

**CARA OPERATIONS LIMITED**  
**Management's Discussion and Analysis**  
**For the years ended December 27, 2015 and December 30, 2014**

The following Management's Discussion and Analysis ("MD&A") for Cara Operations Limited ("Cara" or the "Company") provides information concerning the Company's financial condition and results of operations. This MD&A should be read in conjunction with the Company's Consolidated Financial Statements and accompanying notes for the 52 week period ended December 27, 2015 ("the period"). The consolidated results from operations for the 13 and 52 weeks ended December 27, 2015 are compared to the 13 and 52 weeks ended December 30, 2014. Cara's fiscal year ends on the last Sunday in December in the current year. As a result, the Company's fiscal year is usually 52 weeks in duration but includes a 53rd week every five to six years.

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

This MD&A was prepared as at March 3, 2016. Additional information relating to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

**Basis of Presentation**

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

**Fourth Quarter Highlights:**

- Completed the acquisition of New York Fries;
- Opened 25 new restaurants during the fourth quarter consisting of both company-owned and franchised locations resulting in 16 net new restaurants in 2015, not including the acquisition of New York Fries;
- System Sales<sup>(1)</sup> grew to \$461.1 million in 2015 compared to \$436.9 million in 2014, an increase of \$24.2 million or 5.5%;
- Achieved Same Restaurant Sales ("SRS") Growth<sup>(1)</sup> of 1.2% in the fourth quarter, representing eight straight quarters of positive SRS Growth;
- Increased Operating EBITDA<sup>(1)</sup> to \$29.2 million in 2015 from \$22.1 million in 2014, an improvement of \$7.1 million or 32.1%;
- Improved Operating EBITDA Margin on System Sales<sup>(1)</sup> to 6.3% in 2015 from 5.1% in 2014;
- Achieved Earnings from continuing operations before income taxes of \$21.7 million in 2015, an improvement of \$26.5 million from a loss of (\$4.8) million in 2014;
- Increased Net earnings to \$58.3 million in 2015 from a loss of (\$4.4) million in 2014, an increase of \$62.7 million primarily related to operating improvements and interest savings of \$25.8 million and the recognition of net deferred tax assets of \$36.9 million;
- Basic Earnings per Share ("EPS") from continuing operations increased to \$1.19 in 2015 from (\$0.25) in 2014 and diluted EPS from continuing operations increased to \$1.11 in 2015 from \$(0.14). Excluding the impact related to non-cash deferred tax asset recognition, Adjusted Basic EPS<sup>(1)</sup> was \$0.45 and Adjusted Diluted EPS<sup>(1)</sup> was \$0.42 in 2015 as compared to (\$0.32) and (\$0.18) in 2014, respectively.

## **Fiscal 2015 Highlights:**

- System Sales<sup>(1)</sup> grew to \$1,765.7 million in 2015 compared to \$1,691.7 million in 2014, an increase of \$74.0 million or 4.4%;
- SRS Growth<sup>(1)</sup> was 2.4% for the 52 weeks ended December 27, 2015;
- Operating EBITDA<sup>(1)</sup> increased to \$111.4 million in 2015 compared to \$83.6 million in 2014, an increase of \$27.8 million or 33.3%;
- Operating EBITDA Margin on System Sales<sup>(1)</sup> increased to 6.3% compared to 4.9% in 2014;
- Significantly transformed the Company's earnings from continuing operations before income taxes from a loss of (\$42.2) million in 2013, to positive earnings of \$9.9 million in 2014 and to \$66.2 million in 2015, an improvement of \$56.3 million or 568.7% over 2014, and \$108.4 million since 2013;
- Reduced total debt by \$328.6 million from \$413.9 million at the end of 2014 to \$85.3 million at the end of 2015; and amended and extended the Company's term credit facility at reduced interest rates;
- Net earnings improved from a loss of (\$42.0) million in 2013, to positive \$5.4 million in 2014 and to \$99.7 million in 2015, an improvement of \$141.7 million since 2013, of which \$36.9 million of the total improvement is due to the recognition of net deferred tax assets in 2015;
- Basic Earnings per Share ("EPS") from continuing operations increased to \$2.46 in 2015 from \$0.31 in 2014 and diluted EPS from continuing operations increased to \$2.10 in 2015 from \$0.19 in 2014. Excluding the impact related to non-cash deferred tax asset recognition, Adjusted Basic EPS<sup>(1)</sup> was \$1.59 and Adjusted Diluted EPS<sup>(1)</sup> from continuing operations was \$1.36 in 2015 as compared to \$0.31 and \$0.20 in 2014, respectively;
- Successfully completed an Initial Public Offering (the "Offering") and raised gross proceeds of \$230.1 million through the issuance of 10,005,000 subordinated voting shares at a price of \$23.00 per share; Purchased the remaining 45% of The Landing Group in June 2015 for a purchase price of \$21.2 million, which was settled for a combination of \$14.1 million in cash and \$7.1 million in subordinate voting shares;
- Opened 16 net new restaurants, consisting of both company-owned and franchised locations, and added 159 locations from the acquisition of New York Fries on October 31, 2015.

(1) See "Non-IFRS Measures" on page 32 for definitions of System Sales, SRS Growth, Operating EBITDA, Operating EBITDA Margin on System Sales, Adjusted Basic EPS and Adjusted Diluted EPS. See "Reconciliation of net earnings from continuing operations to EBITDA" for a reconciliation of Operating EBITDA.

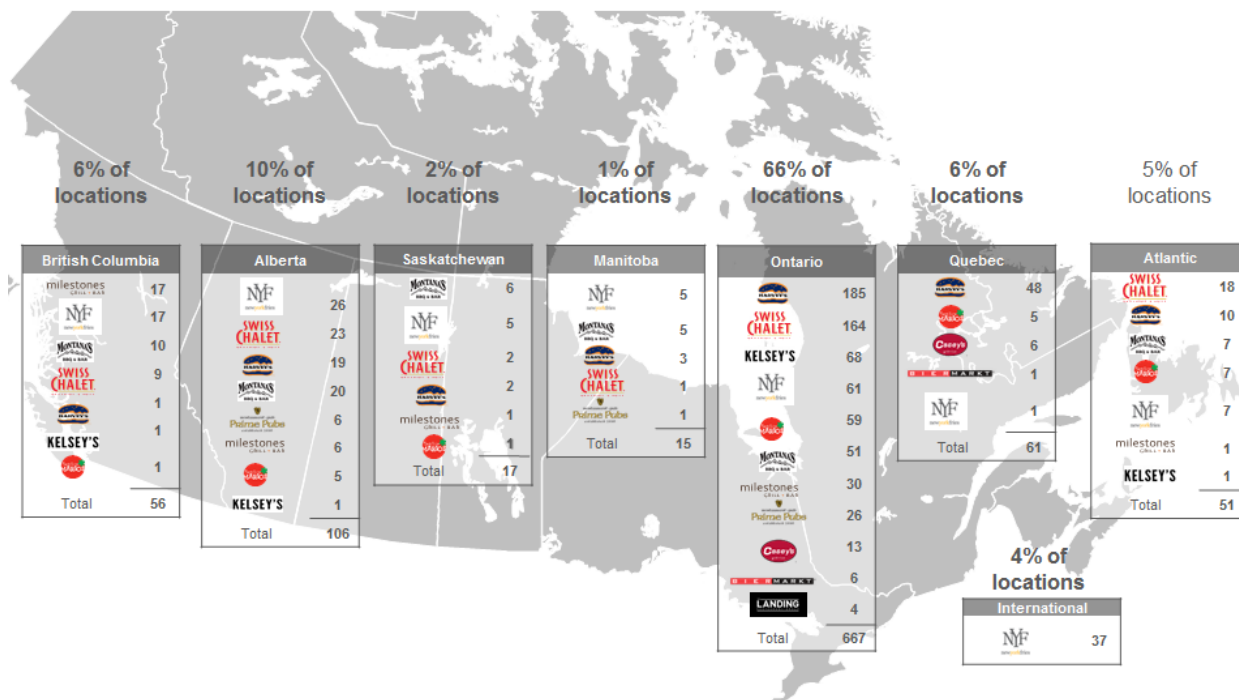
## **Subsequent event**

On March 3, 2016, the Company's Board of Directors declared a dividend of \$0.10171 per share of subordinated and multiple voting common stock, equal to the aggregate amount of \$5.0 million. Payment of the dividend will be made on April 15, 2016 to shareholders of record at the close of business on March 31, 2016.

Cara offers a Dividend Reinvestment Plan (the "DRIP" or the "Plan") to any registered or beneficial holder of Shares who is a resident of Canada. The Dividend Reinvestment Plan enables holders of Subordinate Voting Shares of Cara and Multiple Voting Shares of Cara, to acquire additional Subordinate Voting Shares by reinvesting all of their cash dividends, which, when issued from Treasury, will be issued at a discount from the market price of the shares. The purchase price discount has initially been set at 3%.

## Overview

Cara is a full-service restaurant company that franchises and operates iconic restaurant brands. As at December 27, 2015, Cara had 11 brands and 1,010 restaurants across Canada, 88% of which are operated by franchisees. Cara's restaurant network includes Harvey's, Swiss Chalet, Kelsey's, East Side Mario's, Montana's, Milestones, Prime Pubs, Casey's, Bier Markt, Landing and New York Fries restaurants. Cara's iconic brands have established Cara as a nationally recognized franchisor of choice. Cara's restaurants are located across Canada with 66% of Cara's locations based in Ontario.



Unit count (unaudited)	As at December 27, 2015			As at December 30, 2014		
	Corporate	Franchise	Total	Corporate	Franchise	Total
Swiss Chalet .....	7	210	217	5	210	215
Harvey's .....	17	251	268	15	246	261
Montana's .....	13	86	99	12	79	91
East Side Mario's <sup>(1)</sup> .....	4	74	78	4	76	80
Kelsey's .....	16	55	71	17	55	72
Casey's .....	1	18	19	1	24	25
Prime Pubs .....	5	28	33	4	26	30
Bier Markt .....	7	0	7	7	0	7
Milestones .....	29	26	55	23	30	53
Landing .....	4	0	4	3	0	3
New York Fries <sup>(2)</sup> .....	16	143	159	0	0	0
<b>Total restaurants .....</b>	<b>119</b>	<b>891</b>	<b>1,010</b>	<b>91</b>	<b>746</b>	<b>837</b>
	<b>12%</b>	<b>88%</b>	<b>100%</b>	<b>11%</b>	<b>89%</b>	<b>100%</b>

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

<sup>(2)</sup> New York Fries was acquired on October 31, 2015.

## Selected Annual Financial Information

The following table summarizes the results of Cara's operations for 2015, 2014 and 2013:

(C\$ millions unless otherwise stated)	For the 52 week period ended		
	December 27, 2015	December 30, 2014	December 31, 2013
Sales.....	\$ 247.5	\$ 205.1	\$ 194.8
Franchise revenues.....	73.3	71.8	74.3
Development revenues.....	5.6	5.0	1.5
<b>Total gross revenue from continuing operations</b> <sup>(1)</sup> .....	<b>\$ 326.3</b>	<b>\$ 281.8</b>	<b>\$ 270.6</b>
Cost of inventories sold.....	(70.5)	(59.4)	(56.3)
Selling, general and administrative expenses.....	(169.1)	(162.7)	(172.6)
Development expenses.....	(5.6)	(4.5)	(1.5)
Impairment of assets, net of reversals.....	1.1	(4.9)	(2.7)
Restructuring.....	(0.4)	(6.6)	(14.2)
Other.....	-	-	(21.5)
<b>Operating Income</b> <sup>(1)</sup> .....	<b>\$ 81.9</b>	<b>\$ 43.8</b>	<b>\$ 1.8</b>
Finance costs:			
Net interest expense and other financing charges.....	(12.3)	(33.4)	(44.0)
Loss on derivative.....	(1.6)	(0.5)	-
Write-off of deferred financing fees.....	(1.8)	-	-
<b>Earnings from continuing operations before income taxes</b> <sup>(1)</sup> .....	<b>\$ 66.2</b>	<b>\$ 9.9</b>	<b>\$ (42.2)</b>
Income taxes - current.....	(1.6)	(4.4)	-
Income taxes - deferred.....	35.1	(0.1)	-
<b>Net earnings from continuing operations</b> <sup>(1)</sup> .....	<b>\$ 99.7</b>	<b>\$ 5.4</b>	<b>\$ (42.2)</b>
Total assets.....	\$ 503.8	\$ 389.2	\$ 367.8
Non-current financial liabilities.....	\$ 145.6	\$ 467.7	\$ 484.3
<b>Earnings per share from continuing operations attributable to common shareholders (in dollars)</b> <sup>(2)</sup>			
Basic EPS.....	\$ 2.46	\$ 0.31	\$ (0.30)
Diluted EPS.....	\$ 2.10	\$ 0.19	\$ (0.30)
Adjusted Basic EPS <sup>(3)</sup> .....	\$ 1.59	\$ 0.31	\$ (0.30)
Adjusted Diluted EPS <sup>(3)</sup> .....	\$ 1.36	\$ 0.20	\$ (0.30)

<sup>(1)</sup> Figures may not total due to rounding.

<sup>(2)</sup> After giving effect on a retrospective basis the 2.79 to 1 share consolidation for common shares outstanding as at April 10, 2015, resulting from the Offering.

<sup>(3)</sup> Adjusted EPS excludes the impact related to non-cash deferred tax asset recognition. See "Non-IFRS Measures" on page 32 for definitions of Adjusted Basic EPS and Adjusted Diluted EPS.

(C\$ millions unless otherwise stated)	For the 52 week period ended		
	December 27, 2015	December 30, 2014	December 31, 2013
Dividends Declared per share (in dollars)			
Subordinate and Multiple Voting Common Shares .....	\$ 0.19	\$ -	\$ -
Common shares (prior to Offering) <sup>(1)</sup> .....	\$ -	\$ 0.23	\$ 0.21
Cash Dividend on Class A Preferred Share Liabilities <sup>(1)</sup> .....	\$ -	\$ 0.09	\$ -
Cash Dividend on Class B Preferred Share Liabilities <sup>(1)</sup> .....	\$ -	\$ 0.15	\$ -
<b>Reconciliation of net earnings from continuing operations to</b>			
<b>EBITDA:</b>			
Net earnings from continuing operations .....	\$ 99.7	\$ 5.4	\$ (42.2)
Net interest expense and other financing charges .....	12.3	33.4	44.0
Loss on derivative .....	1.6	0.5	-
Write-off of deferred financing fees .....	1.8	-	-
Income taxes .....	(33.5)	4.5	-
Depreciation of property, plant and equipment .....	19.4	17.4	23.7
Amortization of other assets .....	5.0	3.2	0.7
Impairment of assets, net of reversals .....	(1.1)	4.9	2.7
<b>EBITDA <sup>(2)</sup> .....</b>	<b>\$ 105.2</b>	<b>\$ 69.3</b>	<b>\$ 28.9</b>
<b>Reconciliation of EBITDA to Operating EBITDA:</b>			
Losses on early buyout/cancellation of equipment rental contracts	3.5	4.4	1.8
Restructuring .....	0.4	6.6	14.2
Conversion fees .....	(1.8)	(1.8)	(16.3)
Net gain on disposal of property, plant and equipment .....	(1.3)	(0.3)	18.6
Stock based compensation .....	6.4	6.1	(0.9)
Change in onerous contract provision .....	(1.0)	(0.8)	1.6
<b>Operating EBITDA <sup>(2)</sup> .....</b>	<b>\$ 111.4</b>	<b>\$ 83.6</b>	<b>\$ 47.9</b>
% change .....	33.3%	74.5%	

<sup>(1)</sup> Amounts based on shares outstanding prior to share consolidation resulting from the Offering.

<sup>(2)</sup> Figures may not total due to rounding.

## System Sales, SRS Growth, Unit Count and Operating EBITDA

The following table summarizes Cara's System Sales Growth, SRS Growth, number of restaurants, Operating EBITDA and Operating EBITDA Margin for 2015, 2014 and 2013:

(C\$ millions unless otherwise stated)	For the 52 week period ended		
	December 27, 2015	December 30, 2014	December 31, 2013
System Sales from continuing operations <sup>(1)</sup> (unaudited).....	\$ 1,765.7	\$ 1,691.7	\$ 1,371.9
Total System Sales Growth <sup>(1)</sup> .....	4.4%	23.3%	4.7%
SRS Growth <sup>(2)</sup> .....	2.4%	2.9%	0.5%
Number of corporate restaurants (at period end).....	119	91	77
Number of franchised restaurants (at period end).....	891	746	756
Total number of restaurants <sup>(1)</sup> (at period end).....	<b>1,010</b>	<b>837</b>	<b>833</b>
Operating EBITDA.....	\$ 111.4	\$ 83.6	\$ 47.9
Operating EBITDA Margin.....	34.1%	29.7%	17.7%
Operating EBITDA Margin on System Sales.....	6.3%	4.9%	3.5%

<sup>(1)</sup> Results from East Side Mario restaurants in the United States are excluded in System Sales totals and number of restaurants.

<sup>(2)</sup> Results from New York Fries located outside of Canada, East Side Mario restaurants in the United States and all Casey's restaurants are excluded from SRS Growth.

See "Non-IFRS Measures" on page 32 for definitions of System Sales, SRS Growth across all brands, Operating EBITDA, Operating EBITDA Margin and Operating EBITDA Margin on System Sales.

## Factors Affecting Our Results of Operations

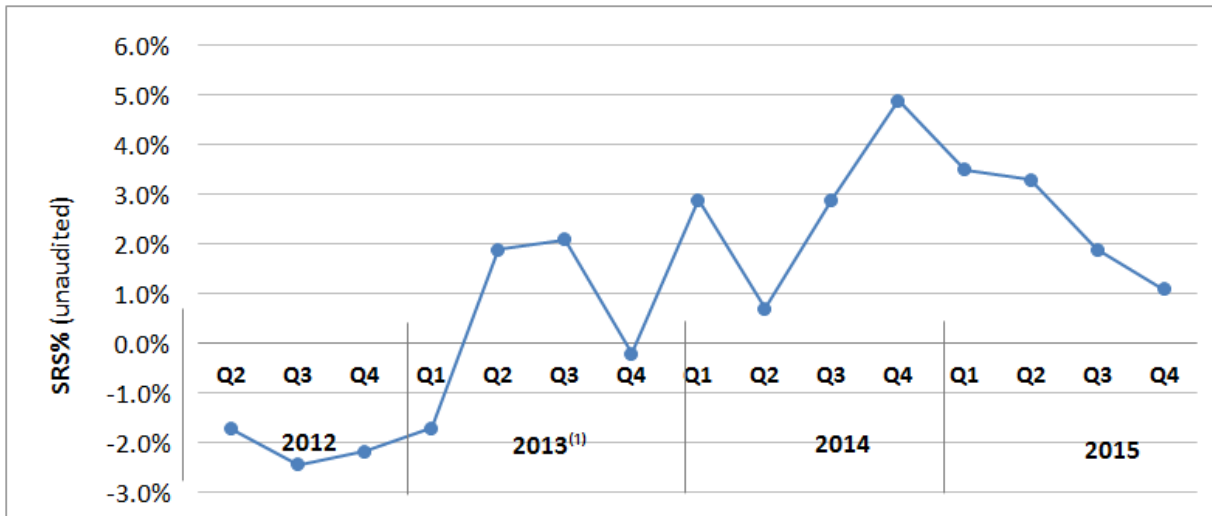
### SRS Growth

SRS Growth is a metric used in the restaurant industry to compare sales earned in established locations over a certain period of time, such as a fiscal quarter, for the current period and the same period in the previous year. SRS Growth helps explain what portion of sales growth can be attributed to growth in established locations and what portion can be attributed to the opening of net new restaurants. Cara calculates SRS Growth as the percentage increase or decrease in sales of restaurants open for at least 24 complete months. Cara's SRS Growth results exclude Casey's restaurants as the Company is in the process of winding down its operations and will either convert certain locations to other Cara brands, will license the restaurant for continuing Casey's operation, or close the location. SRS Growth also excludes sales from international operations from 37 New York Fries and 4 East Side Marios.

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

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

The following chart summarizes Cara's quarterly SRS Growth from April 2, 2012 to December 27, 2015:



(1) Same restaurant sales results for fiscal 2013 includes Prime from the Acquisition Date

See "Non-IFRS Measures" on page 33 for a description of how Cara calculates SRS growth. SRS Growth for individual brands may be higher or lower than SRS Growth for all restaurants combined, and in some cases, SRS Growth, for individual brands, may be negative.

### Competition

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

### New Restaurant Openings

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

### Financial results

#### System Sales from continuing operations

System Sales from continuing operations in 2015 was \$1,765.7 million compared to \$1,691.7 million for 2014, representing an increase of \$74.0 million or 4.4%. This increase was primarily the result of SRS Growth of 2.4%, and the addition of the Landing Group and New York Fries restaurants which together generated higher sales as compared to net restaurant closures during the period.

#### Total gross revenue from continuing operations

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

Total gross revenue from continuing operations was \$326.3 million in 2015 compared to \$281.8 million for 2014, representing an increase of \$44.5 million or 15.8%. The increase in gross revenues from continuing operations was primarily the result of SRS Growth of 2.4%, and the addition of 28 corporate restaurants resulting from new openings in 2015 less restaurant closures, restaurants re-acquired from franchisees in 2015, the New York Fries acquisition and full year sales from the 3 Landing restaurants acquired in December 2014.

Gross revenue from continuing operations was \$281.8 million in 2014 compared to \$270.6 for 2013, representing an increase of \$11.2 million or 4.1%. The increase in gross revenues from continuing operations was primarily the result of the full-year results of Prime and SRS Growth of 2.9%

### ***Selling, general and administrative expenses***

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

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

SG&A expenses in 2015 were \$169.1 million compared to \$162.7 million in 2014, representing an increase of \$6.4 million or 3.9%. The increase was related to 28 additional corporate restaurants in 2015 compared to 2014, increased direct restaurant labour and other direct restaurant costs due to the impact of minimum wage increases and an increase in the Company's over-contribution to marketing funds in an effort to build sales. These increases were offset by savings realized from a reduction in central costs from restructuring head-office staffing, variable wage savings at corporate restaurants and other overhead costs. SG&A expenses as a percentage of gross revenue from operations decreased from 57.7% in 2014 to 51.6% in 2015, a decrease of 6.1 percentage points.

SG&A expenses were \$162.7 million in 2014 compared to \$172.6 million for 2013, representing a reduction of \$9.9 million or 5.7%. The decrease was the result of significant savings realized from a reduction in central costs from restructuring head-office staffing and other net overhead costs partially offset by increased direct restaurant labour and other direct restaurant costs due to the impact of Prime's 11 corporate restaurants.

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

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

Net interest expense and other financing charges were \$12.3 million in 2015 compared to \$33.4 million in 2014, representing a decrease of \$21.1 million or 63.2%. The significant decrease in net interest expense is primarily related to the reduction of total debt from the net proceeds of the IPO, the conversion of the preferred shares and warrants into multiple voting shares and the amendment of the existing term credit facility at reduced interest rates.

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



Net interest expense and other financing charges were \$33.4 million in 2014 compared to \$44.0 million for 2013, representing a decrease of \$10.6 million or 24.1%. The decrease was primarily the result of an early redemption fee on the December 1, 2013 redemption of Cara's Senior Secured Second Lien notes of \$4.6 million as well as the associated 2014 interest expense savings from the 2013 refinancing. These savings were offset by additional interest from drawings under the Credit Facility and dividends on the Class A and Class B Preferred Shares issued as part of the refinancing transaction with Fairfax and acquisition of Prime that are recorded as finance costs in Cara's Consolidated Financial Statements.

### ***Earnings from continuing operations before income taxes***

Earnings from continuing operations before income taxes was \$66.2 million in 2015 compared to \$9.9 million for 2014, representing an improvement of \$56.3 million, or an increase of 568.7%. The increase was mainly attributed to improved restaurant performance resulting in increased contribution from corporate and franchised restaurants, the addition of corporate restaurants, the addition of the Landing Group and New York Fries, and reduced interest expense after the IPO transaction in April 2015.

Earnings from continuing operations before income taxes was \$9.9 million in 2014 compared to a loss of (\$42.2) million for 2013, representing an improvement of \$52.1 million. The increase was primarily the result of the contribution of Prime restaurants, improved performance of Cara's legacy brands and significant decreases in central operating and overhead costs from restructuring head-office staffing and other overhead costs.

### ***Income taxes***

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

The Company recorded a net income tax recovery of \$33.5 million in 2015, compared to a net expense of \$4.5 million for 2014, representing an income tax expense decrease of \$38.0 million. The decreased income tax expense from 2014 is primarily due to the Company recognizing a deferred tax asset of \$37.5 million in respect of non-capital losses and other timing differences available to offset future income tax payable on operating profits. Management determined it was appropriate to record a deferred tax asset based on the Company's recent financial performance, financial projections and the likelihood that future taxable profits would be available against which the asset (ie. tax losses) will be utilized.

In 2014, the Company recorded an income tax expense of \$4.5 million as compared to a recovery of \$0.02 million in 2013. The increase primarily relates to the tax on dividends paid in respect of the Class A and Class B Preferred Shares.

The deferred tax asset primarily relates to \$95.9 million in income tax losses available to offset future taxable earnings. These losses expire between the years 2027 and 2035.

### ***Net earnings***

Net earnings from continuing operations was \$99.7 million in 2015 compared to \$5.4 million for 2014, representing an improvement of \$94.3 million, or an increase of 1,746.3%. The increase in net earnings was mainly attributed to improved restaurant performance resulting in increased contribution from corporate and franchised restaurants, the addition of the Landing Group and New York Fries, reduced interest expense of \$21.1 million, and the income tax asset recognition of \$36.9 million described above.

Net earnings were \$5.4 million in 2014 compared to a net loss of \$42.0 million for 2013, representing an improvement of \$47.4 million. The increase in net earnings was mainly attributed to improved restaurant performance, significant decreases in central operating and overhead costs, reduction in interest expenses and other financing charges, the contribution from Prime restaurants, a \$21.5 million reduction in losses on finance leases, \$7.7 million less in restructuring charges, and \$2.2 million less in impairment charges.

### **Operating EBITDA**

Operating EBITDA was \$111.4 million in 2015 compared to \$83.6 million for 2014, representing an increase of \$27.8 million or 33.3%. The increase was primarily the result of improved performance at Cara’s corporate restaurants, the additions of the Landing Group and New York Fries, increased net franchise royalties and improved central contribution from decreases in net central costs.

Operating EBITDA was \$83.6 million in 2014 compared to \$47.9 million for 2013, representing an increase of \$35.7 million or 74.5%. The increase was primarily the result of the contribution of Prime restaurants, improved performance of Cara’s legacy brands and significant decreases in central operating and overhead costs from restructuring head-office staffing and other overhead costs.

See “Non-IFRS Measures” on page 32 for definition of Operating EBITDA and page 5 for a reconciliation of net earnings from continuing operations to Operating EBITDA.

### **Restaurant Count**

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

<b>Unit count (unaudited)</b>	<b>For the 52 week period ended</b>					
	<b>December 27, 2015</b>			<b>December 30, 2014</b>		
	<b>Corporate</b>	<b>Franchised</b>	<b>Total</b>	<b>Corporate</b>	<b>Franchised</b>	<b>Total</b>
Beginning of period <sup>(1)</sup> .....	91	746	837	77	756	833
Acquisitions <sup>(2)</sup> .....	16	141	157	3	-	3
New openings .....	10	29	39	5	20	25
Closings .....	(4)	(19)	(23)	(4)	(20)	(24)
Corporate buy backs <sup>(3)</sup> .....	8	(8)	-	10	(10)	-
Restaurants re-franchised <sup>(4)</sup> .....	(2)	2	-	-	-	-
End of period .....	<u>119</u>	<u>891</u>	<u>1,010</u>	<u>91</u>	<u>746</u>	<u>837</u>

<sup>(1)</sup> Unit count excludes East Side Marios restaurants located in the United States.

<sup>(2)</sup> New York Fries was acquired on October 31, 2015.

<sup>(3)</sup> Corporate buy backs represent previously franchised restaurants acquired by the Company to operate corporately.

<sup>(4)</sup> Restaurants re-franchised represent corporate restaurants re-franchised to be operated by a franchisee.

## Segment Performance

Cara divides its operations into three business segments: corporate restaurants, franchise restaurants, and central operations. The Corporate restaurant segment includes the operations of the company-owned restaurants which generate revenues from the direct sale of prepared food and beverages to customers. Franchised restaurants represent the operations of its franchised restaurant network operating under the Company's several brand names from which the Company earns royalties calculated at an agreed upon percentage of franchise restaurant sales. Cara provides financial assistance to certain franchisees and the franchise royalty income reported is net of any assistance being provided. Central operations includes call centre services which earn fees from off-premise phone, mobile and web orders processed for corporate and franchised restaurants and rental income generated from the lease of certain equipment to franchisees as well as the collection of new franchise and franchise renewal fees. Central operations also include corporate (non-restaurant) expenses comprised of head office people and non-personnel overhead expenses, IT costs, occupancy expenses, and general and administrative support costs offset by vendor purchase allowances.

The CEO and CFO are the chief operating decision makers and they regularly review the operations and performance by segment. The CEO and CFO review Operating EBITDA and operating income as a key measure of performance for each segment and to make decisions about the allocation of resources. The accounting policies of the reportable operating segments are the same as those described in the Company's summary of significant accounting policies. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

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

(C\$ thousands unless otherwise stated) (unaudited)	For the 13 week period ended							
	December 27, 2015				December 30, 2014			
	Corporate	Franchised	Central	Total	Corporate	Franchised	Central	Total
<b>System Sales (unaudited)</b> .....	<b>\$ 60,639</b>	<b>\$ 400,462</b>	<b>\$ -</b>	<b>\$ 461,101</b>	<b>\$ 48,504</b>	<b>\$ 388,412</b>	<b>\$ -</b>	<b>\$ 436,916</b>
<b>Corporate Results</b>								
Sales.....	\$ 60,639	\$ -	\$ 2,722	\$ 63,361	\$ 48,504	\$ -	\$ 2,639	\$ 51,143
Cost of inventories sold and cost of labour.....	(37,962)	-	-	(37,962)	(32,236)	-	-	(32,236)
Restaurant contribution before other costs.....	22,677	-	2,722	25,399	16,268	-	2,639	18,907
Restaurant contribution before other costs %.....	37.4%				33.5%			
Other operating costs.....	(16,590)	-	-	(16,590)	(13,585)	-	-	(13,585)
<b>Total Contribution</b> .....	<b>6,087</b>	<b>-</b>	<b>2,722</b>	<b>8,809</b>	<b>2,683</b>	<b>-</b>	<b>2,639</b>	<b>5,322</b>
<b>Franchise Results</b>								
Franchise royalty income.....	-	17,749	-	17,749	-	17,649	-	17,649
Franchise royalty income as a % of franchise sales.....		4.4%				4.5%		
New franchise fees and equipment rent.....	-	-	691	691	-	-	748	748
Franchise rent assistance and bad debt.....	-	(1,665)	-	(1,665)	-	(2,078)	-	(2,078)
<b>Contribution from franchise restaurants</b> .....	<b>-</b>	<b>16,084</b>	<b>691</b>	<b>16,775</b>	<b>-</b>	<b>15,571</b>	<b>748</b>	<b>16,319</b>
<b>Central</b>								
<b>Net central contribution</b> .....	<b>-</b>	<b>-</b>	<b>3,608</b>	<b>3,608</b>	<b>-</b>	<b>-</b>	<b>456</b>	<b>456</b>
<b>Operating EBITDA</b> .....	<b>\$ 6,087</b>	<b>\$ 16,084</b>	<b>\$ 7,021</b>	<b>\$ 29,192</b>	<b>\$ 2,683</b>	<b>\$ 15,571</b>	<b>\$ 3,843</b>	<b>\$ 22,097</b>
Contribution as a % of corporate sales.....	10.0%	-	-	-	5.5%	-	-	-
Contribution as a % of franchise sales.....	-	4.0%	-	-	-	4.0%	-	-
Contribution as a % of total System sales.....	-	-	1.5%	6.3%	-	-	0.9%	5.1%

(C\$ thousands unless otherwise stated)	For the 52 week period ended							
	December 27, 2015				December 30, 2014			
	Corporate	Franchised	Central	Total	Corporate	Franchised	Central	Total
<b>System Sales (unaudited)</b> .....	<b>\$ 237,808</b>	<b>\$ 1,527,921</b>	<b>\$ -</b>	<b>\$ 1,765,729</b>	<b>\$ 195,424</b>	<b>\$ 1,496,278</b>	<b>\$ -</b>	<b>\$ 1,691,702</b>
<b>Corporate Results</b>								
Sales.....	\$ 237,808	\$ -	\$ 9,670	\$ 247,478	\$ 195,424	\$ -	\$ 9,130	\$ 204,554
Cost of inventories sold and cost of labour.....	(149,694)	-	-	(149,694)	(130,770)	-	-	(130,770)
Restaurant contribution before other costs.....	88,114	-	9,670	97,784	64,654	-	9,130	73,784
Restaurant contribution before other costs %.....	37.1%				33.1%			
Other operating costs.....	(63,134)	-	-	(63,134)	(54,671)	-	-	(54,671)
<b>Total Contribution</b> .....	<b>24,980</b>	<b>-</b>	<b>9,670</b>	<b>34,650</b>	<b>9,983</b>	<b>-</b>	<b>9,130</b>	<b>19,113</b>
<b>Franchise Results</b>								
Franchise royalty income.....	-	68,274	-	68,274	-	66,126	-	66,126
Franchise royalty income as a % of franchise sales.....		4.5%				4.4%		
New franchise fees and equipment rent.....	-	-	3,207	3,207	-	-	3,851	3,851
Franchise rent assistance and bad debt.....	-	(7,918)	-	(7,918)	-	(10,550)	-	(10,550)
<b>Contribution from franchise restaurants</b> .....	<b>-</b>	<b>60,356</b>	<b>3,207</b>	<b>63,563</b>	<b>-</b>	<b>55,576</b>	<b>3,851</b>	<b>59,427</b>
<b>Central Results</b>								
<b>Net central contribution</b> .....	<b>-</b>	<b>-</b>	<b>13,167</b>	<b>13,167</b>	<b>-</b>	<b>-</b>	<b>5,027</b>	<b>5,027</b>
<b>Operating EBITDA</b> .....	<b>\$ 24,980</b>	<b>\$ 60,356</b>	<b>\$ 26,044</b>	<b>\$ 111,380</b>	<b>\$ 9,983</b>	<b>\$ 55,576</b>	<b>\$ 18,008</b>	<b>\$ 83,567</b>
Contribution as a % of corporate sales.....	10.5%	-	-	-	5.1%	-	-	-
Contribution as a % of franchise sales.....	-	4.0%	-	-	-	3.7%	-	-
Contribution as a % of total System sales.....	-	-	1.5%	6.3%	-	-	1.1%	4.9%

### Corporate

As at December 27, 2015, the corporate restaurant segment consisted of 119 restaurants compared to 91 at December 30, 2014, an increase of 28 locations. The increase in restaurant count relate to the addition to 16 New York Fries corporate restaurants acquired in 2015, the opening of 10 new company-owned locations, the buy back of 8 locations less 2 locations re-franchised and the closure of 4 restaurants.

### Sales

Sales represent food and beverage sales from Cara's corporate restaurants. Corporate restaurant sales are impacted by SRS Growth and the change in number of corporate restaurants. Sales were \$60.6 million and \$237.8 million for the 13 and 52 weeks ended December 27, 2015 compared to \$48.5 million and \$195.4 million in 2014, an increase of \$12.1 million or 24.9% and \$42.4 million or 21.7%, respectively. The increase was primarily related to the addition of corporate restaurants as described above. During the fourth quarter of 2015, the Company opened 8 new restaurants, added 16 New York Fries and closed 1 restaurant.

### Cost of inventories sold and cost of labour

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

Cost of inventories sold and cost of labour was \$38.0 million and \$149.7 million for the 13 and 52 weeks ended December 27, 2015 compared to \$32.2 million and \$131.1 million in 2014, an increase of \$5.8 million or 18.0% and \$18.6 million or 14.2%, respectively. The increase for the quarter and the year was primarily due to the impact from the addition of 28 corporate restaurants. The increase was partially offset by overall cost reductions relating to improved food and beverage cost control as well as better management of variable labour costs at the restaurant level.

During the fourth quarter, cost of inventories sold and cost of labour as a percentage of sales decreased from 66.5% to 62.6%, an improvement of 3.9 percentage points. For the 52 weeks ended December 27, 2015, cost of inventories sold and cost of labour as a percentage of sales decreased from 66.9% in 2014 to 62.9% in 2015, an improvement of 4.0 percentage points related to improved food and beverage cost control as well as better management of variable labour costs at the restaurant level.

#### *Contribution from corporate segment*

Total contribution from corporate restaurants was \$6.1 million and \$25.0 million for the 13 and 52 weeks ended December 27, 2015 compared to \$2.7 million and \$10.0 million in 2014, an improvement of \$3.4 million and \$15.0 million, respectively. The increase is primarily driven by the increase in number of corporate restaurants coupled with the improvement of food and labour costs as described above.

During the fourth quarter, total contribution from corporate restaurants as a percentage of corporate sales was 10.0% compared to 5.5% in 2014, an increase of 4.5 percentage points. For the 52 weeks ended December 27, 2015, total contribution from corporate restaurants as a percentage of corporate sales was 10.5% in 2015 compared to 5.1% in 2014, an increase of 5.4 percentage points.

#### **Franchise**

As at December 27, 2015, the franchise restaurant segment consisted of 891 restaurants compared to 746 at December 30, 2014, an increase of 145 locations.

Franchise segment System Sales were \$400.5 million and \$1,527.9 million for the 13 and 52 weeks ended December 27, 2015 compared to \$388.4 million and \$1,496.3 in 2014, an increase of \$12.1 million or 3.1% and \$31.6 million or 2.1%, respectively. The increase was primarily attributed to the 2.4% total SRS Growth and the acquisition of New York Fries in the fourth quarter, partially offset by restaurant closures.

#### *Franchise revenues*

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

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

Franchise revenues were \$17.7 million and \$68.3 million for the 13 and 52 weeks ended December 27, 2015 compared to \$17.6 million and \$66.1 million in 2014, an increase of \$0.1 or 0.6% and \$2.2 million or 3.3%, respectively. The increase was primarily attributed to the 2.4% SRS Growth, reductions in contractual subsidies and temporary assistance to franchisees, partially offset by restaurant closures and restaurant buybacks.

#### *Contribution from franchise segment*

Total contribution from franchise restaurants was \$16.1 million and \$60.4 million for the 13 and 52 weeks ended December 27, 2015 compared to \$15.6 million and \$55.6 million in 2014, an increase of \$0.5 million or 3.2% and \$4.8 million or 8.6%, respectively. The increase was related to increased royalty income as a result of the franchise sales increase and a reduction in franchisee subsidies and improvements in bad debts of \$2.6 million in 2015.

The effective net royalty rate for 2015 was 4.0% compared to 3.7% in 2014. As at December 27, 2015, a total of 172 restaurants were paying Cara a royalty of less than 5.0% as compared to 204 restaurants at December 30, 2014, a decrease of 32 restaurants. 100 out of the 172 restaurants paying less than 5% royalty were related to previously agreed upon conversion agreements, an improvement of 16 restaurants compared to 116 as at December 30, 2014. 72 out of the 172 restaurants paying less than 5% royalty were related to temporary assistance, a decrease of 16 restaurants as compared to 88 as at December 30, 2014.

### ***Central***

#### *Sales*

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

Total central segment sales were \$2.7 million and \$9.7 million for the 13 and 52 weeks ended December 27, 2015 compared to \$2.6 million and \$9.1 million in 2014, an increase of \$0.1 million or 3.8% and \$0.6 million or 6.6%, respectively. The increase was attributed to increased off-premise Swiss Chalet orders and sales.

#### *New franchise fees and equipment rent*

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

Franchise fees and equipment rent were \$0.7 million and \$3.2 million for the 13 and 52 weeks ended December 27, 2015 compared to \$0.7 million and \$3.9 million in 2014, a decrease of \$0.7 million or 17.9% in fiscal 2015. The decrease was the result of buyouts and terminations of equipment rental agreements.

#### *Contribution from central segment*

Central segment contribution margin was \$7.0 million (1.5% of total System Sales) and \$26.0 million (1.5% of total System Sales) for the 13 and 52 weeks ended December 27, 2015 compared to \$3.8 million (0.9% of total System Sales) and \$18.0 million (1.1% of total System Sales) in 2014. The increase of \$3.2 million or 84.2% and \$8.0 million or 44.4% in 2015 compared to 2014 is primarily a result from the reduction in central costs that started with the 2014 restructuring of head-office staffing, other overhead cost reductions and vendor recoveries, partially offset by contributions to the marketing funds over and above franchisee contributions to drive sales growth.

## Selected Quarterly Information

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

(C\$ millions unless otherwise stated) <sup>(1)</sup>	Q4 – 2015 Dec 27, 2015	Q3 – 2015 Sept 27, 2015	Q2 – 2015 June 28, 2015	Q1 – 2015 Mar 29, 2015	Q4 – 2014 Dec 30, 2014	Q3 – 2014 Sept 30, 2014	Q2 – 2014 July 1, 2014	Q1 – 2014 Apr 1, 2014
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
System Sales from continuing operations .....	\$ 461.1	\$ 438.6	\$ 437.0	\$ 429.0	\$ 436.9	\$ 427.3	\$ 417.8	\$ 409.7
Total System Sales Growth.....	5.5%	2.6%	4.6%	5.0%	12.8%	29.5%	25.5%	26.6%
SRS Growth.....	1.2%	1.9%	3.3%	3.5%	4.9%	2.9%	0.7%	2.9%
Number of restaurants (at period end).....	1,010	828	827	834	837	834	835	838
<b>Operating EBITDA.....</b>	<b>\$ 29.2</b>	<b>\$ 28.9</b>	<b>\$ 28.4</b>	<b>\$ 24.9</b>	<b>\$ 22.1</b>	<b>\$ 21.7</b>	<b>\$ 22.0</b>	<b>\$ 17.8</b>
<b>Operating EBITDA Margin on System Sales.....</b>	<b>6.3%</b>	<b>6.6%</b>	<b>6.5%</b>	<b>5.8%</b>	<b>5.1%</b>	<b>5.1%</b>	<b>5.3%</b>	<b>4.3%</b>
Corporate restaurant sales.....	\$ 60.6	\$ 63.4	\$ 60.6	\$ 53.1	\$ 48.5	\$ 52.3	\$ 49.9	\$ 44.7
Number of corporate restaurants.....	119	96	92	92	91	86	83	82
Contribution from Corporate segment.....	\$ 6.1	\$ 7.5	\$ 7.7	\$ 3.6	\$ 2.7	\$ 3.6	\$ 2.6	\$ 0.8
Contribution as a % of corporate sales.....	10.0%	11.9%	12.7%	6.7%	5.5%	6.9%	5.2%	1.7%
Franchise restaurant sales.....	\$ 400.5	\$ 376.3	\$ 376.4	\$ 375.7	\$ 388.4	\$ 376.2	\$ 367.8	\$ 365.0
Number of franchised restaurants.....	891	732	735	742	746	748	752	756
Contribution from Franchise segment.....	\$ 16.1	\$ 14.6	\$ 14.7	\$ 14.9	\$ 15.3	\$ 14.3	\$ 12.9	\$ 12.9
Contribution as a % of Franchise sales.....	4.0%	3.9%	3.9%	4.0%	3.9%	3.8%	3.5%	3.5%
Contribution from Central segment.....	\$ 7.0	\$ 6.7	\$ 5.9	\$ 6.4	\$ 3.8	\$ 3.8	\$ 6.5	\$ 4.1
Contribution as a % of total System Sales.....	1.5%	1.5%	1.4%	1.5%	0.9%	0.9%	1.6%	1.0%
Total gross revenue from continuing operations.....	\$ 84.0	\$ 85.7	\$ 80.9	\$ 75.7	\$ 75.4	\$ 72.3	\$ 69.4	\$ 64.7
Operating EBITDA Margin.....	34.8%	33.7%	35.1%	32.9%	29.3%	30.0%	31.7%	27.5%
Net earnings (loss).....	\$ 58.3	\$ 19.2	\$ 15.9	\$ 6.2	\$ (4.5)	\$ 2.2	\$ 4.3	\$ 3.3
Earnings per share attributable to common shareholders of the Company (in dollars) <sup>(2)</sup>								
Basic EPS.....	\$ 1.19	\$ 0.39	\$ 0.34	\$ 0.35	\$ (0.24)	\$ 0.12	\$ 0.24	\$ 0.19
Diluted EPS.....	\$ 1.11	\$ 0.36	\$ 0.31	\$ 0.17	\$ (0.13)	\$ 0.08	\$ 0.23	\$ 0.18
<b>Adjusted Basic EPS.....</b>	<b>\$ 0.45</b>	<b>\$ 0.41</b>	<b>\$ 0.36</b>	<b>\$ 0.37</b>	<b>\$ (0.32)</b>	<b>\$ 0.16</b>	<b>\$ 0.27</b>	<b>\$ 0.21</b>
<b>Adjusted Diluted EPS.....</b>	<b>\$ 0.42</b>	<b>\$ 0.38</b>	<b>\$ 0.32</b>	<b>\$ 0.18</b>	<b>\$ (0.18)</b>	<b>\$ 0.11</b>	<b>\$ 0.25</b>	<b>\$ 0.20</b>
Net earnings from continuing operations attributable to common shareholders of the Company.....	\$ 58.3	\$ 19.1	\$ 15.5	\$ 6.3	\$ (4.4)	\$ 2.1	\$ 4.3	\$ 3.5
Earnings per share from continuing operations attributable to common shareholders of the Company (in dollars) <sup>(2)</sup>								
Basic EPS.....	\$ 1.19	\$ 0.39	\$ 0.34	\$ 0.35	\$ (0.25)	\$ 0.12	\$ 0.24	\$ 0.19
Diluted EPS.....	\$ 1.11	\$ 0.36	\$ 0.31	\$ 0.17	\$ (0.14)	\$ 0.08	\$ 0.23	\$ 0.18
Adjusted Basic EPS.....	\$ 0.45	\$ 0.41	\$ 0.36	\$ 0.37	\$ (0.32)	\$ 0.16	\$ 0.27	\$ 0.21
Adjusted Diluted EPS.....	\$ 0.42	\$ 0.38	\$ 0.32	\$ 0.19	\$ (0.18)	\$ 0.11	\$ 0.26	\$ 0.20

<sup>(1)</sup> See "Non-IFRS Measures" on page 32 for definitions of System Sales, SRS Growth, Operating EBITDA, Operating EBITDA Margin on System Sales, Adjusted Basic EPS, and Adjusted Diluted EPS.

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

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

- the timing of restaurant openings and closures;
- royalty recovery rates and the extent to which Cara provides financial assistance to franchisees;
- restaurant operating costs for corporate-owned restaurants;

- labor availability and costs for hourly and management personnel at corporate-owned restaurants;
- profitability of the corporate-owned restaurants, especially in new markets;
- changes in interest rates;
- increases and decreases in SRS Growth;
- impairment of long-lived assets and any loss on restaurant closures for corporate-owned restaurants;
- macroeconomic conditions, both nationally and locally;
- changes in consumer preferences and competitive conditions;
- expansion in new markets;
- increases in fixed costs; and
- fluctuations in commodity prices.

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

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

Operating EBITDA margin has increased to between 27.5% and 35.1% quarter over quarter in 2015 compared to 2014. The increases in 2015 are driven by improved performance in all three of the Company's operating segments, being Corporate restaurants, Franchise restaurants and Central. Contribution from the corporate restaurant segment as a percentage of sales improved from 1.7% in the first quarter of 2014 to above 10% in the second, third and fourth quarters of 2015. The improvement is related to better cost management of food and labour costs, and the addition of higher volume, higher margin restaurant concepts such as the Bier Markts and Landing restaurants. The franchise restaurant segment has improved steadily each quarter and is primarily attributed to the reduction of franchise assistance provided to restaurants. Contribution from the franchise segment has improved from 3.5% in the first quarter of 2014 to 4.0% in 2015. Improvements in central contribution have resulted from head office cost reductions and the growth of the Company's off premise business.

Net earnings in 2015 have increased significantly in 2015 as a result of improvements in all business segments as described above. The loss in the fourth quarter of 2014 was related to higher impairment charges and higher expense accruals than in previous quarters. Net earnings improved in the second quarter of 2015 as a result of significant reductions in financing costs resulting from the reduction in debt with proceeds of the April 2015 IPO. The increase in the fourth quarter of 2015 was related to the recognition of net deferred tax asset in the amount of \$36.9 million.

## **Liquidity and Capital Resources**

Cara's principal uses of funds are for operating expenses, capital expenditures, finance costs, debt service and dividends. Management believes that cash generated from operations, together with amounts available under its credit facility (refer to page 20), will be sufficient to meet its future operating expenses, capital expenditures, future debt service costs and discretionary dividends. However, Cara's ability to fund future debt service costs, operating expenses, capital expenditures and dividends will depend on its future operating performance which will be affected by general economic, financial and other factors including factors beyond its control. See "Risk and Uncertainties". Cara's management reviews acquisition and investment opportunities in the normal course of its business and if suitable opportunities arise, may make selected acquisitions and investments to implement Cara's business strategy. Historically, the funding for any such acquisitions or investments have come from cash flow from operating activities and/or additional debt. Similarly, from time to time, Cara's management reviews opportunities to dispose of non-core assets and may, if suitable opportunities arise, sell certain non-core assets.



## Working Capital

Cara had a working capital deficit of (\$51.6) million at December 27, 2015 compared to (\$115.9) million at December 30, 2014. The change of \$64.3 million was related to (i) an increase in cash from operations at December 27, 2015 of \$15.6 million compared to \$2.2 million in 2014 related to improved earnings, proceeds from the IPO, less cash used in acquisitions and debt repayments; (ii) an increase in accounts receivable of \$15.5 million related to increases in gift card sales receivable during the month of December, timing of cash received compared to prior year, increases in tenant inducements receivable from landlords related to restaurants built during the fourth quarter; (iii) an increase in inventories of \$6.9 million related to restaurants held for sale; (iv) a decrease in accounts payable and accrued liabilities of \$7.2 million and (v) a decrease in current portion of long-term debt \$15.5 million related to the reduction in total debt from the proceeds of the IPO.

A working capital deficit is typical of restaurant operations, where the majority of sales are for cash and there are rapid turnover of inventories. In general, the turnover of accounts receivable and inventories is faster than accounts payable, resulting in negative working capital. Cara's Ultimate Gift Card sales significantly improve the Company's liquidity in the fourth quarter as cash is received within one to two weeks from time of sale. Gift card sales are highest in November and December followed by high redemptions in the January to March period. Cara's gift card liability at December 27, 2015 was \$51.9 million compared to \$49.5 million at December 30, 2014, an increase of \$2.4 million due to higher gift card sales in 2015.

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

## Cash Flows

The following table presents Cara's cash flows for the 52 weeks ended December 27, 2015 compared to December 30, 2014:

(C\$ millions unless otherwise stated)	For the 52 week period ended	
	December 27, 2015	December 30, 2014
Cash flows from operating activities of continuing operations.....	\$ 79.5	\$ 88.5
Cash flows from operating activities of discontinued operations.....	\$ -	\$ (0.1)
Cash flows used in investing activities.....	\$ (76.9)	\$ (38.3)
Cash flows from (used in) financing activities.....	\$ 13.1	\$ (47.8)
Change in cash during the period <sup>(1)</sup> .....	\$ 15.6	\$ 2.2

<sup>(1)</sup> Figures may not total due to rounding.

### *Cash flows from operating activities of continuing operations*

Cash flows from operating activities of continuing operations were \$79.5 million in 2015 compared to \$88.5 million in 2014. Overall, cash from operating activities were impacted by improved earnings from continuing operations of \$99.7 million compared to \$5.4 million in 2014, an improvement of \$94.3 million; decreases in working capital of \$36.7 million primarily related to increases in accounts receivable and inventories; offset by the non-cash net income tax asset recognition of \$36.9 million.

### *Cash flows used in investing activities*

The following table presents Cara's capital expenditures for 52 weeks ended December 27, 2015 as compared to the 52 weeks ended December 30, 2014:

(C\$ millions unless otherwise stated)	For the 52 week period ended	
	December 27, 2015	December 30, 2014
Purchase of property, plant and equipment:		
Maintenance:		
Corporate restaurants .....	(3.3)	(3.5)
Central / IT expenditures / Other .....	(11.5)	(3.7)
Total maintenance.....	\$ (14.8)	\$ (7.2)
Growth initiatives:		
Major renovations .....	(2.5)	(0.4)
New builds .....	(4.0)	(10.1)
Total growth.....	\$ (6.5)	\$ (10.5)
<b>Total purchase of property, plant and equipment .....</b>	<b>\$ (21.3)</b>	<b>\$ (17.7)</b>
Business acquisitions, net of cash assumed:		
Acquisitions .....	(40.6)	(17.8)
Buyout of non-controlling interests .....	(14.4)	-
Buy backs <sup>(1)</sup> .....	(6.4)	(10.9)
<b>Total business acquisitions, net of cash assumed.....</b>	<b>\$ (61.4)</b>	<b>\$ (28.7)</b>
Total purchase of property, plant and equipment.....	\$ (21.3)	\$ (17.7)
Total business acquisitions, net of cash assumed.....	(61.4)	(28.7)
Proceeds on disposal of property, plant and equipment.....	2.8	3.1
Additions to other assets.....	(0.1)	(0.1)
Change in long term receivables .....	3.1	5.0
<b>Total cash flows used in investing activities <sup>(2)</sup> .....</b>	<b>\$ (76.9)</b>	<b>\$ (38.3)</b>

<sup>(1)</sup> 2015 buy backs are comprised of 8 locations (2014 – 10 locations)

<sup>(2)</sup> Figures may not total due to rounding.

Cash flows used in investing activities were (\$76.9) million during the 52 weeks ended December 27, 2015 compared to (\$38.3) million in 2014, an increase of cash flows used of \$38.6 million. The increase in 2015 is primarily due to the acquisition of 100% of New York Fries, the buyout of the remaining 45% interest in the Landing Group, the addition of 10 new corporate restaurants, and 8 franchise restaurant buybacks. Cash flows used in investing activities in 2014 primarily related to the acquisition of 55% of the Landing Group and the addition of 5 new corporate restaurants and 10 franchise buybacks.

### *Commitments for Capital Expenditures*

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

### Cash flows from (used in) financing activities

The following table presents Cara's cash from and used in financing activities for the 52 weeks ended December 27, 2015 compared to December 30, 2014:

(C\$ millions unless otherwise stated)	For the 52 week period ended	
	December 27, 2015	December 30, 2014
Changes in bank indebtedness .....	\$ -	\$ (6.9)
Issuance of subordinate voting shares, net of transaction costs .....	216.6	-
Increases in debt .....	437.8	108.0
Debt repayments .....	(603.8)	(127.0)
Change in finance leases .....	(2.0)	(2.0)
Interest paid .....	(10.5)	(19.9)
Dividends paid .....	(23.1)	-
Other .....	(1.8)	(0.1)
<b>Cash flows from (used) in financing activities <sup>(1)</sup></b>	<b>\$ 13.1</b>	<b>\$ (47.8)</b>

<sup>(1)</sup> Figures may not total due to rounding.

Cash flows from financing activities were \$13.1 million in 2015. Cash from financing activities primarily consist of proceeds from the IPO of \$220.7 million less (\$166.0) million net reduction of the Company's credit facility, the payment of interest in the amount of (\$10.5) million and cash dividends of (\$23.1) million.

Cash flows used in financing activities in 2014 were (\$47.8) million. Cash used in financing activities in 2014 primarily consisted of a net decrease in bank indebtedness and its credit facility of (\$19.0) million and interest payments of (\$19.9) million.

### Contractual Obligations

Cara's significant contractual obligations and commitments as of December 27, 2015 (except as noted below), are shown in the following table:

(C\$ millions unless otherwise stated) <sup>(1)</sup>	2016	2017	2018	2019	2020	Thereafter
Gross operating lease payments .....	89.5	80.1	68.2	57.6	50.3	189.9
Expected sub-lease income .....	68.8	61.6	52.8	44.1	37.8	128.2
Net operating lease obligation <sup>(2)</sup> .....	20.7	18.5	15.4	13.5	12.5	61.7
Finance leases <sup>(3)</sup> .....	2.2	2.2	2.2	2.3	2.0	10.0
Revolving term credit facility .....	-	-	-	65.0	-	-
Other obligations <sup>(4)</sup> .....	131.3	5.8	9.5	4.5	4.1	38.6
<b>Total contractual obligations .....</b>	<b>154.2</b>	<b>26.5</b>	<b>27.1</b>	<b>85.3</b>	<b>18.6</b>	<b>110.3</b>

- (1) All figures exclude obligations that are in the normal course of business and pension fund obligations. Cara does not have any purchase obligations or other obligations as of December 27, 2015.
- (2) Cara has obligations for leases for corporate locations and for certain leases related to franchisees (in the event of default by franchisees, Cara retains ultimate responsibility to the landlord for payment of amounts under those leases). For franchise operating leases, the above figures represent Cara's net exposure (i.e. after giving consideration to the portion of rent recovered from franchisees).
- (3) Cara has financing lease obligations for land and buildings.
- (4) Other obligations represent total accounts payable & accrued liabilities and other long term liabilities.

## Debt

On April 10, 2015, as part of the IPO, the Company amended and extended the terms of its Existing Credit Facility, repaid \$217.8 million of its Existing Credit Facility and settled all of the outstanding Subordinated Debentures, Class A and Class B Preferred Shares.

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

As at December 27, 2015, \$65.0 million was drawn under the amended and extended term credit facility with an effective interest rate of 4.2% which includes the amortization of deferred financing fees. The Company's current effective interest rate is approximately 2.5% representing bankers acceptance rate of 1.0% plus 1.25% and the amortization of deferred financing fees of 0.25%.

## Pension deficit

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

Defined benefit plan assets are held in trust and at December 27, 2015, were invested 100% in a balanced fund. The accrued benefit plan obligations are determined using actuarial valuations calculated by the Company's actuary. The Company's pension funding policy is to contribute amounts sufficient, at a minimum, to meet local statutory funding requirements as recommended by the Company's actuary plus make annual required repayments of participant benefits for the Supplementary Retirement Plans. During 2016, the Company does not expect to contribute any funds to the defined benefit plan based on the most recent actuarial valuation.

A summary of the \$21.4 million deficit in the plans is summarized below. Cara meets its pension obligations by settling its obligations as they come due with cash-on-hand. The pension obligations that Cara settled were \$1.6 million and \$1.7 million in 2015 and 2014 respectively. No new members have been added to the plan in 2015 and there are no plans to add members in the future. All of the existing 22 members are former (not current) Cara employees.

<u>(C\$ millions unless otherwise stated)</u>	<u>Defined Benefit Pension Plans</u>	<u>Supplementary Retirement Plans (unfunded)</u>	<u>Total</u>
Fair value of plan assets .....	\$ 10.5	\$ -	10.5
Present value of obligations .....	(14.3)	(17.6)	(31.9)
<b>Total .....</b>	<b>\$ (3.8)</b>	<b>\$ (17.6)</b>	<b>(21.4)</b>

## Off Balance Sheet Arrangements

### Letters of credit

Cara has outstanding letters of credit amounting to \$0.9 million as at December 27, 2015 (December 30, 2014 - \$0.9 million), primarily for various utility companies that provide services to the corporate owned locations and support for certain franchisees' external financing used to fund their initial conversion fee payable to Cara.

## **Outstanding Share Capital**

The Company's authorized share capital consists of an unlimited number of common shares and an unlimited number of non-voting common shares. As at March 3, 2016, there were 49,162,591 subordinate and multiple voting common shares (December 30, 2014 – 50,467,709 shares prior to share consolidation; 18,088,758 post the 2.79 to 1 share consolidation) issued and outstanding.

The Company has a common share stock option plan for its directors, CEO and employees. The total number of options granted and outstanding as at March 3, 2016 is 4,942,248.

## **Related Parties**

### *Shareholders*

The Company, through its Multiple Voting Common Shares, is principally controlled by Fairfax Financial Holdings Limited ("Fairfax") and Cara Holdings Limited.

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

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

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

Prior to the Offering, and during the period ended December 27, 2015, the Company declared \$3.0 million (December 30, 2014 - \$11.0 million) in dividends on common shares to Cara Holdings and paid \$14.0 million in dividends of which \$11.0 million was declared in 2014.

Prior to the Offering, subsidiaries of Fairfax owned subordinated debentures and warrants bearing interest at 9.0% per annum. During the period ended December 27, 2015, the Company incurred interest of \$0.6 million (December 30, 2014 - \$2.3 million) which has been included in interest expense. Additionally, subsidiaries of Fairfax owned Class A and Class B preferred shares. For the period ended December 27, 2015, the Company approved a payment of interest on the preferred shares in the amount of \$2.9 million (December 30, 2014 - \$10.2 million), which has been included in interest expense.

During the period ended December 27, 2015, the Company declared a dividend of \$0.19342 per share of Subordinate and Multiple Voting Shares of which Fairfax and Cara Holdings received \$3.9 million and \$3.4 million, respectively.

Fairfax and the Company are parties to a Shared Services and Purchasing Agreement. Under this agreement, Fairfax is authorized to enter into negotiations on behalf of the Company (and Fairfax associated restaurants) to source shared services and purchasing arrangements for any aspect of Cara's operations, including food and beverages, information technology, payment processing, marketing and advertising or other logistics. There were no transactions during the periods ended December 27, 2015 and December 30, 2014.

### *Insurance Provider*

Some of Cara's insurance policies are held by a company that is a subsidiary of Fairfax. During the year, the Company incurred \$0.5 million related to these insurance policies and is considered on market terms and conditions.

### Transaction with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the Company and/or its subsidiary, directly or indirectly, including any external director of the Company and/or its subsidiary. Key management personnel may also participate in the Company's stock-based compensation plans and the Company's defined contribution savings plan.

Remuneration of key management personnel of the Company is comprised of the following expenses:

(C\$ thousands unless otherwise stated)	For the 52 weeks ended	
	December 27, 2015	December 30, 2014
Short-term employee benefits .....	\$ 4,114	\$ 2,384
Long-term incentive plans .....	6,126	6,093
Termination benefits .....	635	68
<b>Total compensation .....</b>	<b>\$ 10,875</b>	<b>\$ 8,545</b>

There were no additional related party transactions between the Company and its key management personnel, or their related parties, including other entities over which they have control.

### Outlook

Management is pleased with the positive results in 2015, especially considering tough economic conditions being experienced in many markets. The continued System Sales increases, SRS Growth, and cost reductions have resulted in increases in Operating EBITDA and improved contribution margins in all segments. Cara has also greatly reduced its risk profile and its ability to weather challenges by reducing debt, increasing profits and free cash flow. Despite progress during 2015, management remains cautious on the Canadian economy and its potential impact on restaurant sales stemming from challenges in western Canada, and weakness in the Canadian dollar. With respect to 2016, Management provides the following comments regarding its strategies and initiatives:

- *System Sales and SRS Growth* — Management will continue to focus on building momentum and long-term sales growth through its various initiatives across all its brands and is targeting to achieve SRS Growth of 2.5% to 4.0% over the long-term subject to short-term fluctuations outside the target range due to economic conditions.
- *Restaurant Count* — Management is targeting to add 30 net new restaurants in 2016 before the impact of Casey's closures and any acquisitions, up from 16 in 2015.
- *Corporate restaurant profitability* — Management is pleased with the increase in corporate restaurant profitability from 5.1% of corporate sales in 2014 to 10.5% in 2015. The improvement of 5.4 percentage points is primarily related to strong Landing and Bier Markt restaurant contribution and the reduction in food costs and labour costs across the corporate store portfolio. The 2016 new restaurant plan includes one new Bier Markt and two new Landing locations. Long term, the opportunity remains for higher corporate contribution by adding more Bier Markts, Landings and select Milestones as we change the mix of our corporate restaurants to higher volume, higher margin restaurant concepts.
- *Franchise segment* — Franchise contribution as a percentage of franchise sales improved from 3.7% in 2014 to 4.0% in 2015 reflecting improved franchise sales and profit performance resulting in less assistance provided to its franchise network. In 2015, Cara reduced the number of restaurants receiving assistance by 32 restaurants to 172 restaurants from a total of 204 at December 30, 2014. In 2016 and beyond, we expect to increase the franchise contribution rate by (1) adding new franchisees at the full 5% standard royalty rate and (2) by continuing to reduce the number of franchisees on assistance.
- *Central segment* — Going forward as the run rate for central expenses normalizes, the improvements in the central contribution rate will be driven by growing sales faster than head office expenses and by expanding our off premise business.

- *Total Operating EBITDA* — The combined contributions from the Corporate, Franchise and Central segments resulted in Total Operating EBITDA margin of 6.3% as a percentage of total System Sales compared to 4.9% in 2014. The Company will continue to work on all three segments to increase both segmented EBITDA Contribution and Total Operating EBITDA in relation to Total System Sales.
- *Improved net income and cash available* — As a result of the IPO and the Fairfax preferred share and debt conversion, the Company significantly reduced debt which has decreased total interest and finance costs in 2015.

While Management's outlook remains unchanged from the outlook provided at the time of Cara's IPO, there may be short term fluctuations due to the volatile Canadian and international markets. Overall, Management is satisfied with the positive results and improvements achieved during 2015 and believes that the benefits from the IPO will provide more available cash and credit capacity to position the Company for growth. We will continue to look for accretive acquisitions in 2016 following the successful 2013 acquisition of Prime Restaurants, the 2014-2015 acquisition of the Landing Group and the 2015 acquisition of New York Fries.

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

### **Future Accounting Changes**

New standards and amendments to existing standards have been issued and may be applicable to the company for its annual periods beginning on or after December 28, 2015. See note 3 of the Company's consolidated financial statements for the 52 weeks ended December 27, 2015 for a summary of new accounting standards adopted during 2015 and note 4 for a summary of future accounting standards not yet adopted.

### **Disclosure Controls and Procedures**

Disclosure controls and procedures should be designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company's management, including its certifying officers, namely the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), as appropriate to allow timely decisions regarding required disclosure.

As of December 27, 2015, an evaluation of the design of the Company's disclosure controls and procedures, as defined under National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, was carried out under the supervision of the CEO and CFO and with the participation of the Company's management. Based on that evaluation, there were no material changes in controls during the year and the CEO and CFO concluded that as of December 27, 2015, the Company's disclosure controls were appropriately designed and procedures were effective.

### **Internal Controls Over Financial Reporting**

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. Management is responsible for establishing adequate internal control over financial reporting for the Company.

An evaluation of the effectiveness of the design and operation of the Company's internal control over financial reporting was conducted as of December 27, 2015. Based on the evaluation, the CEO and the CFO concluded that the internal control over financial reporting, as defined by National Instrument 52-109, was appropriately designed and was operating effectively. The evaluations were conducted in accordance with the framework and criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), a recognized control model, and the requirements of National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings.

## **Critical Accounting Judgments and Estimates**

The preparation of the condensed consolidated interim financial statements requires management to make various judgments and estimates in applying the Company's accounting policies that affect the reported amounts and disclosures made in Cara's financial statements and accompanying notes.

Management continually evaluates the estimates and assumptions it uses. These judgments and estimates are based on management's historical experience, knowledge of current events and conditions and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and assumptions described in this section depend upon subjective or complex judgment that may be uncertain and changes in these estimates and assumptions could materially impact Cara's financial statements. The following are the accounting policies that are subject to judgments and estimates.

### *Accounts receivable and long-term franchise receivables*

Management reviews accounts receivables and long-term franchise receivables at each balance sheet date utilizing judgments to determine whether a triggering event has occurred requiring an impairment test to be completed.

If impairment test is required, management determines the net realizable value of its accounts receivables and long-term franchise receivables by reviewing expected future cash flows and discounting their cash flows at their original discount rate. The process of determining the net realizable value requires management to make estimates regarding projected future cash flows.

### *Depreciation and amortization*

The Company's property and equipment and definite life intangible assets are depreciated and amortized on a straight line basis, taking into account the estimated useful lives of the assets and residual values. Changes to these estimates may affect the carrying value of these assets, net earnings, and comprehensive income in future periods.

### *Impairment of non-financial assets*

Management is required to use judgment in determining the grouping of assets to identify their cash generating units ("CGUs") for the purposes of testing fixed assets for impairment. Judgment is further required to determine appropriate groupings of CGUs, for the level at which goodwill and intangible assets are tested for impairment. In addition, judgment is used to determine whether a triggering event has occurred requiring an impairment test to be completed.

In determining the net recoverable amount of a CGU, various estimates are employed. The Company determines the fair value less costs to sell a particular CGU using estimates such as projected future sales, earnings, capital investments and discount rates for trademarks, and determines the recoverable amount of goodwill based on value in use. Projected future sales and earnings are consistent with strategic plans provided to the Company's Board. Discount rates are based on an estimate of the Company's weighted average cost of capital taking into account external industry information reflecting the risk associated with the specific cash flows.

### *Leases*

In classifying a lease as either financial or operating, management has to make certain assumptions in estimating the present value of future lease payments and the estimated useful lives of the related assets. These assumptions include the allocation of values between land and building, and discount rates.

### *Income and other taxes*

The calculation of current and deferred income taxes requires management to make certain judgments regarding the tax rules in jurisdictions where the Company performs activities. Application of judgments is required regarding classification of transactions and in assessing probable outcomes of claimed deductions including expectations of future operating results, the timing and reversal of temporary differences, likelihood of utilizing deferred tax assets and possible audits of income tax and other tax filings to the applicable tax authorities.



### *Employee future benefits*

Accounting for the costs of defined benefit pension plans is based on a number of assumptions including estimates of rates of compensation increase and retirement ages of plan members. The discount rate used to value the accrued benefit plan obligation is based on high quality corporate bonds in the same currency in which the benefits are expected to be paid and with terms to maturities that, on average, match the terms of the defined benefit obligations. Other key assumptions for pension obligations are based on actuarial determined data and current market conditions.

### *Gift cards*

Management is required to make certain assumptions on the likelihood of gift card redemptions based on historical redemption patterns. The impact of these assumptions results in the reduction to the costs of administering the gift card program when it can be determined that the likelihood of the gift card being redeemed is remote based on several facts including historical redemption patterns and any changes to the gift card program.

### *Provisions*

Management reviews provisions at each balance sheet date utilizing judgments to determine the probability that an expense and outflow will result from the legal or constructive obligation and an estimate of the associated obligation. Due to the judgmental nature of these items, future settlements may differ from amounts recognized.

### *Stock-based compensation*

The accounting for equity-settled stock-based compensation requires management to make an estimate of the fair value, including non-market conditions, of the stock options based on the enterprise value of the Company at the time of the particular option grant as well as estimates around forfeitures of vested options.

## **Risks and Uncertainties**

### *Restaurant Industry*

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

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

### *Competition with Other Franchisors*

The Company competes with other companies, including other well-capitalized franchisors with extensive financial, technological, marketing and personnel resources and high brand name recognition and awareness. There can be no assurance that the Company will be able to respond to various competitive factors affecting the franchise operations of the Company.

### *Quality Control and Health Concerns*

The Company's business can be materially and adversely affected by publicity resulting from illness, injury, cleanliness, poor food quality or safety or any other health concerns or operating issues relating to a single restaurant or a limited number of restaurants. Such publicity or concerns could reduce guest traffic at one or more restaurants, reducing gross revenues of the restaurant. The Company has a number of procedures in place for managing food safety and quality. Nevertheless, the risk of food borne illness or contamination cannot be completely eliminated. Any outbreak of such illness or contamination at a restaurant or within the food service industry more generally (even if it does not affect any of the restaurants in the Cara network), or the perception of such an outbreak, could have a material adverse effect on the financial condition and results of operations of the Company.

### *Security Breaches of Confidential Guest Information*

The Company's business requires the collection, transmission and retention of large volumes of guest and employee data, including credit and debit card numbers and other personally identifiable information, in various information technology systems that the Company maintains and in those maintained by third parties with whom the Company contracts to provide services. The integrity and protection of that guest and employee data is critical to the Company. Further, the Company's guests and employees have a high expectation that the Company and its service providers will adequately protect their personal information.

The information, security and privacy requirements imposed by governmental regulation are increasingly demanding. The Company's systems may not be able to satisfy these changing requirements and guest and employee expectations, or may require significant additional investments or time in order to do so. Efforts to hack or breach security measures, failures of systems or software to operate as designed or intended, viruses, operator error or inadvertent releases of data all threaten the Company and its service provider's information systems and records. A breach in the security of the Company's information technology systems or those of the Company's service providers could lead to an interruption in the operation of its systems, resulting in operational inefficiencies or a loss of revenues or profits. Additionally, a significant theft, loss or misappropriation of, or access to, guests' or other proprietary data or other breach of the Company's information technology systems could result in fines, legal claims or proceedings, including regulatory investigations and actions, or liability for failure to comply with privacy and information security laws, which could disrupt the Company's operations, damage its reputation and expose it to claims from guests and employees, any of which could have a material adverse effect on the Company's financial condition and results of operations.

### *Public Safety Issues*

Adverse conditions, such as the threat of terrorist attacks, acts of war, pandemics or other outbreaks or perceived outbreaks of disease (including avian flu, H2N1, SARS or mad cow disease), may have a negative impact on the restaurant industry and the economy in general. These incidents can adversely affect restaurant traffic, discretionary consumer spending and consumer confidence, which may result in decreased patronage in the Company's restaurants or force the Company to reduce or cap prices. The occurrence, re-occurrence, continuation or escalation of such local, regional, national or international events or circumstances could reduce revenue for the Company.

### *Damage to the Company's Reputation*

There has been a marked increase in the use of social media platforms and similar channels, including weblogs (blogs), social media websites and other forms of Internet-based communications that provide individuals with access to a broad audience of consumers and other interested persons. The availability and impact of information on social media platforms is virtually immediate and many social media platforms publish user-generated content without filters or independent verification as to the accuracy of the content posted. The opportunity for dissemination of information, including inaccurate information, is seemingly limitless and readily available. Information concerning the Company or one or more of its brands may be posted on such platforms at any time. Information posted may be adverse to the Company's interests or may be inaccurate, each of which may harm the Company's performance, prospects or business. The harm may be immediate without affording the Company an opportunity for redress or correction.

Ultimately, the risks associated with any such negative publicity or incorrect information cannot be completely eliminated or mitigated and may materially harm the Company's reputation, business, financial condition and results of operations.

#### *Availability and Quality of Raw Materials; Reliance on Suppliers*

Sales by restaurants in Cara's network are dependent upon the availability and quality of the raw materials, food, services and products used in the products sold by such restaurants. The availability and price of these commodities are subject to fluctuation and may be affected by a variety of factors affecting the supply and demand of the raw materials used in these products.

Unfavourable trends or developments, including among others, fluctuations in the price of raw materials, a significant reduction in the availability or quality of raw materials purchased by restaurants, the unavailability of certain products, transportation disruptions, strikes, lock-outs, labour unrest and financial difficulties affecting the Company's suppliers, may cause a significant reduction in the availability or quality of products or services purchased by restaurants in Cara's network. There is no assurance that the Company will be able to find alternate suppliers, which could have a material adverse impact and/or other adverse effects on the Company and restaurants in its network.

#### *Growth of the Company; Franchisees*

The growth of the Company is dependent upon the ability of the Company to (i) maintain and grow the current system of franchised and corporate-owned restaurants, (ii) execute its current strategy for growth, (iii) locate new retail sites in prime locations and (iv) obtain qualified operators to become franchisees. The Company faces competition for retail locations and franchisees from its competitors and from franchisors of other businesses. The Company's inability to successfully obtain qualified franchisees could adversely affect its business development. The opening and success of franchised restaurants is dependent upon a number of factors, including availability of suitable sites, operating costs, negotiations of acceptable lease or purchase terms for new locations, permitting and government regulatory compliance and the ability to meet construction schedules. Prospective franchisees may not have all the business abilities or access to financial resources necessary to open a franchise or to successfully develop or operate a Company restaurant in a manner consistent with the Company's standards.

The Company provides training and support to franchisees, but the quality of franchised operations may be diminished by any number of factors beyond its control. Consequently, franchisees may not successfully operate outlets in a manner consistent with the Company's standards and requirements, or may not hire and train qualified managers and other restaurant personnel. If they do not, the image and reputation of the Company may suffer, and sales of restaurants in Cara's network could decline. There can be no assurance that the Company will be able to effectively manage its expanding operations.

#### *Franchise Fees and Other Revenue*

The Company's financial performance is dependent, in part, on its franchisees' ability to generate revenue and to pay franchise fees, royalties and other amounts to the Company. Failure to achieve adequate levels of collection from franchisees could have a material effect on the revenue and cash flow of the Company.

Under various provincial franchise statutes, a franchisee may rescind a franchise agreement for late or lack of proper provision of a disclosure document (as defined under the applicable statute) within certain prescribed time periods. Rescission claims by such franchisees could have a material effect on the revenue of the Company.

#### *Franchisee Relations*

The Company's success is dependent on its relationship with its franchisees. There can be no assurances that the Company will be able to maintain positive relationships with all of its franchisees. In addition, in certain jurisdictions in which the Company has restaurants, franchisees are permitted to establish associations among themselves. There can be no assurances that franchisees have not or will not in the future organize an association in order to act together to lobby the Company. Adverse publicity resulting from such activities may affect the sales of the restaurants, regardless of whether such publicity is accurate. In addition, any challenges in the relationships with franchisees may have an adverse impact on the performance of affected restaurants and the ability of the Company to undertake new initiatives, and could result in the diversion of management resources and increased administrative costs.

For certain franchisees, the Company acts as the “head lessee” under the lease for the restaurant. A default by the franchisee under the lease could result in increased costs and could have a negative impact on the Company’s business and results of operations. The Company from time to time is also subject to litigation claims from franchisees.

#### *Revenue Reporting Risks*

Certain franchisees report sales to the Company on an ongoing basis via the Company’s central POS system. There can be no assurance, however, that sales reported by franchisees are accurate and in accordance with the terms of the franchise agreements.

#### *Opening New Restaurants*

The consumer target area of the Company’s restaurants varies by location, depending on a number of factors, including population density, other local retail and business attractions, area demographics and geography. As a result, the opening of a new restaurant in or near markets in which the Company already has restaurants could adversely impact sales at these existing restaurants. Existing restaurants could also make it more difficult to build the Company’s consumer base for a new restaurant in the same market. The opening and success of a new restaurant will also be dependent on a number of factors, including availability of suitable sites, negotiation of acceptable lease or purchase terms for new locations, permitting and government regulatory compliance and the ability to meet construction schedules.

The Company may not be able to support sustained new restaurant growth or open all of its planned new restaurants, and the new restaurants that the Company does open may not be profitable or as profitable as its existing restaurants. New restaurants typically experience an adjustment period before sales levels and operating margins normalize, and even sales at successful newly-opened restaurants generally do not make a significant contribution to profitability in their initial months of operation. The opening of new restaurants can also have an adverse effect on sales levels at existing restaurants.

#### *Potential Inability to Consummate Acquisitions*

The Company does not currently have any agreement or commitment to acquire any businesses. However, Cara continues to seek opportunities to acquire or invest in restaurant businesses, such as its recent investments in The Landing Group and New York Fries, that could expand, complement or otherwise relate to its current or future restaurant operations. Cara may also consider, from time to time, opportunities to engage in business collaborations with third parties to address particular purchasing requirements, such as the Shared Services Agreement. The pursuit of these activities may divert the attention of management and cause the Company to incur various expenses in identifying, investigating and pursuing suitable acquisitions or business arrangements, whether or not they are consummated. The Company may also be precluded from pursuing such transactions as a result of financial or other covenants in agreements to which it is a party. The Shared Services Agreement, in particular, includes provisions that would restrict the Company from engaging in negotiations with respect to a potential investment in certain Canadian foodservice companies if Fairfax is already engaged in negotiations with respect to that opportunity. In these circumstances, the interests of Fairfax (and of other restaurant operators in which it may hold an investment, such as The Keg), may conflict with the Company’s interests.

#### *Integration of Acquisitions and Brand Expansion*

The consummation of an acquisition, investment or other business collaboration may create risks such as: (i) the need to integrate and manage the businesses, brands and/or products acquired with the Company’s business, brands and products; (ii) additional demands on the Company’s resources, systems, procedures and controls, (iii) disruption of the Company’s ongoing business, (iv) adverse effects to the Company’s existing business relationships; and (v) potential loss of key employees. While each of the Company’s brands and restaurants are subject to the risks and uncertainties described herein, there is an enhanced level of risk and uncertainty related to the operation and expansion of the Company’s smaller, newer brands, such as The Landing Group and any future-acquired brands. These brands and business ventures may have not yet proven their long-term viability or growth potential and will continue to be subject to the risks that accompany any new restaurant brand or new business initiative.

Moreover, an acquisition, investment or other business collaboration could involve: (i) substantial investment of funds or financings by issuance of debt or equity securities; (ii) substantial investment with respect to technology transfers and operational integration; and (iii) the acquisition or disposition of product lines or businesses. Also, such activities could result in one-time charges and expenses and have the potential to either dilute the interests of existing shareholders or result in the issuance of, or assumption of debt. Such acquisitions, investments or other business collaborations may involve significant commitments of the Company’s financial and other resources. Any such activity may not be successful in

generating revenue, income or other returns to the Company. Additionally, if the Company is unable to access capital markets on acceptable terms or at all, the Company may not be able to consummate acquisitions, or may have to do so on the basis of a less than optimal capital structure. The Company's inability to (i) take advantage of growth opportunities for its business or its products, or (ii) to address risks associated with acquisitions or investments in businesses, may negatively affect its operating results. Finally, any impairment of goodwill or other intangible assets acquired in an acquisition or in an investment, or charges to earnings associated with any acquisition or investment activity, may materially reduce Cara's earnings which, in turn, may have an adverse material effect on the price of the Subordinate Voting Shares. If the Company does complete such transactions, it cannot be sure that it will ultimately strengthen its competitive position or that it will not be viewed negatively by customers, security analysts or investors.

#### *Retail Licensing Opportunities*

Cara currently licenses a limited number of branded products which are sold through select grocery stores and other retail outlets. There can be no assurance that Cara will be successful in identifying or in capitalizing on opportunities to expand sales of its existing branded products or to introduce additional branded products in the manner and on the timelines anticipated by management or at all.

#### *Seasonality and Weather*

The restaurant industry is affected by weather and seasonal conditions. Adverse or unusual weather patterns may negatively affect operations of businesses in the restaurant industry. Favourable weather tends to increase guest traffic at the Company's restaurants, particularly in summer seasons at restaurants with patios or outdoor seating. Additionally, certain holidays and observances also affect guest dining patterns, both favourably or unfavourably.

Dependence on frequent deliveries of fresh produce and groceries subjects businesses in the restaurant industry to the risk that shortages or interruptions in supply caused by adverse weather conditions could adversely affect the availability, quality and cost of ingredients. Severe cold weather increases consumption of electricity and may cause an increase in oil and natural gas prices, which may result in markedly higher utility prices for the Company's restaurants. Severe hot weather leads to higher air conditioning costs. Any one of these consequences of adverse or unusual weather conditions, as well as water or electricity supply disruptions, may adversely affect the operations of the Company's restaurants by increasing operating costs and/or reducing revenue.

#### *Regulations Governing Alcoholic Beverages*

A portion of the Company's revenue is attributable to the sale of alcoholic beverages and the ability to serve such beverages is an important factor in attracting customers. Alcoholic beverage control regulations require each restaurant to apply to provincial and/or municipal authorities for a licence or permit to sell alcoholic beverages on the premises and, in certain locations, to provide service for extended hours and on Sundays. Typically, licences must be renewed annually and may be revoked or suspended for cause at any time. Alcoholic beverage control regulations relate to numerous aspects of daily operations of restaurants including minimum age of patrons and employees, hours of operation, advertising, wholesale purchasing, inventory control and handling and storage and dispensing of alcoholic beverages.

The failure of the Company or a restaurant to retain a licence to serve liquor could adversely affect the restaurant's operations and reduce the Company's revenue. Changes to laws regulating alcoholic beverages may also adversely affect operations of restaurants and reduce the Company's revenue by increasing costs, reducing the potential customer base or reducing the hours of operations of such restaurants.

The Company or a restaurant may be subject in certain provinces to "dram-shop" statutes, which generally provide a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person. The Company carries liquor liability coverage as part of its existing comprehensive general liability insurance.

#### *Laws Concerning Employees*

The operations of restaurants are subject to minimum wage laws governing such matters as working conditions, overtime and tip credits. Significant numbers of restaurants' food service and preparation personnel are paid at rates related to the minimum wage and, accordingly, further increases in the minimum wage could increase the restaurants' labour costs. The franchisees may also hire foreign workers through the Canadian federal government's Temporary Foreign Worker Program, and accordingly, changes to this program could increase labour costs.

### *Dependence on Key Personnel*

The success of the Company depends upon the personal efforts of senior management, including their ability to retain and attract appropriate franchisee candidates. The loss of the services of such key personnel could have a material effect on the operations of the Company. In addition, the Company's continued growth depends on its ability to attract and retain skilled management and employees and the ability of its key personnel to manage the Company's growth. Certain key personnel are not bound by non-competition covenants. If such personnel depart the Company and subsequently compete with the Company or determine to devote significantly more time to other business interests, such activities could have a material adverse effect on the Company's results of operations.

### *Attracting and Retaining Quality Employees*

The Company and its franchisees' business is dependent upon attracting and retaining a large number of quality employees who reflect the Company's various brand images and culture. Many of these employees are in entry level or part-time positions with historically high rates of turnover. The inability of the Company and its franchisees to hire, train and retain employees may adversely affect the operations of the Company's restaurants and could have a material adverse effect on the Company's revenue.

The Company's ability to meet its labour needs while controlling the costs associated with hiring and training new employees is subject to external factors such as unemployment levels, prevailing wage rates, minimum wage legislation and changing demographics. Changes that adversely impact the Company's ability to attract and retain quality employees could adversely affect its business.

### *Unionization Activities May Disrupt Company Operations*

Although only the employees at approximately 53 franchised restaurants and 2 corporate restaurant are currently covered under collective bargaining agreements, the Company's employees may elect to be represented by labour unions in the future. If a significant number of the Company's employees were to become unionized and collective bargaining agreement terms were significantly different from the Company's current compensation arrangements, it could adversely affect the Company's business, financial condition or results of operations. In addition, a labour dispute involving some or all of the Company's employees or the employees of franchisees may harm Cara's reputation, disrupt its operations and reduce its revenues, and resolution of disputes may increase its costs. Further, if the Company enters into a new market with unionized construction companies, or the construction companies in the Company's current markets become unionized, construction and build out costs for new Company restaurants in such markets could materially increase.

### *Reliance on Information Technology*

The Company relies heavily on information systems, including point-of-sale processing in its restaurants, for management of its supply chain, accounting, payment of obligations, collection of cash, credit and debit card transactions, upkeep of Cara's in-house call centre and other processes and procedures. The Company's ability to efficiently and effectively manage its business depends significantly on the reliability and capacity of these systems. The Company's operations depend upon its ability to protect its computer equipment and systems against damage from physical theft, fire, power loss, telecommunications failure or other catastrophic events, as well as from internal and external security breaches, viruses and other disruptive problems. The failure of these systems to operate effectively, maintenance problems, upgrading or transitioning to new platforms, expanding the Company's systems as it grows or a breach in security of these systems could result in interruptions to or delays in the Company's business and guest service and reduce efficiency in its operations. If the Company's information technology systems fail and its redundant systems or disaster recovery plans are not adequate to address such failures, or if the Company's business interruption insurance does not sufficiently compensate the Company for any losses that it may incur, the Company's revenues and profits could be reduced and the reputation of its brands and its business could be materially adversely affected. In addition, remediation of such problems could result in significant, unplanned capital investments.

### *Intellectual Property*

The ability of the Company to maintain or increase its revenue will depend on its ability to maintain "brand equity", including through the use of the Company's trade-marks. If the Company fails to enforce or maintain any of its intellectual property rights, the Company may be unable to capitalize on its efforts to establish brand equity. All registered trade-marks in Canada can be challenged pursuant to provisions of the *Trade-marks Act* (Canada), and if any Company trade-marks are ever successfully challenged, this may have a material adverse impact on the Company.

The Company owns the Company's trade-marks in Canada, and owns trade-marks used in New York Fries' international operations. However, it may not own identical and similar trade marks in other jurisdictions. Third parties may use such trade-marks in jurisdictions other than Canada in a manner that diminishes the value of such trade-marks. If this occurs, the value of the Company's trade-marks may suffer and the results of operations of the Company could be impacted. Similarly, negative publicity or events associated with the Company, in jurisdictions outside of Canada may negatively affect the image and reputation of the Company in Canada, resulting in a material adverse effect on the Company.

#### *Lawsuits*

The Company and the franchisees may, from time to time, become party to a variety of legal claims and regulatory proceedings in Canada or elsewhere in the ordinary course of its business, including, but not limited to, complaints or litigation from guests alleging food-related illness, injuries suffered on the premises or other food quality, health or operational concerns. The Company is also subject to a variety of other claims arising in the ordinary course of its business, including personal injury claims, contract claims, class action claims, claims from franchisees (which tend to increase when franchisees experience declining sales and profitability) and claims alleging violations regarding workplace and employment matters, discrimination and similar matters. The existence of such claims against the Company or its affiliates, Directors or officers could have various adverse effects, including the incurrence of significant legal expenses defending such claims, even those claims without merit. The Company may also be named in lawsuits primarily directed at a franchisee. Adverse publicity resulting from such allegations may materially affect the sales or results of operations of restaurants, regardless of whether such allegations are true or whether the Company or a franchisee is ultimately held liable.

#### *Regulation*

The Company and each restaurant is subject to various licensing, laws and regulations governing its business, employment standards, taxes and other matters, including but not limited to, laws and regulations relating to alcoholic beverage control, smoking laws, accessibility and regulations of health and safety and fire agencies. It is possible that future changes in applicable federal, provincial or common laws or regulations or changes in their enforcement or regulatory interpretation could result in changes in the legal requirements affecting the Company (including with retroactive effect). Any changes in the laws to which the Company is subject, including but not limited to, changes to the minimum wage, the Canadian federal government's Temporary Foreign Worker Program and informed dining regulations could materially adversely affect the Company's overall business. In addition, difficulties in obtaining or failures to obtain the required licences or approvals could delay or prevent the development of a new restaurant in a particular area. It is impossible to predict whether there will be any future changes in the regulatory regimes to which the Company will be subject or the effect of any such change.

As the owner or operator of real property, the Company and its franchisees are subject to federal, provincial and local governmental regulations relating to the use, storage, discharge, emission and disposal of waste and hazardous materials. Failure to comply with environmental laws could result in the imposition of severe penalties or restrictions on operations by governmental agencies or courts of law which could adversely affect the Company's operations.

#### *The Company's Insurance May Not Provide Adequate Levels of Coverage*

The Company believes that it maintains insurance customary for businesses of its size and type. However, there are types of losses that the Company may incur that cannot be insured against or that the Company believes are not economically reasonable to insure. Such losses could have a material adverse effect on the Company's business and results of operations.

#### *Foreign Currency Exchange Rates*

The Company is exposed to foreign exchange risk. A depreciating Canadian dollar relative to the U.S. dollar will have an adverse impact on the cost of produce, IT equipment and services, and other goods imported from the U.S., while an appreciating Canadian dollar relative to the U.S. dollar will have the opposite impact. Foreign exchange rate fluctuations may materially affect the Company's results of operations in future periods.

## Non-IFRS Measures

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

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

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

"SRS Growth" is a metric used in the restaurant industry to compare sales earned in established locations over a certain period of time, such as a fiscal quarter, for the current period against sales in the same period in the previous year. SRS Growth helps explain what portion of sales growth can be attributed to growth in established locations and what portion can be attributed to the opening of net new restaurants. Cara defines SRS Growth as the percentage increase or decrease in sales during a period of restaurants open for at least 24 complete fiscal months relative to the sales of those restaurants during the same period in the prior year. Cara's SRS Growth results exclude Casey's restaurants as the Company is in the process of winding down its operations and will either convert certain locations to other Cara brands or close. SRS Growth also exclude sales from international operations from 37 New York Fries and 4 East Side Marios.

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

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

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

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

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

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



The following table provides reconciliations of EBITDA and Operating EBITDA:

<u>(C\$ millions unless otherwise stated)</u>	Q4 – 2015 Dec 27, 2015 (unaudited)	Q3 – 2015 Sept 27, 2015 (unaudited)	Q2 – 2015 June 28, 2015 (unaudited)	Q1 – 2015 Mar 29, 2015 (unaudited)
<b>Reconciliation of net earnings from continuing operations to EBITDA:</b>				
Net earnings from continuing operations .....	\$ 58.3	\$ 19.2	\$ 15.9	\$ 6.2
Net interest expense and other financing charges .....	1.0	1.0	2.0	8.3
Loss on derivative .....	-	-	-	1.6
Write-off of deferred financing fees .....	-	-	1.8	-
Income taxes .....	(36.7)	0.5	1.1	1.5
Depreciation of property, plant and equipment .....	5.1	4.9	4.7	4.7
Amortization of other assets .....	1.5	1.3	1.1	1.1
Impairment of assets, net of reversals .....	(1.1)	-	-	-
<b>EBITDA<sup>(1)</sup></b> .....	<b>\$ 28.1</b>	<b>\$ 26.9</b>	<b>\$ 26.6</b>	<b>\$ 23.4</b>
<b>Reconciliation of EBITDA to Operating EBITDA:</b>				
Losses on early buyout/cancellation of equipment rental contracts .....	1.0	1.4	-	1.1
Restructuring .....	0.3	(0.1)	0.4	(0.2)
Conversion fees .....	(0.4)	(0.5)	(0.4)	(0.5)
Net (gain) loss on disposal of property, plant and equipment .....	(0.4)	(0.6)	0.3	(0.6)
Stock based compensation .....	1.2	2.0	1.5	1.7
Change in onerous contract provision .....	(0.6)	(0.2)	(0.2)	-
<b>Operating EBITDA<sup>(1)</sup></b> .....	<b>\$ 29.2</b>	<b>\$ 28.9</b>	<b>\$ 28.4</b>	<b>\$ 24.9</b>

<sup>(1)</sup> Figures may not total due to rounding.

<u>(C\$ millions unless otherwise stated)</u>	Q4 – 2014 Dec 30, 2014 (unaudited)	Q3 – 2014 Sept 30, 2014 (unaudited)	Q2 – 2014 July 1, 2014 (unaudited)	Q1 – 2014 Apr 1, 2014 (unaudited)
<b>Reconciliation of net earnings from continuing operations to EBITDA:</b>				
Net earnings from continuing operations .....	\$ (4.5)	\$ 2.2	\$ 4.3	\$ 3.3
Net interest expense and other financing charges .....	7.8	8.7	8.2	8.7
Loss (gain) on derivative .....	-	(0.1)	0.6	-
Write-off of deferred financing fees .....	-	-	-	-
Income taxes .....	(0.3)	1.9	1.5	1.3
Depreciation of property, plant and equipment .....	4.5	4.3	4.2	4.4
Amortization of other assets .....	1.0	0.7	0.9	0.5
Impairment of assets, net of reversals .....	4.9	-	-	-
<b>EBITDA<sup>(1)</sup></b> .....	<b>\$ 13.4</b>	<b>\$ 17.8</b>	<b>\$ 19.7</b>	<b>\$ 18.2</b>
<b>Reconciliation of EBITDA to Operating EBITDA:</b>				
Losses on early buyout/cancellation of equipment rental contracts .....	1.8	1.3	1.3	-
Restructuring .....	3.0	2.1	1.3	0.2
Conversion fees .....	(0.5)	(0.5)	(0.3)	(0.6)
Net (gain) loss on disposal of property, plant and equipment .....	(0.3)	0.6	(0.3)	(0.2)
Stock based compensation .....	5.2	0.4	0.4	0.4
Change in onerous contract provision .....	(0.5)	0.1	(0.2)	(0.2)
<b>Operating EBITDA<sup>(1)</sup></b> .....	<b>\$ 22.1</b>	<b>\$ 21.7</b>	<b>\$ 22.0</b>	<b>\$ 17.8</b>

<sup>(1)</sup> Figures may not total due to rounding.

## **Forward-Looking Information**

Certain statements in this MD&A may constitute “forward-looking” statements within the meaning of applicable Canadian securities legislation which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company or the industry in which they operate, to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this MD&A, such statements use words such as “may”, “will”, “expect”, “believe”, “plan” and other similar terminology. These statements reflect management’s current expectations regarding future events and operating performance and speak only as of the date of this MD&A. These forward-looking statements involve a number of risks and uncertainties, including those related to: (a) the Company’s ability to maintain profitability and manage its growth including SRS Growth, System Sales Growth, increases in net income, Operating EBITDA and Operating EBITDA Margin on System Sales (b) competition in the industry in which the Company operates; (c) the general state of the economy; (d) integration of acquisitions by the Company; (e) risk of future legal proceedings against the Company. These risk factors and others are discussed in detail under the heading “Risk Factors” in the Company’s long form prospectus dated March 31, 2015. New risk factors may arise from time to time and it is not possible for management of the Company to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance or achievements of the Company to be materially different from those contained in forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this MD&A.