the initial grant date. Each stock option is exercisable into one Subordinate Voting Share at the price specified in the terms of the option agreement. There were no accelerated vesting features upon the initial public offering under any of the plans described below.

The following table summarizes the options granted post share consolidation:

	<u>CEO stock option plan</u>		<u>Employee stock option plan</u>		<u>Total</u>	
	<u>Options (number of shares)</u>	<u>Weighted average exercise price/share</u>	<u>Options (number of shares)</u>	<u>Weighted average exercise price/share</u>	<u>Options (number of shares)</u>	<u>Weighted average exercise price/share</u>
Outstanding options, December 25, 2016	2,429,355	\$ 8.61	1,374,397	\$ 14.70	3,803,752	\$ 10.81
Granted	20,000	\$ 24.64	491,577	\$ 24.64	511,577	\$ 24.64
Forfeited	-	\$ -	(52,234)	\$ 15.27	(52,234)	\$ 15.27
Exercised	-	\$ -	(13,920)	\$ 8.51	(13,920)	\$ 8.51
Outstanding options at March 26, 2017	2,449,355	\$ 8.74	1,799,820	\$ 17.44	4,249,175	\$ 12.44
Granted	-	\$ -	1,678	\$ 25.90	1,678	\$ 25.90
Outstanding options, at June 25, 2017	2,449,355	\$ 8.74	1,801,498	\$ 17.44	4,250,853	\$ 12.44
Forfeited	-	\$ -	(34,019)	\$ 19.18	(34,019)	\$ 19.18
<b>Outstanding options at September 24, 2017</b>	<b>2,449,355</b>	<b>\$ 8.74</b>	<b>1,767,479</b>	<b>\$ 17.41</b>	<b>4,216,834</b>	<b>\$ 12.39</b>
<b>Options exercisable at September 24, 2017</b>	<b>2,419,355</b>	<b>\$ 8.51</b>	<b>241,935</b>	<b>\$ 8.51</b>	<b>2,661,290</b>	<b>\$ 8.51</b>

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	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 at 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 at 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	\$ 30.42
Forfeited	-	-	-	-	(23,707)	29.66	(23,707)	\$ 13.72
<b>Outstanding options at September 25, 2016</b>	<b>86,021</b>	<b>\$ 0.01</b>	<b>3,504,624</b>	<b>\$ 5.97</b>	<b>1,385,328</b>	<b>\$ 14.71</b>	<b>4,975,973</b>	<b>\$ 8.30</b>
<b>Options exercisable at September 25, 2016</b>	<b>53,763</b>	<b>0.01</b>	<b>1,747,312</b>	<b>5.89</b>	<b>-</b>	<b>-</b>	<b>1,801,075</b>	<b>5.72</b>

### 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 settlement of the option can only be into the common share equity of the Company.

During the 13 and 39 weeks ended September 24, 2017 and September 25, 2016, no stock options were granted under the Director Plan.

For the 13 and 39 weeks ended September 24, 2017, the Company recognized stock-based compensation costs of \$nil (13 and 39 weeks ended September 25, 2016 - \$29.0 thousand and \$87.2 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 24, 2017, the Company expensed \$0.1 million and \$0.3 million, respectively, (13 and 39 weeks ended September 25, 2016 - \$47.5 thousand and \$113.1 thousand, respectively) and recorded as part of Other Long-Term Liabilities in the amount of \$0.5 million as at September 24, 2017 (September 25, 2016 - \$0.3 million).

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**CEO stock option plan**

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

During the 13 and 39 weeks ended September 24, 2017 nil and 20,000 stock options at an exercise price of \$24.64, respectively, (13 and 39 weeks ended September 25, 2016 – nil) were granted under the CEO Plan.

For the 13 and 39 weeks ended September 24, 2017, the Company recognized stock-based compensation costs of \$15 thousand and \$46 thousand (13 and 39 weeks ended September 25, 2016 - \$0.5 million and \$1.4 million, respectively) related to the CEO Plan with a corresponding increase to contributed surplus.

**Employee stock option plan**

Under the Employee Stock Option Plan (“Employee Plan”), the Company granted options in accordance with certain terms of the CFO employment agreement to purchase Subordinate Voting Shares of the Company which vested on the third anniversary of the grant date (October 31, 2016). Vested options can be exercised upon the earlier of an initial public offering of the Company and the fifth anniversary of the grant date (October 31, 2018).

Under the Employee Plan, the Company also granted options to various members of the Company’s management team to purchase Subordinate Voting Shares of the Company. These options vest over a three year period and may not be exercised until January 1, 2019. The options expire after eight years.

Under this plan, the CFO now has 298,377 options at an average exercise price of \$10.39 and the Company’s management team now has 1,469,102 at an average exercise price of \$18.84.

During the 13 and 39 weeks ended September 24, 2017, the Company granted nil and 493,255 stock options at a weighted average exercise price of \$24.65, respectively (13 and 39 weeks ended September 25, 2016 – 63,550 and 81,102 stock options, respectively, at a weighted average exercise price of \$30.05 and \$29.73, respectively) 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 24, 2017, 34,019 and 86,253 stock options, respectively, with an exercise price of \$19.18 and \$16.81, respectively, were forfeited (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).

During the 13 and 39 weeks ended September 24, 2017, nil and 13,920 stock options were exercised at \$8.51 for 13,920 Subordinate Voting Shares of the Company, respectively (13 and 39 weeks ended September 25, 2016 – nil).

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For the 13 and 39 weeks ended September 24, 2017, the Company recognized stock-based compensation costs of \$0.5 million and \$1.8 million, respectively, (13 and 39 weeks ended September 24, 2016 - \$0.7 million and \$1.9 million, respectively) related to the Employee Plan with a corresponding increase to contributed surplus.

### **21 Share capital**

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

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

During the 13 and 39 weeks ended September 24, 2017, the Company paid \$6.0 million and \$18.2 million (13 and 39 weeks ended September 25, 2016 - \$5.0 and \$15.0 million, respectively) of dividends on Subordinate Voting Shares and Multiple Voting Shares.

On June 16, 2017, the Company announced its notice of intention to make a normal course issuer bid ("NCIB") for its Subordinate Voting Shares. The Company may purchase up to 2,009,376 Subordinate Voting Shares during the period from June 21, 2017 to June 20, 2018. Purchases of the Subordinate Voting Shares are made at market prices and any Subordinate Voting Shares purchased through the NCIB will be cancelled. As at September 24, 2017, the Company purchased and cancelled 1,251,069 Subordinate Voting Shares for \$28.6 million.

As at September 24, 2017, there were 34,396,284 Multiple Voting Shares and 24,349,121 Subordinate Voting Shares issued and outstanding.

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The following table provides a summary of changes to the Company's share capital:

	Number of Common Shares (in thousands)			Share Capital (in thousands of dollars)		
	Multiple voting common shares	Subordinate voting common shares	Total Common Shares	Multiple voting common shares	Subordinate voting common shares	Total Share Capital
Balance at December 27, 2015	34,396	14,767	49,163	\$ 192,548	\$ 245,453	\$ 438,001
Subscription receipts, net of costs, exchanged for shares	-	7,863	7,863	-	223,674	223,674
Shares issued as part of St-Hubert transaction	-	1,788	1,788	-	53,891	53,891
Shares issued under dividend reinvestment plan	-	7	7	-	227	227
Shares issued under stock option plan	-	1,161	1,161	-	7,931	7,931
<b>Balance at December 25, 2016</b>	<b>34,396</b>	<b>25,586</b>	<b>59,982</b>	<b>\$ 192,548</b>	<b>\$ 531,176</b>	<b>\$ 723,724</b>
Shares issued under stock option plan (note 20)	-	14	14	-	146	146
<b>Balance at March 26, 2017</b>	<b>34,396</b>	<b>25,600</b>	<b>59,996</b>	<b>\$ 192,548</b>	<b>\$ 531,322</b>	<b>\$ 723,870</b>
Share re-purchase	-	(23)	(23)	-	(546)	(546)
<b>Balance at June 25, 2017</b>	<b>34,396</b>	<b>25,577</b>	<b>59,973</b>	<b>192,548</b>	<b>530,776</b>	<b>723,324</b>
Share re-purchase	-	(1,228)	(1,228)	-	(28,038)	(28,038)
<b>Balance at September 24, 2017</b>	<b>34,396</b>	<b>24,349</b>	<b>58,745</b>	<b>192,548</b>	<b>502,738</b>	<b>695,286</b>

## 22 Earnings per share

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

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

	13 weeks ended September 24, 2017			13 weeks ended September 25, 2016		
	Net earnings attributable to shareholders of the Company	Weighted average number of shares	EPS	Net earnings attributable to shareholders of the Company	Weighted average number of shares	EPS
Basic	\$ 20,974	59,608	\$ 0.35	\$ 14,787	51,715	\$ 0.29
Diluted	\$ 20,974	61,840	\$ 0.34	\$ 14,787	55,705	\$ 0.27



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	<u>39 weeks ended September 24, 2017</u>			<u>39 weeks ended September 25, 2016</u>		
	<u>Net earnings attributable to shareholders of the Company</u>	<u>Weighted average number of shares</u>	<u>EPS</u>	<u>Net earnings attributable to shareholders of the Company</u>	<u>Weighted average number of shares</u>	<u>EPS</u>
Basic	\$ 82,349	59,863	\$ 1.38	\$ 47,375	50,015	\$ 0.95
Diluted	\$ 82,349	62,113	\$ 1.33	\$ 47,375	54,030	\$ 0.88

The weighted average number of shares used in the calculation of basic and diluted earnings per share is summarized below:

	<u>For the 13 weeks ended</u>		<u>For the 39 weeks ended</u>	
	<u>September 24, 2017</u>	<u>September 25, 2016</u>	<u>September 24, 2017</u>	<u>September 25, 2016</u>
Common shares	59,607,811	51,715,351	59,862,535	50,015,479
Effect of stock options issued	2,232,214	3,989,154	2,250,754	4,014,171
	<u>61,840,025</u>	<u>55,704,505</u>	<u>62,113,289</u>	<u>54,029,650</u>

<sup>(1)</sup> 844,268 options have been excluded from the 13 and 39 weeks ended September 24, 2017 because they are anti-dilutive (13 and 39 weeks ended September 25, 2016 - 364,304 and 361,028 options, respectively)

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### 23 Cash flows

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

(in thousands of Canadian dollars)	For the 13 weeks ended		For the 39 weeks ended	
	September 24, 2017	September 25, 2016	September 24, 2017	September 25, 2016
Accounts receivable	\$ (4,372)	\$ (15,388)	\$ 15,124	\$ (525)
Inventories	(388)	3,585	(2,313)	3,645
Income taxes (recoverable) payable	(939)	1,335	(730)	1,380
Prepaid expenses and other assets	466	544	(1,767)	941
Accounts payable and accrued liabilities	(2,543)	7,790	(1,725)	(6,069)
Provisions	-	(23)	-	(417)
Gift card liability	(3,255)	(2,952)	(33,728)	(29,403)
Income taxes paid	3,250	166	6,604	467
Change in interest payable	(669)	(473)	(2,080)	(1,386)
Net change in non-cash operating working capital	\$ (8,450)	\$ (5,416)	\$ (20,615)	\$ (31,367)

### 24 Commitments, contingencies and guarantees

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

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

The Company has outstanding letters of credit amounting to \$0.6 million (December 25, 2016 - \$0.7 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.

#### 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

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reasonably determine the amount of liability under these arrangements. Historically, the Company has not made significant payments relating to these types of indemnifications.

## **25 Financial instruments and risk management**

### **Market risk**

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

#### *Interest rate risk*

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

#### *Commodity price risk*

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

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

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

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

### **Credit risk**

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

In the normal course of business, the Company is exposed to credit risk from its customers, primarily franchisees. 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.

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The following is an aging of the Company's accounts receivable, net of the allowance, as at September 24, 2017, December 25, 2016 and September 25, 2016:

(in thousands of Canadian dollars)

	<b>September 24, 2017</b>			
	<b>Current</b>	<b>&gt; 30 days past due</b>	<b>&gt; 60 days past due</b>	<b>Total</b>
Accounts receivable	\$ 61,590	\$ 5,882	\$ 12,972	\$ 80,444
Less: allowance for doubtful accounts	674	479	10,808	11,961
Accounts receivable, net	<b>\$ 60,916</b>	<b>\$ 5,403</b>	<b>\$ 2,164</b>	<b>\$ 68,483</b>
Balances at December 25, 2016	\$ 74,959	\$ 6,972	\$ 1,974	\$ 83,905
Balances at September 25, 2016	\$ 63,783	\$ 4,178	\$ 2,447	\$ 70,408

There are no significant impaired receivables that have not been provided for in the allowance. As of September 24, 2017, the Company believes that the \$12.0 million (December 25, 2016 - \$9.3 million; September 25, 2016 - \$9.4 million) allowance sufficiently covers any credit risk related to the receivable balances past due. The remaining amounts past due were not classified as impaired as the past due status was reasonably expected to remedied.

**Fair value of financial instruments**

The fair value of derivative financial instruments is the estimated amount that the Company would receive or pay to terminate the instrument at the reporting date. The fair values have been determined by reference to prices provided by counterparties. The fair values of all derivative financial instruments are recorded in other long-term liabilities on the consolidated balance sheets.

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

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

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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 24, 2017.

### *Other financial instruments*

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

## **26 Related parties**

### **Shareholders**

As at September 24, 2017, the Principal Shareholders hold 64.6% of the total issued and outstanding shares and have 97.7% of the voting control attached to all the shares. Cara Holdings holds 24.7% of the total issued and outstanding shares, representing 41.0% voting control. Fairfax holds 39.9% of the total issued and outstanding shares, representing 56.7% voting control.

During the 13 and 39 weeks ended September 24, 2017, the Company paid a dividend of \$0.10169 and \$0.30507 per share of Subordinate and Multiple Voting Shares of which Fairfax received \$2.4 million and \$7.2 million, respectively; and Cara Holdings received \$1.5 million and \$4.4 million, respectively.

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. As at September 24, 2017, no payments were outstanding.

### **Investment in Original Joe's joint venture companies**

The Company has joint venture arrangements with certain Original Joe's franchises. The Company has an equity investment in these restaurants at varying ownership interests as well as term loans and demand loans related to new restaurant construction, renovation and working capital. The due from related party balance of \$13.1 million consists of term loans and demand loans secured by restaurant assets of the joint venture company which has been recorded at fair value and will be accreted up to the recoverable value over the remaining term of the loans. The term loans bear interest at rates ranging from 7.75% to 9.76% and all mature September 21, 2018. The term loans are reviewed and renewed on an annual basis. The expected current portion of these loans is \$2.4 million. The demand loans bear interest at 5% and have no specific terms of

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repayment. Pooling arrangements between the joint venture companies to share costs and repay the loans exist such that restaurants within a certain restaurant pool of common ownership agree that available cash from restaurants can be used to apply against balances outstanding among the group. Management determines the fair value of these loans based on expected cash flows from the restaurant at a discount rate of 15%. For the 13 and 39 weeks ended September 24, 2017, the Company charged interest in the amount of \$0.2 million and \$0.8 million on the term loans and demand loans.

The Company charges Original Joe's joint venture franchises a royalty and marketing fee of 5% and 2%, respectively, on net sales. At September 24, 2017 the accounts receivable balance included \$0.1 million due from related parties in relation to these royalty and marketing payments and \$0.4 million due from related parties for restaurant construction costs. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties in accordance with the franchise agreement.

The Company's investment in joint ventures and associates are increased by the proportionate share of income earned. For the 13 and 39 weeks ended September 24, 2017, a \$0.1 million decrease and \$0.2 million increase to the investment balance was recorded in relation to the Company's proportionate share of income or loss for the period and included in share of income from investment in associates and joint ventures on the statement of earnings.

**Investment in Burger's Priest joint venture**

On June 1, 2017, the Company completed the investment in a joint venture in New & Old Kings and Priests Restaurants Inc. ("Burger's Priest") for cash consideration of \$14.7 million. Burger's Priest owns and operates 14 fast casual restaurants in Ontario and Alberta. The Company has a 79.4% ownership interest in the joint venture with the remaining 20.6% owned by a third party who has an earn-out agreement that can grow their ownership interest to 50% if certain earnings targets are met. The transaction is considered a joint venture arrangement as both parties have joint control and all relevant activities require the unanimous consent from both parties. The Company has accounted for the investment by using the equity method.

The Company's investment is increased by the proportionate share of income earned. For the 13 and 39 weeks ended September 24, 2017, a \$0.1 million increase to the investment balance was recorded in relation to the Company's proportionate share of income for the period and included in share of income from investment in associates and joint ventures on the statement of earnings.

**Investment in restaurant joint venture**

The Company has an investment in a joint venture to build two new restaurants with a third party. As at September 24, 2017, the Company has invested \$6.8 million, recorded in long-term receivables. The loan receivable is unsecured, non-interest bearing and does not have defined repayment terms. The Company and the third party each have a 50% ownership interest in the joint venture. The transaction is considered a joint venture arrangement as both parties have joint control and all relevant activities require the unanimous consent from both parties. The Company has accounted for the investment by using the equity method.

The Company's investment is increased by the proportionate share of income earned. For the 13 and 39 weeks ended September 24, 2017, a \$0.1 million decrease to the investment balance was recorded in relation to the

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Company's proportionate share of loss for the period and included in share of income or loss from investment in associates and joint ventures on the statement of earnings.

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

### **27 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 consumers. For operating segment purposes, corporate operating income includes the Company's proportionate share of revenues and expenses from 50 joint venture restaurants.

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 would 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 review operating income as a key measure of performance for each segment and to make decisions about the allocation of resources. The accounting policies of the reportable operating segments are the same as those described in the Company's summary of significant accounting policies except for applying proportionate consolidation to the 50 joint venture restaurants. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

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(in thousands of Canadian dollars)	For the 13 weeks ended		For the 39 weeks ended	
	September 24, 2017	September 25, 2016	September 24, 2017	September 25, 2016
<b>Gross revenue</b>				
Sales	\$ 111,179	\$ 74,737	\$ 313,306	\$ 206,374
Proportionate share of equity accounted joint venture sales	(9,517)	-	(20,814)	-
<b>Sales at corporate restaurants</b>	<b>101,662</b>	<b>74,737</b>	<b>292,492</b>	<b>206,374</b>
Franchise revenues	22,936	18,348	67,565	53,216
Proportionate share of equity accounted joint venture royalty revenue	297	-	861	-
<b>Royalty revenue</b>	<b>23,233</b>	<b>18,348</b>	<b>68,426</b>	<b>53,216</b>
Food processing and distribution	57,774	17,693	170,009	17,693
Central	5,754	3,350	18,083	9,237
Non-allocated revenue	259	399	763	1,194
	<b>\$ 188,682</b>	<b>\$ 114,527</b>	<b>\$ 549,773</b>	<b>\$ 287,714</b>
<b>Operating income</b>				
Corporate	\$ 7,955	\$ 5,521	\$ 19,577	\$ 13,887
Franchise	20,030	16,014	60,335	47,108
Food processing and distribution	219	(414)	798	(414)
Central	6,880	5,192	14,940	13,748
Proportionate share equity accounted joint venture results included in corporate and franchise segment	(722)	-	(1,954)	-
Non-allocated costs	(622)	(3,991)	(5,322)	(5,568)
	<b>\$ 33,740</b>	<b>\$ 22,322</b>	<b>\$ 88,374</b>	<b>\$ 68,761</b>
<b>Depreciation and amortization</b>				
Corporate	\$ 3,797	\$ 3,553	\$ 10,592	\$ 9,189
Franchise	-	-	-	-
Food processing and distribution	3,201	575	7,908	575
Central	5,891	3,939	18,312	10,630
	<b>\$ 12,889</b>	<b>\$ 8,067</b>	<b>\$ 36,812</b>	<b>\$ 20,394</b>
<b>Capital expenditures</b>				
Corporate	\$ 12,777	\$ 8,370	\$ 37,890	\$ 22,164
Franchise	-	-	-	-
Food processing and distribution	345	568	1,019	568
Central	(132)	3,969	5,497	9,130
	<b>\$ 12,990</b>	<b>\$ 12,907</b>	<b>\$ 44,406</b>	<b>\$ 31,862</b>



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**28 Subsequent Events**

On November 3, 2017, 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, 2017 to shareholders of record at the close of business on November 30, 2017.

Subsequent to September 24, 2017, the Company announced entering into a purchase agreement to acquire 100% interest in the Pickle Barrel Group of Restaurants for approximately \$23.6 million, consisting of cash, the issue of subordinate voting shares, and the assumption of debt of approximately \$5.4 million. The transaction is anticipated to close by the end of the year.