

Cara Operations Limited

Consolidated Financial Statements

For the 52 weeks ended December 27, 2015 and December 30, 2014



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Cara Operations Limited

We have audited the accompanying consolidated financial statements of Cara Operations Limited, which comprise the consolidated balance sheets as at December 27, 2015 and December 30, 2014, the consolidated statements of earnings, comprehensive income, total equity and cash flows for the 52 week years ended December 27, 2015 and December 30, 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.



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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Cara Operations Limited as at December 27, 2015 and December 30, 2014, and its consolidated financial performance and its consolidated cash flows for the 52 week years ended December 27, 2015 and December 30, 2014, in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
March 3, 2016
Toronto, Canada

Cara Operations Limited
Consolidated Statements of Earnings
For the 52 weeks ended December 27, 2015 and December 30, 2014

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

	<u>December 27, 2015</u>	<u>December 30, 2014</u>
Sales (note 6)	\$ 247,478	\$ 205,073
Franchise revenues (note 7)	73,262	71,754
Development revenues	<u>5,594</u>	<u>4,979</u>
Total gross revenue from continuing operations	\$ 326,334	\$ 281,806
Cost of inventories sold	(70,495)	(59,379)
Selling, general and administrative expenses (note 8)	(169,147)	(162,697)
Development expenses	(5,560)	(4,451)
Impairment of assets, net of reversals (notes 15, 16 and 17)	1,104	(4,922)
Restructuring (note 10)	<u>(368)</u>	<u>(6,573)</u>
Operating income	81,868	43,784
Finance costs		
Net interest expense and other financing charges (note 11)	(12,267)	(33,404)
Loss on derivative	(1,623)	(516)
Write-off of deferred financing fees	<u>(1,800)</u>	<u>-</u>
Earnings from continuing operations before income taxes	66,178	9,864
Income taxes (note 12)		
Current	(1,550)	(4,401)
Deferred	<u>35,080</u>	<u>(110)</u>
Net earnings from continuing operations	99,708	5,353
Discontinued operations - net of income taxes	<u>(10)</u>	<u>85</u>
Net earnings	\$ 99,698	\$ 5,438
Net earnings attributable to		
Shareholders of the Company	\$ 99,395	\$ 5,600
Non-controlling interest	<u>303</u>	<u>(162)</u>
	\$ 99,698	\$ 5,438
Net earnings per share attributable to the Common Shareholders of the Company (note 26) (in dollars)		
Basic earnings per share	\$ 2.46	\$ 0.31
Diluted earnings per share	\$ 2.10	\$ 0.20
Basic earnings per share from continuing operations	\$ 2.46	\$ 0.31
Diluted earnings per share from continuing operations	\$ 2.10	\$ 0.19

Cara Operations Limited

Consolidated Statements of Comprehensive Income

For the 52 weeks ended December 27, 2015 and December 30, 2014

(in thousands of Canadian dollars)

	December 27, 2015	December 30, 2014
Net earnings	\$ 99,698	\$ 5,438
Items that will not be reclassified to profit or loss:		
Net defined benefit plan actuarial gain (loss), net of income taxes (note 23)	415	(2,000)
Other comprehensive income, net of income taxes	415	(2,000)
Total comprehensive income	\$ 100,113	\$ 3,438

Cara Operations Limited
Consolidated Statements of Total Equity
For the 52 weeks ended December 27, 2015 and December 30, 2014

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

	Equity Attributable to the Shareholders of the Company						
	Number of	Share Capital	Warrant	Contributed	Deficit	Non-controlling	Total
	shares						
(in thousands)	(note 25)	(note 25)					
Balance at December 30, 2014	50,468	\$ 29,285	\$ 18,490	\$ 7,204	\$ (308,040)	\$ 15,020	\$ (238,041)
Net earnings and comprehensive income	-	-	-	-	99,395	303	99,698
Other comprehensive income	-	-	-	-	415	-	415
Buyout of non-controlling interests (note 5)	-	-	-	-	-	(15,323)	(15,323)
Consideration paid in excess of non-controlling interest resulting from buyouts (note 5)	-	-	-	-	(6,130)	-	(6,130)
Share consolidation (note 25)	(32,379)	-	-	-	-	-	-
Issuance of common stock (note 25)	31,060	408,296	(18,490)	-	-	-	389,806
Dividends	-	-	-	-	(12,556)	-	(12,556)
Shares issued under dividend reinvestment plan (note 25)	14	420	-	-	-	-	420
Stock-based compensation (note 24)	-	-	-	6,418	-	-	6,418
	(1,305)	408,716	(18,490)	6,418	81,124	(15,020)	462,748
Balance at December 27, 2015	49,163	\$ 438,001	\$ -	\$ 13,622	\$ (226,916)	\$ -	\$ 224,707

	Equity Attributable to the Shareholders of the Company						
	Number of	Share Capital	Warrant	Contributed	Deficit	Non-controlling	Total
	shares						
(in thousands)							
Balance at December 31, 2013	50,468	\$ 29,285	\$ 17,913	\$ 852	\$ (300,640)	\$ 245	\$ (252,345)
Net earnings (loss) and comprehensive income	-	-	-	-	5,600	(162)	5,438
Other comprehensive income	-	-	-	-	(2,000)	-	(2,000)
Dividends	-	-	-	-	(11,000)	-	(11,000)
Issuance of warrant certificates	-	-	577	-	-	-	577
Investment from non-controlling interest	-	-	-	-	-	50	50
Distribution to non-controlling interest	-	-	-	-	-	(44)	(44)
Acquired non-controlling interest	-	-	-	-	-	14,931	14,931
Stock-based compensation	-	-	-	6,352	-	-	6,352
	-	-	577	6,352	(7,400)	14,775	14,304
Balance at December 30, 2014	50,468	\$ 29,285	\$ 18,490	\$ 7,204	\$ (308,040)	\$ 15,020	\$ (238,041)

Cara Operations Limited
Consolidated Balance Sheets
As at December 27, 2015 and December 30, 2014

(in thousands of Canadian dollars)

	As at December 27, 2015	As at December 30, 2014
Assets		
Current Assets		
Cash	\$ 19,409	\$ 3,808
Accounts receivable (note 30)	49,037	33,108
Inventories (note 13)	11,053	4,223
Prepaid expenses and other assets	2,450	2,556
Total Current Assets	81,949	43,695
Long-term receivables (note 14)	35,198	50,173
Property, plant and equipment (note 15)	94,513	86,597
Brands and other assets (note 16)	201,301	163,650
Goodwill (note 17)	49,540	43,051
Deferred tax asset (note 12)	41,300	2,051
Total Assets	\$ 503,801	\$ 389,217
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 74,180	\$ 81,352
Provisions (note 18)	5,004	6,904
Gift card liability	51,946	49,461
Income taxes payable (note 12)	69	3,991
Current portion of long-term debt (note 19)	2,156	17,702
Discontinued operations	144	184
Total Current Liabilities	133,499	159,594
Long-term debt (note 19)	83,152	260,661
Preferred shares (note 20)	-	135,545
Provisions (note 18)	7,002	7,630
Other long-term liabilities (note 22)	51,044	62,448
Deferred tax liability	4,397	1,380
Total Liabilities	279,094	627,258
Shareholders' Equity		
Share capital (note 25)	438,001	29,285
Warrant certificates (note 21)	-	18,490
Contributed surplus	13,622	7,204
Deficit	(226,916)	(308,040)
Total Shareholders' Equity	224,707	(253,061)
Non-controlling interest	-	15,020
Total Equity	224,707	(238,041)
Total Liabilities and Equity	\$ 503,801	\$ 389,217

Commitments, contingencies and guarantees (note 29)
Subsequent event (note 33)

Cara Operations Limited
Consolidated Statements of Cash Flows
For the 52 weeks ended December 27, 2015 and December 30, 2014

(in thousands of Canadian dollars)

	<u>December 27, 2015</u>	<u>December 30, 2014</u>
Cash from (used in)		
Operating Activities		
Net earnings from continuing operations	\$ 99,708	\$ 5,353
Depreciation and amortization (note 8)	24,390	20,590
Net gain on disposal of property, plant and equipment	(1,342)	(275)
Losses on early buyout/cancellation of equipment rental contracts	3,536	4,400
Impairment of assets, net of reversals (notes 15, 16 and 17)	(1,104)	4,922
Net interest expense and other financing charges (note 11)	12,267	33,404
Write-off of deferred financing fees (note 19)	1,800	-
Loss on derivative	1,623	516
Stock based compensation (note 24)	6,418	6,352
Income taxes paid	(5,464)	(775)
Change in restructuring provision	(6,676)	(3,317)
Change in deferred tax (note 12)	(34,796)	-
Change in onerous contract provision (note 18)	(951)	(792)
Other non-cash items	(4,745)	(3,330)
Net change in non-cash operating working capital (note 28)	(15,194)	21,454
Cash flows from operating activities of continuing operations	79,470	88,502
Cash flows used in operating activities of discontinued operations	(50)	(139)
Cash flows from operating activities	<u>79,420</u>	<u>88,363</u>
Investing Activities		
Business acquisitions, net of cash assumed (note 5)	(46,973)	(28,656)
Buyout of non-controlling interests (note 5)	(14,416)	-
Purchase of property, plant and equipment (note 15)	(21,319)	(17,673)
Proceeds on disposal of property, plant and equipment (note 15)	260	348
Proceeds on early buyout of equipment rental contracts	2,586	2,765
Additions to other assets (note 16)	(147)	(109)
Change in long-term receivables	3,120	5,020
Cash flows used in investing activities	<u>(76,889)</u>	<u>(38,305)</u>
Financing Activities		
Change in bank indebtedness	-	(6,926)
Issuance of long-term credit facility (note 19)	437,811	108,000
Repayment of long-term credit facility (note 19)	(603,811)	(127,000)
Repayment of other long-term debt (note 19)	-	(86)
Issuance of subordinate voting common shares, net of transaction costs (note 25)	216,565	-
Change in finance leases (note 19)	(2,027)	(1,928)
Interest paid	(10,513)	(19,853)
Dividends paid on common shares (note 25)	(14,044)	-
Dividends paid on subordinate and multiple voting common shares (note 25)	(9,092)	-
Other (note 19)	(1,819)	(33)
Cash flows used in financing activities	<u>13,070</u>	<u>(47,826)</u>
Change in cash during the period	15,601	2,232
Cash - Beginning of period	3,808	1,576
Cash - End of period	\$ 19,409	\$ 3,808

Cara Operations Limited

Notes to the Consolidated Financial Statements

For the 52 weeks ended December 27, 2015 and December 30, 2014

1 Nature and description of the reporting entity

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

On April 10, 2015, the Company completed an initial public offering (the "Offering"). The Company's Subordinate Voting Shares are listed on the Toronto Stock Exchange under the stock symbol "CAO". As part of the Offering, the Company issued Multiple Voting Shares to Fairfax Financial Holdings Limited and its affiliates ("Fairfax") and the Phelan family through Cara Holdings Limited ("Cara Holdings", and together with Fairfax, the "Principal Shareholders"), the Principal Shareholders hold 70.0% of the total issued and outstanding shares and have 98.3% of the voting control attached to all the shares.

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

2 Basis of Presentation

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies described herein.

The consolidated financial statements were authorized for issue by the Board of Directors ("Board") on March 3, 2016.

Basis of preparation

The consolidated financial statements were prepared on a historical cost basis except for certain financial instruments, liabilities associated with certain stock-based compensation and defined benefit plan assets, which are stated at fair value.

Functional and presentation currency

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

Fiscal year

The fiscal year of the Company ends on the last Sunday of December for 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. The years ended December 27, 2015 and December 30, 2014 both contained 52 weeks.

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Notes to the Consolidated Financial Statements

For the 52 weeks ended December 27, 2015 and December 30, 2014

Critical accounting judgements and estimates

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

These judgements 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.

Within the context of these financial statements, a judgement is a decision made by management in respect of the application of an accounting policy, a recognized or unrecognized financial statement amount, and/or note disclosure, following an analysis of relevant information that may include estimates and assumptions.

Estimates and assumptions are used mainly in determining the measurement of balances recognized or disclosed in the consolidated financial statements and are based on a set of underlying data that may include management's historical experience, knowledge of current events and conditions and other factors that are believed to be reasonable under the circumstances. Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The following are the accounting policies are subject to judgements and estimates.

Accounts receivable and long-term franchise receivables

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

If an impairment test is required, management determines the net realizable value of its accounts receivables and long-term franchise receivables by updating and 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. Management uses judgment in determining 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.

Cara Operations Limited

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Impairment of non-financial assets

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

In determining the recoverable amount of a CGU, various estimates are employed. The Company determines the recoverable amount of fixed assets as the higher of fair value less costs to sell or its value in use. The Company determines fair value less costs to sell 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 value between land and building, and discount rates.

Income and other taxes

The calculation of current and deferred income taxes requires management to make certain judgements regarding the tax rules in jurisdictions where the Company performs activities. Application of judgements 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 tax authorities.

Employee future benefits

Accounting for the costs of defined benefit pension plans is based on using 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.

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Provisions

Management reviews provisions at each balance sheet date utilizing judgements to determine the probability that an outflow of economic benefit will result from the legal or constructive obligation and an estimate of the associated obligation. Due to the judgemental 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 of the stock options when granted based on the enterprise value of the Company at the time of the grant as well as estimates around volatility, risk free interest rates and forfeitures of vested and unvested options.

Comparative information

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

3 Significant accounting policies

The significant accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and other entities that the Company controls. Control exists when the Company is exposed to or has the rights to variable returns from its involvement in the entity and has the ability to direct the activities that significantly affect the entities' returns through its power over the entity. The Company reassesses control on an ongoing basis.

Transactions and balances between the Company and its consolidated entities have been eliminated on consolidation.

Non-controlling interests

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity. Their share of net earnings and comprehensive earnings are recognized directly in equity. Changes in the parent company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions. Therefore, no goodwill is recognized as a result of such transactions. When the Company ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in the carrying amount recognized in net earnings. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset.

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If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

If the Company was to purchase the remaining non-controlling interest from outside parties, the non-controlling interest on the consolidated balance sheet would be eliminated, and any difference between the consideration paid and the carrying amount of the non-controlling interest would be recorded directly to equity.

Revenue recognition

Gross revenues include revenue from the Company's foodservice activities. These activities consist primarily of food and beverage sales at restaurants operated by the Company and franchise revenues earned as part of the license agreements between the Company and its franchisees.

Corporate Sales

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

Franchise revenues

The Company grants license agreements to independent operators ("franchisees"). As part of the license agreements, the franchisees pay franchise fees, conversion fees for established locations, and other payments, which may include payments for royalties, equipment usage and property rents. Franchise fees and conversion fees, if applicable, are substantially collected at the time the license agreement is entered into. These franchise transactions result in multiple deliverable arrangements and as such the Company has used the residual method to determine the allocation of the consideration to each component of the arrangement. These multiple deliverable arrangements are divided into the separate components of the transactions. The consideration is then first allocated to any undelivered products and services within the arrangement based on their fair values and the remainder is allocated to the products and services that have been delivered at the time of the transaction.

Royalties, based on a percentage of sales, are recognized as revenue and recorded when earned. Most rental agreements are based on fixed payments including the recovery of operating costs, while other rental agreements are contingent on certain sales levels. Rental revenue from all leases is recognized on a straight-line basis over the term of the related lease. The Company has established reserves, based on the net realizable value, related to the collection of franchise royalties and other franchise related receivables.

Development revenues

The Company contracts with certain franchisees to construct restaurants on the franchisees' behalf. The Company manages the construction of the restaurant and separately contracts with construction companies and other suppliers to develop the restaurant. Franchisees reimburse the Company for costs incurred in building the restaurant. These reimbursements are classified as development revenues and related costs are classified as development expenses in the consolidated statements of earnings.

Cara Operations Limited

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For the 52 weeks ended December 27, 2015 and December 30, 2014

When a specific act in a service contract is much more significant than any other acts, revenue is recognized only after the significant act is performed. For the Company, the most significant event or act in these construction arrangements is when the applicable restaurant opens for business. Development revenues and related development expenses from the construction of franchised restaurants are recognized when the Company performs substantially all initial services required by the franchise agreement, which is generally on restaurant opening and when collection is reasonably assured. Amendments to contract revenue are recognized when they are probable and reliably measurable.

Finance costs

Finance costs are primarily comprised of interest expense on long-term debt and preferred shares including the recognition of transaction costs over the expected life of the underlying borrowing using the effective interest rate at the initial recognition of the debt. All finance costs are recognized in the consolidated statements of earnings on an accrual basis (using the effective interest method), net of amounts capitalized as part of the costs of qualifying property, plant and equipment.

Finance costs directly attributable to the acquisition, construction or development of an asset that necessarily takes a substantial period of time (greater than six months), to prepare for their intended use, are recognized as part of the cost of that asset. All other finance costs are recognized in the consolidated statements of earnings in the period in which they are incurred. The Company capitalizes finance costs at the weighted average interest rate of borrowings outstanding for the period.

Income taxes

Income tax provision comprises of current and deferred income tax. Current income tax and deferred income tax are recognized in the consolidated statements of earnings except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current income taxes is the expected tax payable or receivable on the Company's taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is not recognized for the following temporary differences; the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable earnings or loss, and taxable temporary differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred income tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current income tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current income tax liabilities and assets on a net basis or their income tax assets and liabilities will be realized simultaneously.

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For the 52 weeks ended December 27, 2015 and December 30, 2014

A deferred income tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related income tax benefit will be realized or increased to the extent that it is probable that the related income tax benefit will be realized.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to receive cash flows from the financial asset expire and financial liabilities are derecognized when obligations under the contract expire, are discharged or cancelled. Financial instruments upon initial recognition are measured at fair value and classified as financial assets or financial liabilities at fair value through consolidated statements of earnings, held-to-maturity financial assets, loans and receivables, available-for-sale financial assets, or other financial liabilities. Financial instruments are included on the Company's balance sheet and measured at fair value, except for loans and receivables, held-to-maturity financial assets and other financial liabilities which are measured at amortized cost. Transaction costs other than those related to financial instruments classified at fair value through consolidated statements of earnings which are expensed as incurred, are amortized using the effective interest rate.

Gains and losses on fair value through consolidated statement of earnings on financial assets and financial liabilities are recognized in the period in which they arise.

The following classifications have been applied:

- Cash is designated at fair value through consolidated statements of earnings;
- Accounts receivable and long-term receivables are classified as loans and receivables; and
- Accounts payable and accrued liabilities, provisions, long-term debt and certain other liabilities have been classified as other financial liabilities.

The Company has not classified any financial assets as held-to-maturity.

Derivative financial instruments

The Company, from time to time, uses derivative financial instruments in the form of interest rate swap contracts to manage its current and anticipated exposure to fluctuations in interest rates. The Company does not enter into derivative financial instruments for trading or speculative purposes.

Derivative financial instruments not designated within an effective hedging relationship are measured at fair value with changes in fair value recorded in finance costs.

Derivative financial instruments that are designated within an effective hedging relationship are formally identified and the relationship between hedging instruments and hedged items are documented by the Company. Derivative financial instruments designated as cash flow hedges are measured at fair value with changes in fair value recorded in other comprehensive income. Effectiveness tests are performed to evaluate hedge effectiveness at inception and on a quarterly basis. If and when a derivative instrument is no longer expected to be effective, hedge accounting is discontinued, the derivative is held, sold or expired and the

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cumulative gain or loss previously recognized in accumulated other comprehensive income is transferred to the consolidated statements of earnings in the same period that the hedge item affects net income.

Inventories

Inventories of food and beverage items are stated at the lower of cost and estimated net realizable value. Costs consist of the cost to purchase and other costs incurred in bringing the inventory to its present location reduced by vendor allowances. The cost of inventories is determined using the first-in, first-out method.

In the normal course of business, the Company enters into contracts for the sale and construction of franchise locations. Cost comprises amounts paid to suppliers in the course of constructing restaurant locations. Cost of construction work-in-progress inventory is recorded at the lower of cost and fair value.

Corporate restaurant assets held-for-sale

Corporate restaurant assets held-for-sale are recorded at the lower of their net carrying amount and fair value less estimated costs to sell. The net asset amounts correspond to specific corporate restaurants that are expected to be franchised over the next fiscal year. These assets are classified as held-for-sale when their carrying amount is to be recovered principally through a sale and franchise transaction is considered highly probable and are included in inventories on the consolidated balance sheets. Impairments or reversals of impairments arising from changes in fair value or carrying amount are recognized in the consolidated statements of earnings.

Property, plant and equipment

Recognition and measurement

Land other than through a finance lease is carried at cost and is not amortized.

Property, plant and equipment are stated at cost less accumulated depreciation and net accumulated impairment losses (refer to impairment of non-financial assets policy below). Cost includes expenditures directly attributable to the acquisition of the asset, including the costs of dismantling and removing the items and restoring the site on which they are located, and finance costs on qualifying assets less tenant inducements received.

Construction-in-progress assets are capitalized during construction and depreciation commences when the asset is available for use.

When significant component parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains or losses on disposal of an item of property, plant and equipment, not related to finance leases, are determined by comparing the proceeds from disposal with the net carrying amount of property, plant and equipment, and are recognized within selling, general and administrative expenses in the consolidated statements of earnings.

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Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount, if any, of the replaced part is derecognized and recorded within selling, general and administrative expenses in the consolidated statements of earnings. The costs of repairs and maintenance of property, plant and equipment are recognized in the consolidated statements of earnings as incurred.

Depreciation and Amortization

Depreciation is calculated based upon the depreciable amount, which is the cost of an asset less its residual value.

Depreciation commences when assets are available for use and is recognized on a straight-line basis to amortize the cost of these assets over their estimated useful lives, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Estimated useful lives range from two to 12 years for equipment. Buildings are depreciated over 20 to 40 years and leasehold improvements are depreciated over the shorter of their estimated useful lives or the term of the lease, including expected renewal terms to a maximum of 15 years. Assets held under finance leases are depreciated on a straight-line basis over their estimated useful life on the same basis as owned assets, or where shorter, over the term of the respective lease. Land finance leases are depreciated on a straight-line basis over the term of the respective lease. Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate on a prospective basis. Depreciation expense is recognized in selling, general and administrative expenses in the consolidated statements of earnings.

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method at the acquisition date, which is the date that control is transferred to the Company.

Goodwill arising in a business combination is recognized as an asset at the date that control is acquired. Goodwill represents the excess of the purchase price of a business acquired over the fair value of the underlying net assets acquired at the date of acquisition. Goodwill is allocated at the date of the acquisition to a group of CGUs that are expected to benefit from the synergies of the business combination, but no higher than an operating segment. Goodwill is not amortized and is tested at the brand level for impairment at least annually on November 1 and whenever there is an indication that the asset may be impaired. Refer to the impairment of non-financial assets policy below.

Brands and other assets

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

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basis over their estimated useful lives, averaging approximately five years and are tested for impairment whenever there is an indication that the asset may be impaired. Refer to the impairment of non-financial assets policy below.

Leases

The Company enters into leases of property and certain restaurant assets. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an asset. All other leases are classified as operating leases and the rents are straight-lined and expensed in the consolidated statements of earnings.

Lessor

Where the Company is the lessor of property leases, rental income from operating leases is recognized in the consolidated statements of earnings on a straight-line basis over the term of the relevant lease.

The Company has rental agreements with franchisees related to the use of certain restaurant assets. The accounting for these rental agreements varies depending on the term of the rental agreement and the rental payments received by the Company. If the term of the rental agreement is such that the franchisee will utilize the assets for substantially all of their useful life, or the rental payments received over the term of the rental agreement will reimburse the Company for substantially all of the fair value of the assets, it is accounted for as a finance lease. Accordingly, the corresponding property, plant and equipment are treated as disposals in the consolidated financial statements. Long-term receivables are included in the consolidated balance sheet for the future rental payments to be received, and the present value of the unearned rental income, including tenant inducements received from landlords are included in other long-term liabilities. These amounts are reduced over the course of the rental agreement as payments are received. Any gain or loss resulting from the difference between the consideration allocated to these transactions and carrying amount of the assets, is recorded in other charges in the consolidated statements of earnings. If the criteria for this accounting treatment are not met, the lease is treated as an operating lease and rental payments are recorded in selling, general and administrative expenses, calculated on a straight line basis, and recognized by the Company in the consolidated statements of earnings. (see note 14)

Lessee

When the Company is a lessee, rent payable under an operating lease is recognized on a straight-line basis taking into consideration any rent holidays and/or rent escalations over the term of the relevant lease. Incentives related to leasehold improvements provided by landlords are recorded in property, plant and equipment and are amortized over a period consistent with the associated leasehold improvements, being the shorter of the estimated useful lives of the assets or the term of the lease, including expected renewal terms to a maximum of 15 years.

Assets held under finance leases are recognized as assets of the Company at their fair value, or if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the consolidated balance sheets as a finance lease obligation included as part of long-term debt. Lease payments are apportioned between finance costs and a reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs,

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as well as depreciation expense on the underlying leased asset, are recorded in the consolidated statements of earnings. (see note 19)

Sale-leaseback transactions

The Company sold certain land and building and entered into leaseback arrangements. The leases were assessed as financing or operating in nature as applicable, and were accounted for accordingly. The gains realized on the disposal of the land and building related to sale-leaseback transactions, were transacted at fair value and were operating in nature, and therefore were recognized within operating income in the consolidated statements of earnings. Gains realized on transactions where the sales price is above the fair value of the underlying assets were deferred and are being amortized over the useful life of the asset against rent expense recorded in selling, general and administrative expenses. In the event the fair value of the asset at the time of the sale-leaseback transaction is less than its carrying value, the gain/loss would be recognized within selling, general and administrative expenses in the consolidated statements of earnings.

Impairment of long-lived assets

For the purpose of reviewing definite life non-financial assets for impairment, asset groups are reviewed at their lowest level for which identifiable cash inflows are largely independent of cash inflows of other assets or groups of assets. The Company has determined that its CGUs comprise of individual restaurants. For indefinite life intangible brand assets, the Company allocates the brand assets to the group of CGU's, being banners, that are considered to generate independent cash inflows from other assets. Goodwill is assessed for impairment based on the group of CGUs expected to benefit from the synergies of the business combination, and the lowest level at which management monitors the goodwill and cannot be at a higher level than an operating segment.

At each balance sheet date, the Company reviews the carrying amounts of its non-financial assets, including property, plant and equipment, goodwill, brands and other assets for any indication of impairment or a reversal of previously recorded impairment other than for goodwill as impairment for goodwill is not permitted to be reversed. In addition, goodwill and indefinite life brands are tested for impairment at least annually. If any such indication of impairment exists, the recoverable amount of the CGU is estimated in order to determine the extent of the impairment loss, if any.

An impairment loss is recognized if the net carrying amount of the CGU exceeds its recoverable amount. Impairment losses are recognized in the consolidated statements of earnings in the period in which they occur. When impairment subsequently reverses, the carrying amount of the asset is increased to the extent that the carrying value of the underlying assets does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment had been recognized. Impairment reversals are recognized in consolidated statements of earnings in the period which they occur.

Any potential brand impairment is identified by comparing the recoverable amount of the groups of CGUs that includes the indefinite life asset to its carrying amount. If the recoverable amount, calculated as the higher of the fair value less costs to sell and the value in use, is less than its carrying value, an impairment loss is recognized in the consolidated statements of earnings in the period in which they occur.

Any potential goodwill impairment is identified by comparing the recoverable amount of the CGU grouping to which the goodwill is allocated to its carrying value. If the recoverable amount, calculated as the higher of the

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fair value less costs to sell and the value in use, is less than its carrying amount, an impairment loss is recognized in the consolidated statements of earnings in the period in which it occurs. Impairment losses on goodwill are not subsequently reversed if conditions change.

Gift cards

The Company's various branded restaurants, in addition to third party companies, sell gift cards to be redeemed at the Company's corporate and franchised restaurants for food and beverages only. Proceeds received from the sale of gift cards are treated as unearned revenue in current liabilities until redeemed by the gift cardholder as a method of payment for food and beverage purchases.

Based on historical redemption patterns, the Company estimates the portion of gift cards that have a remote likelihood of being redeemed and recognizes the amount in its consolidated statements of earnings.

Due to the inherent nature of gift cards, it is not possible for the Company to determine what portion of the unearned revenue related to gift cards will be redeemed in the next 12 months and, therefore, the entire accrual balance is considered to be a current liability.

Provisions

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

Employee future benefits

The cost of the Company's defined benefit pension plans are accrued as earned by the employees, based on actuarial valuations. The cost of defined benefit pension plans are determined using the projected unit credit benefit method pro-rated on service and management's best estimate, rates of compensation increase and retirement ages of plan members. Assets are recorded at fair value. The discount rate used to value the accrued benefit plan obligations are 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. An interest amount on plan assets is calculated by applying a prescribed discount rate used to value the accrued benefit obligations. Past service costs from plan amendments are recognized in operating income in the year that they arise.

For the plans that resulted in a net defined benefit asset, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to the plan. An economic benefit is available to the plan if it is realizable during the life of the plan, or on settlement of the plan liabilities.

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At each balance sheet date, plan assets are measured at fair value and defined benefit plan obligations are measured using assumptions which approximate their values at the reporting date, with the resulting actuarial gains and losses from both of these measurements, net of taxes, are recognized in other comprehensive income.

Short-term employee benefits

Short-term employee benefits include wages, salaries, compensated absences and bonuses. Short-term employee benefit obligations are measured on an undiscounted basis and are recognized in operating income as the related service is provided or capitalized if the service rendered is in connection with the creation of a tangible asset. A liability is recognized for the amount expected to be paid under short-term cash bonus plans if the Company has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be estimated reliably.

Long-term incentive plans

The Company has equity-settled stock-based compensation plans for its employees.

The value of the option over the exercise price multiplied by the number of shares that an employee is entitled to receive is recognized as an expense in selling, general and administrative expenses, with a corresponding increase in contributed surplus over the period, at the end of which, the employees become unconditionally entitled to shares. Fair value of the option is measured based on the enterprise value of the Company at the time of the grant using a Black-Scholes model. The amount expensed is adjusted for changes to estimated forfeitures if subsequent information indicates that actual forfeitures differ significantly from the original estimate.

Accounting standards implemented in 2015

Employee benefits

Beginning on January 1, 2015, the Company adopted the amendments to IAS 19 Employee Benefits retrospectively. The amendments to IAS 19 required contributions from employees or third parties that are linked to service to be attributed to periods of service as a negative benefit. The amendments to IAS 19 provide simplified accounting in certain situations. If the amount of contribution is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service costs in the period in which service is rendered, instead of allocating the contributions to the period's service. The adoption of the amendments to IAS 19 did not have a material impact on the Company's consolidated financial statements.

Annual Improvements to IFRS (2010 – 2012) and (2011 – 2013) Cycles

Beginning on January 1, 2015, the Company adopted various amendments to a total of seven standards including disclosure on the aggregation of operating segments in IFRS 8 Operating Segments, measurement of short-term receivables and payables under IFRS 13 Fair Value Measurement, definition of related party in IAS 24 Related Party Disclosures, and other amendments. The adoption of these amendments did not have a material impact on the Company's interim financial statements.

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4 Future accounting standards

Business Combinations

In May 2014, the IASB issued amendments to IFRS 11, “Joint Arrangements” (“IFRS 11”) entitled “Accounting for Acquisitions of Interests in Joint Operations” (Amendments to IFRS 11). The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitute a business. The amendments apply prospectively for annual periods beginning on or after January 1, 2016. Earlier application is permitted. For the Company, the extent of the impact of adoption of the standard has not yet been determined. The Company intends to adopt the amendments to IFRS 11 in its financial statements for the annual period beginning on December 28, 2015. The Company does not expect the amendments to have a material impact on the financial statements.

Depreciation and Amortization

In May 2014, the IASB issued amendments to IAS 16 “IAS 16 Property, Plant and Equipment” (“IAS 16”) and IAS 38 “Intangible Assets” (“IAS 38”). The amendments clarify acceptable methods of depreciation and amortization. The amendments to IAS 16 prohibit the use of a revenue-based depreciation method for items of property, plant and equipment because such methods reflect factors other than the consumption of economic benefits embodied in the asset. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of intangible assets for the same reasons as set out above. This presumption could be overcome only when revenue and consumption of the economic benefits of the intangible asset are highly correlated or when the intangible asset is expressed as a measure of revenue. The Company intends to adopt the amendments to IAS 16 and IAS 38 in its financial statements for the annual period beginning on December 28, 2015. The Company does not expect the amendments to have a material impact on the financial statements.

Revenue

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. IFRS 15 replaces the detailed guidance on revenue recognition requirements that currently exists under IFRS. IFRS 15 specifies the accounting treatment for all revenue arising from contracts with customers, unless the contracts are within the scope of other IFRSs. The standard also provides a model for the measurement and recognition of gains and losses on the sale of certain non-financial assets that are not an output of the Company's ordinary activities. Additional disclosure is required under the standard, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods, and key judgments and estimates. In July 2015, the effective date for IFRS 15 was deferred to apply to annual periods beginning on or after January 1, 2018; early application is permitted either following a full retrospective approach or a modified retrospective approach. The modified retrospective approach allows the standard to be applied to existing contracts beginning the initial period of adoption and restatements to the comparative periods are not required. The Company is required to disclose the impact by financial line item as a result of the adoption of the new standard. The Company intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning January 1, 2018. For the Company, the extent of the impact of adoption of the standard has not yet been determined.

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Financial Instruments

In July 2014, the IASB issued the complete IFRS 9 (IFRS 9 (2014)), “Financial Instruments” (“IFRS 9 (2014)”) which will ultimately replace IAS 39, “Financial Instruments: Recognition and Measurement”. IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new ‘expected credit loss’ model for calculating impairment. IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model. The mandatory effective date of IFRS 9 (2014) is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. For the Company, the extent of the impact of adoption of the standard has not yet been determined.

Leases

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

Other standards

In September 2014, the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process (Annual Improvements to IFRS (2012-2014) cycle). Amendments were made to clarify items including changes in method for disposal under IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”; ‘Continuing involvement’ for servicing contracts and offsetting disclosures in the interim financial statements under IFRS 7 “Financial Instruments: Disclosures”; Discount rate in a regional market sharing the same currency under IAS 19 “Employee Benefits”; Disclosure of information ‘elsewhere in the interim financial report’ under IAS 34 “Interim Financial Reporting”. The amendments will apply for annual periods beginning on or after December 28, 2015. Earlier application is permitted, in which case, the related consequential amendments to other IFRS would also apply. The Company intends to adopt these amendments in its financial statements for the annual period beginning on December 28, 2015. The Company does not expect the amendments to have a material impact on the financial statements.

In December 2014, the IASB issued amendments to IAS 1, “Presentation of Financial Statements” as part of its major initiative to improve presentation and disclosure in financial reports. The amendments are effective for

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annual periods beginning on or after December 28, 2015. Early adoption is permitted. The Company intends to adopt these amendments in its financial statements for the annual period beginning on December 28, 2015. The Company does not expect the amendments to have a material impact on the financial statements.

5 Acquisitions and Buyouts

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

When the Company has a pre-existing controlling interest, buyouts of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders; therefore, no goodwill is recognized as a result of such transactions. Any purchase amount in excess of the carrying value of non-controlling interest is recorded directly to deficit.

New York Fries

On October 31, 2015 (the “Acquisition Date”), the Company completed the acquisition of 100% interest in the assets used in the New York Fries business from 122164 Canada Ltd. for a purchase price of \$40.6 million, which was settled in cash less a \$4.0 million holdback in escrow. The transaction was accounted for as a business combination, with the Company controlling New York Fries and consolidating 100% of their operations as at the Acquisition Date.

The assets and liabilities and results of operations of New York Fries are included in the Company’s consolidated financial statements from the Acquisition Date. New York Fries contributed total gross revenue of \$3.4 million and net earnings of \$1.1 million during the period ended December 27, 2015, including \$0.2 million in transaction costs. If the acquisition had occurred on December 31, 2014, management estimates that the Company’s consolidated gross revenue for the year would have been \$339.1 million and the Company’s consolidated net income from continuing operations for the year would have been \$103.0 million. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the Acquisition Date would have been the same if the acquisition had occurred on December 31, 2014.

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The preliminary determination of the identifiable assets acquired and liabilities at fair value, in connection with the acquisition of New York Fries is summarized in the table below.

(in thousands of Canadian dollars)	<u>October 31, 2015</u>
Consideration	
Cash paid to 122164 Canada Ltd.	\$ 36,619
Cash paid "in trust" relating to holdback	4,000
Total Consideration	<u><u>\$ 40,619</u></u>
Net Assets Acquired	
Assets	
Cash	\$ 21
Accounts receivable	165
Inventories	68
Prepaid expenses and other assets	215
Total Current Assets	469
Property, plant and equipment	780
Brands and other assets	40,083
Total Assets	<u><u>\$ 41,332</u></u>
Liabilities	
Provisions	\$ 128
Deferred income tax liabilities	2,695
Total liabilities	<u><u>\$ 2,823</u></u>
Total net assets acquired	<u><u>\$ 38,509</u></u>
Goodwill	<u>2,110</u>
Total	<u><u>\$ 40,619</u></u>

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The Landing Group

On December 18, 2014 (the “Acquisition Date”), the Company completed the acquisition of 55% of the issued and outstanding commons shares of 2446502 Ontario Inc. (“The Landing Group”) for a purchase price of \$18.3 million, which was settled in cash. The transaction was accounted for as a business combination, with the Company controlling The Landing Group and consolidating 100% of their operations and recording the non-controlling interest at fair value as at the Acquisition Date.

On June 26, 2015, the Company bought the remaining 45% interest in The Landing Group 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. As a result of the buyout, the difference between the purchase price and the non-controlling interest of \$6.0 million was recognized directly to deficit.

The assets and liabilities and results of operations of The Landing Group are included in the Company’s consolidated financial statements from the Acquisition Date. The Landing Group contributed total gross revenue of \$0.6 million and net earnings of \$0.1 million during the period ended December 30, 2014, including \$0.1 million in transaction costs. If the acquisition had occurred on January 1, 2014, management estimates that the Company’s consolidated gross revenue for the year would have been \$299.7 million and the Company’s consolidated net income from continuing operations for the year would have been \$7.4 million for the year ended December 30, 2014. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the Acquisition Date would have been the same if the acquisition had occurred on January 1, 2014.

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The determination of the identifiable assets acquired and liabilities at fair value, in connection with the acquisition of The Landing Group is summarized in the table below and has been finalized during the year ended December 27, 2015, with no impact to the purchase price allocation.

(in thousands of Canadian dollars)	<u>December 18, 2014</u>
Consideration	
Cash	\$ 18,250
Total Consideration	<u>\$ 18,250</u>
Net Assets Acquired	
Assets	
Cash	\$ 538
Accounts receivable	112
Inventories	249
Prepaid expenses and other assets	113
Total Current Assets	1,012
Property, plant and equipment	1,366
Brands and other assets	14,076
Total Assets	<u>\$ 16,454</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 966
Current portion of long-term debt	559
Total Current Liabilities	1,525
Long-term debt	1,260
Provisions	92
Deferred income tax liabilities	1,380
Total liabilities	<u>\$ 4,257</u>
Total net assets acquired	\$ 12,197
Non-controlling interest	(14,931)
Goodwill ⁽¹⁾	20,984
Total	<u>\$ 18,250</u>

⁽¹⁾ Goodwill is not deductible for income tax purposes

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For the 52 weeks ended December 27, 2015 and December 30, 2014**Bier Markt and Prime Pub partnerships**

Prior to March 1, 2015, the Company had a 95% partnership share in three Bier Markt locations and one Prime Pub location and, a 93% partnership share in a fourth Bier Markt location. On March 1, 2015, the remaining partnership interest in these locations was bought out for a purchase price of \$0.5 million which was settled in cash net of balances owed. As a result of the buyout, the difference of the purchase price and the non-controlling interest of \$0.1 million was recognized directly to deficit.

Re-acquired franchise locations

In the normal course of business, the Company may acquire or re-acquire franchise restaurants and convert them into corporate restaurants. During the period ended December 27, 2015, 9 franchise locations (December 30, 2014 - 10) were re-acquired by the Company, resulting in goodwill of \$4.5 million (December 30, 2014 - \$4.0 million).

(in thousands of Canadian dollars)

	For the 52 weeks ended	
	December 27, 2015	December 30, 2014
Consideration		
Cash	\$ 6,375	\$ 10,944
Accounts receivable	218	1,000
Extinguishment of net finance leases	1,341	570
Total Consideration	\$ 7,934	\$ 12,514
Net assets acquired		
Inventories	\$ -	\$ 18
Property, plant and equipment	464	2,358
Brands and other assets	2,991	6,130
Total Assets	3,455	8,506
Goodwill	4,479	4,008
Total	\$ 7,934	\$ 12,514

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

(in thousands of Canadian dollars)	For the 52 weeks ended	
	December 27, 2015	December 30, 2014
Sales at corporate restuarants	\$ 237,808	\$ 195,424
Call centre service charge revenues	9,670	9,130
Other	-	519
	\$ 247,478	\$ 205,073

7 Franchise revenues

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

(in thousands of Canadian dollars)	For the 52 weeks ended	
	December 27, 2015	December 30, 2014
Royalty revenue	\$ 68,274	\$ 66,126
Franchise fees on new and renewal licenses	555	527
Income on finance leases	2,144	2,228
Other rental income	508	1,096
Amortization of unearned conversion fees income	1,781	1,777
	\$ 73,262	\$ 71,754

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Deducted from operating income are the following selling, general and administrative expenses.

(in thousands of Canadian dollars)	For the 52 weeks ended	
	December 27, 2015	December 30, 2014
Corporate restaurant expenses	\$ 142,333	\$ 126,062
Franchise assistance and bad debt	7,918	10,550
Franchisor over-contribution to advertising funds	2,711	1,374
Depreciation of property, plant and equipment (note 15)	19,379	17,413
Amortization of other assets (note 16)	5,011	3,177
Other	(8,205)	4,121
	<u>\$ 169,147</u>	<u>\$ 162,697</u>

9 Employee costs

Included in selling, general and administrative expenses are the following employee costs:

(in thousands of Canadian dollars)	For the 52 weeks ended	
	December 27, 2015	December 30, 2014
Short-term employee benefits	\$ 127,120	\$ 118,008
Post-employment benefits (note 23)	846	1,002
Long-term incentive plans (note 24)	6,418	6,352
Short-term employee benefits capitalized to property, plant and equipment	-	(148)
	<u>\$ 134,384</u>	<u>\$ 125,214</u>

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10 Restructuring

Home office and brand reorganization

In conjunction with The Landing Group buyout on June 26, 2015 (see note 5), the Company approved the restructuring of certain home office and brand operations positions to consolidate the Landing Group with Cara's existing infrastructure. The total costs are estimated to be approximately \$0.5 million comprised primarily of severance and other benefits and were recognized during the period ended December 27, 2015.

During the periods ended December 31, 2013 and December 30, 2014, the Company approved restructuring plans to consolidate the home office and brand operations of Cara and Prime, which resulted in the elimination of certain home office and brand operating positions. All expected costs, comprised primarily of severance costs and other benefits, have been recognized to date.

During the period ended December 27, 2015, the Company recognized \$0.2 million representing changes in estimates in severance and benefit costs from previously recorded amounts under various plans (December 30, 2014 – recognized \$4.8 million).

Restaurant operations

Casey's Restructuring

During the period ended December 30, 2014, the Company approved a single Roadhouse brand strategy which will phase out the Casey's concept over time. Certain locations will convert to a Kelsey's or Prime Pub restaurant. Locations that are not expected to convert to a Cara restaurant will either close or operate as independent restaurants.

The total restructuring costs under this plan were estimated to be approximately \$1.6 million; comprised of approximately \$1.3 million related to the committed renovation costs, \$0.2 million of de-branding costs for locations expected to close, and \$0.1 million for employee severance costs. During the period ended December 27, 2015, the Company reversed \$0.4 million (December 30, 2014 – recognized \$1.6 million) of these restructuring costs primarily relating to reduction in estimated renovation and closure costs offset by increased estimated severance costs. In addition to these net costs, \$0.7 million of intangible and goodwill impairment has been recognized in 2015 (December 30, 2014 - \$6.6 million) (see notes 16 and 17).

Kelsey's Restructuring

During the year ended January 1, 2013, the Company approved a plan to close 16 Kelsey's restaurants all of which were closed by December 31, 2013. The total restructuring costs under this plan were estimated to be approximately \$3.8 million; comprised of approximately \$0.5 million related to employee termination benefits, and \$3.3 million to site closing and other costs including lease obligations. During the period ended December 27, 2015, the Company recognized \$0.1 million (December 30, 2014 – recognized \$0.2 million) of these restructuring costs primarily relating to lease obligations. The Company is not expecting any further costs.

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Notes to the Consolidated Financial Statements

For the 52 weeks ended December 27, 2015 and December 30, 2014

The following table provides a summary of the costs recognized and cash payments made, as well as the corresponding net liability as at December 27, 2015:

(in thousands of Canadian dollars)	For the 52 weeks ended	
	December 27, 2015	December 30, 2014
Net liability, beginning of period	\$ 10,338	\$ 13,655
Cost recognized		
Employee termination benefits	256	6,368
Site closing costs and other	112	205
Total	368	6,573
Cash payments		
Employee termination benefits	6,766	8,599
Site closing costs and other	278	1,291
Total	7,044	9,890
Net liability, end of period	\$ 3,662	\$ 10,338

Recorded in the consolidated balance sheets as follows:

(in thousands of Canadian dollars)	As at December 27, 2015			As at December 30, 2014		
	Employee Termination Benefits	Site Closing Costs and Other	Total	Employee Termination Benefits	Site Closing Costs and Other	Total
Accounts payable and accrued liabilities	\$ 3,078	\$ -	\$ 3,078	\$ 8,541	\$ -	\$ 8,541
Other long-term liabilities (note 22)	170	-	170	1,220	-	1,220
Provisions - current	-	132	132	-	317	317
Provisions - long-term	-	282	282	-	260	260
Net liability, end of period	\$ 3,248	\$ 414	\$ 3,662	\$ 9,761	\$ 577	\$ 10,338

Cara Operations Limited

Notes to the Consolidated Financial Statements

For the 52 weeks ended December 27, 2015 and December 30, 2014**11 Net interest expense and other financing charges**

(in thousands of Canadian dollars)	For the 52 weeks ended	
	December 27, 2015	December 30, 2014
Interest expense on long-term debt	\$ 4,771	\$ 13,950
Interest expense on preferred shares	3,130	10,979
Interest on finance leases	1,776	1,506
Financing costs	491	1,281
Interest expense - other	994	1,434
Accretion expense	1,034	4,134
Interest expense related to derivative	192	452
Interest income	(121)	(120)
Interest capitalized to property, plant and equipment	-	(212)
	<u>\$ 12,267</u>	<u>\$ 33,404</u>

12 Income taxes

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

(in thousands of Canadian dollars)	For the 52 weeks ended	
	December 27, 2015	December 30, 2014
Current income tax expense (recovery)		
Current period	\$ 319	\$ (65)
Adjustments for prior years	(21)	65
Part VI.1 taxes on preferred share dividends ⁽¹⁾	1,252	4,401
	<u>\$ 1,550</u>	<u>\$ 4,401</u>
Deferred income tax expense (recovery)		
Benefit from previously unrecognized tax asset ⁽²⁾	\$ (37,547)	\$ 160
Origination and reversal of temporary differences	2,482	-
Adjustments for prior years	(15)	(50)
	<u>\$ (35,080)</u>	<u>\$ 110</u>
Net income tax expense (recovery) ⁽³⁾	<u>\$ (33,530)</u>	<u>\$ 4,511</u>

⁽¹⁾ In the prior periods, the Company issued preferred shares (see note 20) as part of a financing transaction with Fairfax and an acquisition of Prime Restaurants from Fairfax and former employees of Prime. According to Canadian income tax legislation, any dividends paid in respect of these preferred shares are subject to a special tax (Part VI.1 taxes) at a rate of 40%. These taxes are eligible for an income tax deduction equal to 3.5 times the amount of the Part VI.1 taxes paid. The impact of this deduction has been reflected in the current portion of the income tax provision. These taxes on dividend payments are not expected to be incurred in future periods as the preferred shares were converted into Multiple Voting Common Shares on April 10, 2015.

Cara Operations Limited

Notes to the Consolidated Financial Statements

For the 52 weeks ended December 27, 2015 and December 30, 2014

⁽²⁾ During the period ended December 27, 2015, the Company recognized a deferred tax asset of \$37.5 million resulting in a credit to the income statement of the same amount. The deferred tax asset was recognized in respect of its income tax losses and other deductible temporary differences for which tax benefits had previously not been recognized. 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 can be utilized.

⁽³⁾ Net income tax expense (recovery) for the periods ended December 27, 2015 and December 30, 2014 relates to income taxes from continuing operations and \$nil from discontinued operations.

The statutory income tax rate for the period ended December 27, 2015 was 26.61% (December 30, 2014 – 26.67%). The marginal decrease from the prior period is a result of changes to the Company's provincial allocation.

The effective income tax rate is comprised of the following:

(in thousands of Canadian dollars)	For the 52 weeks ended	
	December 27, 2015	December 30, 2014
Net earnings	\$ 99,698	\$ 5,438
Income taxes	<u>(33,530)</u>	<u>4,511</u>
Income before income taxes	66,168	9,949
Statutory income tax rate	26.61%	26.67%
Expected income tax expense based on above rates	17,607	2,653
Increase (decrease) resulting from:		
Benefit from previously unrecognized tax asset (including unrecognized income tax benefit utilized in the current year)	(53,707)	(4,276)
Part VI.1 taxes on preferred share dividends	1,252	4,401
Adjustments for prior years	(36)	15
Income taxes on non-deductible amounts	1,382	1,810
Other	(28)	(92)
Expense (recovery) for income taxes	\$ (33,530)	\$ 4,511

The effective income tax rate for the period ended December 27, 2015 decreased from the prior period as a result of the recognition of a deferred tax asset for which the tax benefit had not previously been recognized and the reduction in Part VI.1 taxes relating to the preferred share dividends.

Cara Operations Limited

Notes to the Consolidated Financial Statements

For the 52 weeks ended December 27, 2015 and December 30, 2014*Recognized deferred tax assets and liabilities*

(in thousands of Canadian dollars)	<u>As at December 27, 2015</u>	<u>As at December 30, 2014</u>
Opening balance	\$ 671	\$ 2,161
Deferred income tax (expense)/recovery	35,080	(110)
Transaction costs associated with the Offering	4,131	-
New York Fries acquisition	(2,695)	-
Landing Group acquisition	(160)	(1,380)
Income taxes recognized in other comprehensive income	(124)	-
	<u>\$ 36,903</u>	<u>\$ 671</u>

During the period ended December 27, 2015, a deferred tax asset of \$4.1 million was recognized in relation to the transaction costs associated with the Offering. These costs and the associated tax benefit were recognized directly through share capital.

During the period ended December 27, 2015, a deferred tax liability of \$2.7 million was recognized in relation to the New York Fries acquisition (see note 5), largely due to the taxable temporary differences arising from the purchase price equation.

During the period ended December 30, 2014, a deferred tax liability of \$1.4 million was recognized in relation to the Landing Group acquisition (see note 5), largely due to the taxable temporary differences arising from the purchase price equation.

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Notes to the Consolidated Financial Statements

For the 52 weeks ended December 27, 2015 and December 30, 2014

Deferred tax assets and liabilities are attributable to the following:

(in thousands of Canadian dollars)	<u>As at December 27, 2015</u>	<u>As at December 30, 2014</u>
Deferred tax assets:		
Income tax losses ⁽¹⁾	\$ 25,441	\$ 5,445
Other long-term liabilities	20,409	22,597
Property, plant and equipment	10,725	2,780
Accounts payable and accrued liabilities	9,897	671
Other assets	3,022	-
Set off of tax	-	(23,814)
	<u>\$ 69,494</u>	<u>\$ 7,679</u>
Deferred tax liabilities:		
Brands and other intangibles	\$ (23,745)	\$ (17,607)
Long-term receivables	(7,951)	(11,823)
Accounts receivable	(895)	(1,392)
Set off of tax	-	23,814
	<u>\$ (32,591)</u>	<u>\$ (7,008)</u>
Classified in the Consolidated Financial Statements as:		
Deferred tax asset	41,300	2,051
Deferred tax liability	(4,397)	(1,380)
	<u>\$ 36,903</u>	<u>\$ 671</u>

⁽¹⁾ The income tax losses of \$95.9 million expire in the years 2027 to 2035.

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Notes to the Consolidated Financial Statements

For the 52 weeks ended December 27, 2015 and December 30, 2014

Unrecognized deferred tax liabilities

Deferred tax is not recognized on the unremitted earnings of subsidiaries and other investments as the Company is in a position to control the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. Reversing these temporary differences would not result in any significant tax implications.

Unrecognized deferred tax assets

Deferred tax assets have not been recognized on the consolidated balance sheets in respect of the following items:

(in thousands of Canadian dollars)	<u>As at December 27, 2015</u>	<u>As at December 30, 2014</u>
Deductible temporary differences	\$ -	\$ 170,082
Income tax losses	16,026	50,102
Income tax credits	-	144
	<u>\$ 16,026</u>	<u>\$ 220,328</u>

The Canadian income tax losses of \$4.5 million (December 30, 2014 - \$38.6 million) expire in the years 2029 to 2035. The US income tax losses of \$11.5 million (December 30, 2014 - \$11.5 million) expire in the years 2017 to 2034. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable income will be available to the Company to utilize the benefits.

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Notes to the Consolidated Financial Statements

For the 52 weeks ended December 27, 2015 and December 30, 2014**13 Inventories**

(in thousands of Canadian dollars)	<u>As at December 27, 2015</u>	<u>As at December 30, 2014</u>
Food and beverage supplies	\$ 3,779	\$ 3,098
Restaurants developed for resale to franchisees	7,274	1,125
	<u>\$ 11,053</u>	<u>\$ 4,223</u>

14 Long-term receivables

(in thousands of Canadian dollars)	<u>As at December 27, 2015</u>	<u>As at December 30, 2014</u>
Franchise receivable	\$ 33,896	\$ 48,724
Promissory notes	1,289	1,410
Franchise licence notes	13	39
	<u>\$ 35,198</u>	<u>\$ 50,173</u>

Franchise receivable

In prior years, the Company converted certain corporate restaurants to franchise and sold the restaurant to independent operators (“franchisees”). As part of these conversion agreements certain franchisees entered into rental agreements to rent certain restaurant assets from the Company. Franchise receivables of \$30.0 million (December 30, 2014 - \$45.5 million) relates primarily to the long-term obligation of the franchisees to pay the Company over the term of the rental agreement which is equal to the term of the license agreement or the term to the expected buyout date assuming that the franchisee is more likely than not to acquire the rented assets from the Company.

Long-term franchise receivables are reviewed for impairment when a triggering event has occurred. An impairment loss is recorded when the carrying amount of the long-term franchise receivable exceeds its estimated net realizable value. For the year ended December 27, 2015, the Company recorded \$nil (December 30, 2014 - \$0.2 million) of impairment losses on long-term franchise receivables.

Long-term receivable maturities

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

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Notes to the Consolidated Financial Statements

For the 52 weeks ended December 27, 2015 and December 30, 2014**15 Property, plant and equipment**

(in thousands of Canadian dollars)	As at December 27, 2015						
	<u>Land</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Leasehold improvements</u>	<u>Assets under finance lease</u>	<u>Construction-in-progress</u>	<u>Total</u>
Cost							
Balance, beginning of period	\$ 2,291	\$ 3,058	\$ 137,797	\$ 97,416	\$ 29,601	\$ 183	\$ 270,346
Additions	-	27	3,816	1,667	384	19,300	25,194
Additions from business acquisitions (note 5)	-	-	1,244	-	-	-	1,244
Disposals and adjustments	-	(12)	(7,962)	(6,259)	903	-	(13,330)
Transfer to/(from) construction-in-progress	-	-	9,457	6,450	-	(15,907)	-
Balance, end of period	\$ 2,291	\$ 3,073	\$ 144,352	\$ 99,274	\$ 30,888	\$ 3,576	\$ 283,454
Accumulated depreciation and impairment losses							
Balance, beginning of period	\$ -	\$ 2,355	\$ 105,193	\$ 64,608	\$ 11,593	\$ -	\$ 183,749
Depreciation expense	-	105	12,137	5,018	2,119	-	19,379
Impairment losses	-	-	114	316	-	-	430
Reversal of impairment losses	-	-	(161)	(2,034)	-	-	(2,195)
Disposals and adjustments	-	(12)	(7,365)	(5,212)	167	-	(12,422)
Balance, end of period	\$ -	\$ 2,448	\$ 109,918	\$ 62,696	\$ 13,879	\$ -	\$ 188,941
Carrying amount as at:							
December 27, 2015	\$ 2,291	\$ 625	\$ 34,434	\$ 36,578	\$ 17,009	\$ 3,576	\$ 94,513

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Notes to the Consolidated Financial Statements

For the 52 weeks ended December 27, 2015 and December 30, 2014

As at December 30, 2014							
(in thousands of Canadian dollars)	Land	Buildings	Equipment	Leasehold improvements	Assets under finance lease	Construction-in-progress	Total
Cost							
Balance, beginning of period	\$ 1,591	\$ 2,969	\$ 131,722	\$ 92,912	\$ 25,475	\$ 4,429	\$ 259,098
Additions	-	23	4,187	5,473	5,579	7,990	23,252
Additions from business acquisitions (note 5)	700	78	2,946	-	-	-	3,724
Disposals	-	(12)	(8,864)	(5,399)	(1,453)	-	(15,728)
Transfer to/(from) construction-in-progress	-	-	7,806	4,430	-	(12,236)	-
Balance, end of period	\$ 2,291	\$ 3,058	\$ 137,797	\$ 97,416	\$ 29,601	\$ 183	\$ 270,346
Accumulated depreciation and impairment losses							
Balance, beginning of period	\$ -	\$ 2,269	\$ 102,030	\$ 67,060	\$ 11,323	\$ -	\$ 182,682
Depreciation expense	-	98	11,881	3,713	1,721	-	\$ 17,413
Impairment losses	-	-	223	1,436	-	-	1,659
Reversal of impairment losses	-	-	(563)	(2,948)	-	-	(3,511)
Disposals	-	(12)	(8,378)	(4,653)	(1,451)	-	(14,494)
Balance, end of period	\$ -	\$ 2,355	\$ 105,193	\$ 64,608	\$ 11,593	\$ -	\$ 183,749
Carrying amount as at:							
December 30, 2014	\$ 2,291	\$ 703	\$ 32,604	\$ 32,808	\$ 18,008	\$ 183	\$ 86,597

Impairment losses

For the period ended December 27, 2015, the Company recorded \$0.4 million (December 30, 2014 – \$1.7 million) of impairment losses on property, plant and equipment in respect of 6 cash generating units (“CGUs”) (December 30, 2014 – 18 CGUs). An impairment loss is recorded when the carrying amount of the restaurant location exceeds its recoverable amount. The recoverable amount is based on the greater of the CGU’s fair value less costs to sell (“FVLCS”) and its value in use (“VIU”). Approximately 25% (December 30, 2014 – 78%) of impaired CGUs had carrying values greater than their FVLCS. The remaining 75% (December 30, 2014 – 22%) of impaired CGUs had carrying values greater than their VIU.

For the period ended December 27, 2015, the Company recorded \$2.2 million (December 30, 2014 – \$3.5 million) of impairment reversals on property, plant and equipment in respect of 18 CGUs (December 30, 2014 – 24 CGUs) given that the condition that originally caused the impairment no longer exists. The impairment reversals are recorded where the recoverable amount of the restaurant exceeds its carrying value that was previously impaired and does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment had been recognized. The recoverable amount was based on its VIU.

When determining the VIU of a restaurant location, the Company employs a discounted cash flow model for each CGU. The duration of the cash flow projections for individual CGUs varies based on the remaining useful life of the significant asset within the CGU or the remaining lease term of the location. Sales forecasts

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for cash flows are based on actual operating results, operating budgets and long-term growth rates that were consistent with strategic plans presented to the Company's Board and ranged between 0% and 2%. The estimate of the VIU of the relevant CGUs was determined using a pre-tax discount rate of 7.3% to 10.3% at December 27, 2015 (December 30, 2014 – 12.5%).

16 Brands and other assets

(in thousands of Canadian dollars)	As at December 27, 2015			As at December 30, 2014		
	Brands	Other assets	Total	Brands	Other assets	Total
Cost						
Balance, beginning of period	\$ 140,894	\$ 28,099	\$ 168,993	\$ 142,501	\$ 12,778	\$ 155,279
Additions	-	147	147	-	105	105
Additions from business acquisitions (note 5)	38,565	4,511	43,076	6,493	13,716	20,209
Impairment losses		(561)	(561)	(6,600)	-	(6,600)
Transfer from Brands to Other assets	(171)	171	-	(1,500)	1,500	-
Disposals	-	(2,024)	(2,024)			
Balance, end of period	\$ 179,288	\$ 30,343	\$ 209,631	\$ 140,894	\$ 28,099	\$ 168,993
Accumulated amortization						
Balance, beginning of period	\$ -	\$ 5,343	\$ 5,343	\$ -	\$ 2,166	\$ 2,166
Amortization	-	5,011	5,011	-	3,177	3,177
Disposals		(2,024)	(2,024)			
Balance, end of period	\$ -	\$ 8,330	\$ 8,330	\$ -	\$ 5,343	\$ 5,343
Carrying amount, end of period	\$ 179,288	\$ 22,013	\$ 201,301	\$ 140,894	\$ 22,756	\$ 163,650

Impairment testing of brands and other assets

For the purpose of impairment testing, brands are allocated to the group of CGUs which represent the lowest level within the group at which the brands are monitored for internal management purposes.

The Company performed impairment testing of brands, with an indefinite life in accordance with the Company's accounting policy for the periods ending December 27, 2015 and December 30, 2014. During the period ended December 27, 2015, the Company recorded \$nil (December 30, 2014 - \$6.6 million) of impairment losses on indefinite life intangible assets.

The Company determines FVLCS of its brands using the "Relief from Royalty Method", a discounted cash flow model. The process of determining the FVLCS requires management to make estimates and assumptions of a long-term nature including, but not limited to, projected future sales, terminal growth rates, royalty rates and discount rates. Projected future sales are consistent with the most recent strategic plans presented to the

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Notes to the Consolidated Financial Statements

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Company's Board. For the purposes of the impairment test, the Company has reflected a terminal value growth of 2% after the fifth year in its present value calculations.

The Company has used a pre-tax discount rate in the range of 7.3% to 10.3% (December 30, 2014 - 12.5% to 20.25%), which is based on the Company's weighted average cost of capital with appropriate adjustments for the risks associated with the group of CGUs to which brands with an indefinite life is allocated. Cash flow projections are discounted over a five-year period plus a terminal value.

Definite life intangible assets tested for impairment are reviewed at their lowest level for which identifiable cash inflows are largely independent of cash inflows of other assets or groups of assets. During the period ended December 27, 2015, the Company recorded \$0.6 million (December 30, 2014 - \$nil) of impairment losses in respect of the Casey's brand which was reclassified from indefinite life to definite life intangible assets in 2014 (see note 10).

An impairment loss and any subsequent reversals, if any, are recognized in the consolidated statements of earnings.

17 Goodwill

(in thousands of Canadian dollars)	<u>As at December 27, 2015</u>	<u>As at December 30, 2014</u>
Cost		
Balance, beginning of year	\$ 43,051	\$ 18,059
Additions (note 5)	6,589	24,992
Impairment	(100)	-
Balance, end of year	<u>\$ 49,540</u>	<u>\$ 43,051</u>

Impairment testing of goodwill

For the purpose of impairment testing, goodwill is allocated to the group of CGUs, being brands, that are considered to represent the lowest level within the group at which the goodwill is monitored for internal management purposes.

During the periods ending December 27, 2015 and December 30, 2014, the Company performed annual impairment testing of goodwill, in accordance with the Company's accounting policy. During the period ended December 27, 2015, the Company recorded an impairment of \$0.1 million (December 30, 2014 - \$nil) in respect of the Casey's brand (see note 10).

The Company uses the VIU method for determining the recoverable amount of the group of CGUs to which goodwill is allocated. The values assigned to the key assumptions represent management's assessment of future trends and are based on both external sources and internal sources (historical data). Key assumptions include the Company's weighted average cost of capital, restaurant sales growth, gross margin rates, changes in other operating expenses and capital investment. The Company has projected cash flows based on the most recent strategic plans presented to the Company's Board. For the purposes of the impairment test, the Company has reflected a terminal value growth of 2% after the fifth year in its present value calculations.

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For the 52 weeks ended December 27, 2015 and December 30, 2014**Recorded in the consolidated balance sheets as follows:**

(in thousands of Canadian dollars)	<u>As at December 27, 2015</u>	<u>As at December 30, 2014</u>
Provisions - current	\$ 5,004	\$ 6,904
Provisions - long-term	<u>7,002</u>	<u>7,630</u>
	<u><u>12,006</u></u>	<u><u>\$ 14,534</u></u>

19 Long-term debt

(in thousands of Canadian dollars)	<u>As at December 27, 2015</u>	<u>As at December 30, 2014</u>
Revolving term credit facility	\$ 65,000	\$ 231,000
Subordinated unsecured debentures	-	25,582
Finance leases	20,785	22,430
Other	<u>-</u>	<u>1,819</u>
	<u>85,785</u>	<u>280,831</u>
Less: Financing costs	<u>477</u>	<u>2,468</u>
	<u><u>\$ 85,308</u></u>	<u><u>\$ 278,363</u></u>

Recorded in the consolidated balance sheets as follows:

Current portion of long-term debt	\$ 2,156	\$ 17,702
Long-term portion of long-term debt	<u>83,152</u>	<u>260,661</u>
	<u><u>\$ 85,308</u></u>	<u><u>\$ 278,363</u></u>

Term credit facilities

On April 10, 2015, the Company repaid \$217.8 million with proceeds from the Offering and amended and extended the terms of its existing credit facility. The amended term credit facility is comprised of a revolving credit facility in the amount of up to \$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 Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") ratio, as defined in the agreement, measured using EBITDA for the four most recently completed fiscal quarters.

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

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For the 52 weeks ended December 27, 2015 and December 30, 2014

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 as at December 27, 2015 is approximately 2.5% representing bankers acceptance rate of 1.0% plus 1.25% and the amortization of deferred financing fees of 0.25%.

As at December 30, 2014, \$231.0 million was drawn under the previous term credit facility with an effective interest rate of 4.5%, based on a weighted average of bankers acceptances and prime rate advances outstanding during the period.

The Company is required to pay a standby fee between 0.25% to 0.45% per annum, on the unused portion of the credit facility, for the term of its term credit facility. The standby fee rate is based on the Company's total funded net debt to EBITDA ratio. As of December 27, 2015, the fee was 0.25%.

Subordinated unsecured debentures

On April 10, 2015, the subordinated debentures were surrendered and converted into common shares in conjunction with a cashless warrant exercise. These common shares were then converted into multiple voting shares. See note 25 for further details.

Finance leases

Included in finance leases are obligations that bear interest at an average rate of 7.3% (December 30, 2014 – 7.4%).

Other

On December 18, 2014, the Company assumed \$1.8 million in debt obligations related to the acquisition of The Landing Group bearing interest at an average rate of 6.2%. The debt was repaid in full in August 2015 from the Company's revolving credit facility.

Debt repayments

The five-year schedule of repayment of long-term debt is as follows:

(in thousands of Canadian dollars)	2016	2017	2018	2019	2020	Thereafter
Term credit facilities	-	-	-	65,000	-	-
Finance leases	2,156	2,222	2,173	2,285	1,951	9,998
Total	2,156	2,222	2,173	67,285	1,951	9,998

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For the 52 weeks ended December 27, 2015 and December 30, 2014**20 Preferred shares**

The following table summarizes the preferred shares issued by the Company, including their associated carrying amounts prior to April 10, 2015. The carrying amount represents the accumulation of the associated fair values determined upon the particular issuance date plus accretion.

(in thousands of Canadian dollars except for the number of shares)	Class A preferred shares (number of shares)	Carrying Amount	Class B preferred shares (number of shares)	Carrying Amount	Total carrying amount of preferred shares outstanding
Issue date	October 31, 2013		October 31, 2013		
Outstanding preferred shares, December 30, 2014	32,175,490	\$ 85,852	17,418,503	\$ 51,585	137,437 ⁽¹⁾
Accretion	-	908	-	75	983
Preferred shares converted into multiple voting shares on April 10, 2015	<u>(32,175,490)</u>	<u>(86,760)</u>	<u>(17,418,503)</u>	<u>(51,660)</u>	<u>(138,420)</u>
Balance as of December 27, 2015	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>

⁽¹⁾ Recorded on the consolidated balance sheets net of \$1.9 million of financing costs

On April 10, 2015, the 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 multiple voting shares. See note 25 for further details.

Cara Operations Limited

Notes to the Consolidated Financial Statements

For the 52 weeks ended December 27, 2015 and December 30, 2014**21 Warrant certificates**

The following tables summarize the warrants issued by the Company, including their associated fair values prior to April 10, 2015.

	Class A preferred share warrants (number of units)	Class B preferred share warrants (number of units)	Subordinated unsecured debenture warrants (number of units)	Total number of units outstanding	Total Carrying Amount of warrants outstanding
Issue date	October 31, 2013	October 31, 2013	October 31, 2013		
Outstanding warrants, December 30, 2014	32,175,490	17,418,503	8,564,596	58,158,589	\$ 18,490
Warrants converted into multiple voting shares on April 10, 2015	<u>(32,175,490)</u>	<u>(17,418,503)</u>	<u>(8,564,596)</u>	<u>(58,158,589)</u>	<u>(18,490)</u>
Balance as of December 27, 2015	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	\$ <u>-</u>

On April 10, 2015, the 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 multiple voting shares. See note 25 for further details.

Cara Operations Limited
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For the 52 weeks ended December 27, 2015 and December 30, 2014

22 Other long-term liabilities

(in thousands of Canadian dollars)	<u>As at December 27, 2015</u>	<u>As at December 30, 2014</u>
Deferred rental income	\$ 14,344	\$ 21,666
Accrued pension and other benefit plans (note 23)	21,448	22,735
Deferred income	13,808	16,490
Accrued rent expense	3,898	3,508
Restructuring (note 10)	170	1,220
Long-term incentive plans (note 24)	166	-
Other liabilities	1,805	2,491
	<u>\$ 55,639</u>	<u>\$ 68,110</u>

Recorded in the consolidated balance sheets as follows:

(in thousands of Canadian dollars)	<u>As at December 27, 2015</u>	<u>As at December 30, 2014</u>
Accounts payable and accrued liabilities	\$ 4,595	\$ 5,662
Other long-term liabilities	51,044	62,448
	<u>\$ 55,639</u>	<u>\$ 68,110</u>

Deferred rental income

In prior years, the Company converted certain corporate restaurants to franchise and sold the restaurants to independent operators (“franchisees”). As part of these conversion agreements, certain franchisees entered into rental agreements to rent certain restaurant assets from the Company. The \$14.3 million (December 30, 2014 – \$21.7 million) represents the unearned revenue associated with the rental agreements calculated as the present value of the minimum lease payments using an interest rate implicit in the rental agreement.

Deferred income

Unearned franchise and conversion fee income

At December 27, 2015, the Company had deferred \$7.5 million (December 30, 2014 - \$8.7 million) of initial franchise fees and conversion fees received from franchisees that will be recognized over the remaining term of the respective franchise agreements.

Sale-leaseback transactions

At December 27, 2015, the Company had deferred \$5.1 million (December 30, 2014 - \$6.6 million) related to gains realized on sale-leaseback transactions.

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Notes to the Consolidated Financial Statements

For the 52 weeks ended December 27, 2015 and December 30, 2014

23 Employee future benefits

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

Cara's Pension Committee (the "Committee") oversees the Company's pension plans. The Committee is responsible for assisting the Board in fulfilling its general oversight responsibilities for the plans such as administration of the plans, pension investment and compliance with legal and regulatory requirements.

Information on the Company's defined benefit pension plans, in aggregate, is summarized as follows:

(in thousands of Canadian dollars)	<u>As at December 27, 2015</u>	<u>As at December 30, 2014</u>
Present value of obligations	\$ (31,909)	\$ (33,128)
Fair value of plan assets	<u>10,461</u>	<u>10,393</u>
Deficit in the plans (note 22)	<u>\$ (21,448)</u>	<u>\$ (22,735)</u>

(in thousands of Canadian dollars)	<u>For the 52 weeks ended</u>	
	<u>December 27, 2015</u>	<u>December 30, 2014</u>
Experience gains on plan assets	\$ 381	\$ 615
Actuarial gains (losses) on obligation	158	(2,615)
Income tax recovery (note 12)	<u>(124)</u>	<u>-</u>
	<u>\$ 415</u>	<u>\$ (2,000)</u>

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For the 52 weeks ended December 27, 2015 and December 30, 2014

The following are the continuities of the fair value of plan assets and the present value of the defined benefit plan obligation:

(in thousands of Canadian dollars)	Defined benefit pension plan		Supplemental Executive Retirement Plans (Unfunded)		Total	
	Dec 27, 2015	Dec 30, 2014	Dec 27, 2015	Dec 30, 2014	Dec 27, 2015	Dec 30, 2014
Changes in the fair value of plan assets						
Fair value, beginning of period	\$ 10,393	\$ 9,893	\$ -	\$ -	\$ 10,393	\$ 9,893
Interest income	387	452	-	-	387	452
Return on plan assets (excluding interest income)	381	615	-	-	381	615
Employer contributions	-	119	1,594	1,557	1,594	1,676
Administrative expenses	(1)	(1)	-	-	(1)	(1)
Benefits paid	(699)	(685)	(1,594)	(1,557)	(2,293)	(2,242)
Fair value, end of period	\$ 10,461	\$ 10,393	\$ -	\$ -	\$ 10,461	\$ 10,393
Changes in the present value of obligations						
Balance, beginning of period	\$ (14,532)	\$ (13,770)	\$ (18,596)	\$ (17,532)	\$ (33,128)	\$ (31,302)
Current service cost	-	(19)	-	(16)	-	(35)
Past service costs ⁽¹⁾	-	-	-	-	-	-
Interest cost	(547)	(603)	(685)	(815)	(1,232)	(1,418)
Benefits paid	699	685	1,594	1,557	2,293	2,242
Actuarial gains (losses) in demographic assumptions ⁽²⁾	-	191	-	(41)	-	150
Actuarial gains (losses) in financial assumptions	89	(1,450)	69	(1,209)	158	(2,659)
Actuarial gains (losses) in experience adjustment	-	434	-	(540)	-	(106)
Balance, end of period	\$ (14,291)	\$ (14,532)	\$ (17,618)	\$ (18,596)	\$ (31,909)	\$ (33,128)

(1) Change in the plan program for certain individuals as a result of only participating in the unfunded defined benefit pension plan.

(2) Impact from updated mortality table.

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For the 52 weeks ended December 27, 2015 and December 30, 2014

The net expense recognized in selling, general and administrative expenses on the consolidated statements of earnings (note 8) for the Company's defined benefit pension plans was as follows:

(in thousands of Canadian dollars)	Defined benefit pension plan		Supplemental Executive Retirement Plans (Unfunded)		Total	
	For the 52 weeks ended					
	Dec 27, 2015	Dec 30, 2014	Dec 27, 2015	Dec 30, 2014	Dec 27, 2015	Dec 30, 2014
Current service cost	\$ -	\$ 19	\$ -	\$ 16	\$ -	\$ 35
Past service cost	-	-	-	-	-	-
Interest on obligations	547	603	685	815	1,232	1,418
Interest income on plan assets	(387)	(452)	-	-	(387)	(452)
Administrative expenses	1	1	-	-	1	1
Net benefit plan expense	<u>\$ 161</u>	<u>\$ 171</u>	<u>\$ 685</u>	<u>\$ 831</u>	<u>\$ 846</u>	<u>\$ 1,002</u>

The cumulative actuarial losses before tax recognized in other comprehensive income for the Company's defined benefit pension plans are as follows:

(in thousands of Canadian dollars)	Defined benefit pension plan		Supplemental Executive Retirement Plans (Unfunded)		Total	
	Dec 27, 2015	Dec 30, 2014	Dec 27, 2015	Dec 30, 2014	Dec 27, 2015	Dec 30, 2014
	Cumulative amount, beginning of period	\$ (2,331)	\$ (2,121)	\$ (5,075)	\$ (3,285)	\$ (7,406)
Return on plan assets (excluding interest income)	381	615	-	-	381	615
Actuarial gains (losses) in demographic assumptions	-	191	-	(41)	-	150
Actuarial gains (losses) in financial assumptions	89	(1,450)	69	(1,209)	158	(2,659)
Actuarial gains (losses) in adjustments	-	434	-	(540)	-	(106)
Total net actuarial gains (losses) recognized in other comprehensive income (loss)	<u>470</u>	<u>(210)</u>	<u>69</u>	<u>(1,790)</u>	<u>539</u>	<u>(2,000)</u>
Cumulative amount, end of period	<u>\$ (1,861)</u>	<u>\$ (2,331)</u>	<u>\$ (5,006)</u>	<u>\$ (5,075)</u>	<u>\$ (6,867)</u>	<u>\$ (7,406)</u>

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The actual total return on plan assets was \$0.8 million for the period ended December 27, 2015 (December 30, 2014 - \$1.1 million).

The accrued benefit plan obligations and the fair value of the benefit plan assets were determined using a December 31 measurement date for accounting purposes.

The Company's pension funding policy is to contribute amounts sufficient, at minimum, to meet local statutory funding requirements. The most recent actuarial valuation for funding purposes was completed in 2014 and the next required funding valuation will be prepared in 2017 as of December 31, 2016. During 2016, the Company expects to contribute approximately \$nil (2015 - \$nil) to its registered funded defined benefit plan. The actual amount paid may vary from the estimate based on actuarial valuations being completed, investment performance, volatility in discount rates, regulatory requirements and other factors.

The benefit plan assets are held in trust and at December 31st was invested 100% in a balanced fund.

The Company's defined benefit pension plans are exposed to actuarial risks, such as longevity risk, investment rate risk and market risk.

The principal actuarial assumptions used in calculating the Company's defined benefit plan obligations and net defined benefit plan expense, as at the measurement date of December 31st, were as follows:

	Defined benefit pension plan		Unfunded defined benefit pension plans	
	December 27, 2015	December 30, 2014	December 27, 2015	December 30, 2014
	%	%	%	%
Defined benefit plan obligations				
Discount rate	3.90	3.85	3.90	3.85
Rate of compensation increase	2.0	2.0	2.0	2.0
Mortality table	CPM2014BPubl - SAF 0.8	CPM2014BPubl - SAF 0.8	CPM2014BPubl - SAF 0.8	CPM2014BPubl - SAF 0.8
Net defined benefit plan expense				
Discount rate	3.85	4.7	3.85	4.7
Rate of compensation increase	2.0	2.0	2.0	2.0
Mortality table	CPM2014BPubl - SAF 0.8	CPM2014BPubl - SAF 0.8	CPM2014BPubl - SAF 0.8	CPM2014BPubl - SAF 0.8

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The following table outlines the key actuarial assumption for 2015 and the sensitivity of a 1% change in each of these assumptions on the defined benefit plan obligations and net defined benefit plan expense.

The sensitivity analysis provided in the table is hypothetical and should be used with caution. The sensitivities of each key assumption have been calculated independently of any changes in other key assumptions. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions.

(in thousands of Canadian dollars)	Defined benefit pension plan		Unfunded defined benefit pension plans	
	Defined Benefit Plan Obligations	Net Defined Benefit Plan Expense	Defined Benefit Plan Obligations	Net Defined Benefit Plan Expense
Discount rate	3.90%	3.85%	3.90%	3.85%
Impact of : 1% increase	\$ (1,605)	\$ (40)	\$ (1,294)	\$ 110
1% decrease	\$ 1,972	\$ 18	\$ 1,467	\$ (133)

24 Long-term incentive plans

Under the various stock option plans, Cara may grant options to buy up to 15% of its total Subordinate and Multiple Voting Shares outstanding, a total of 7.4 million shares, a guideline the Company has set on the number of stock option grants. As at December 27, 2015, 4.9 million shares were granted.

Stock options outstanding as at December 27, 2015 have a term of up to eight years from the initial grant date. Each stock option is exercisable into one Subordinate Voting Share at the price specified in the terms of the option agreement. There were no accelerated vesting features upon the initial public offering under any of the plans described below.

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

The following table summarizes the options granted post share consolidation:

	For the 52 weeks ended December 27, 2015							
	Director stock option plan		CEO stock option plan		Employee stock option plan		Total	
	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share
Outstanding options, December 30, 2014	86,021	0.01	3,494,624	5.89	1,166,379	8.51	4,747,024	\$ 6.43
Granted	-	-	10,000	32.37	308,106	32.86	318,106	\$ 32.84
Forfeited	-	-	-	-	(122,882)	8.51	(122,882)	\$ 8.51
Outstanding options, end of period	86,021	0.01	3,504,624	5.97	1,351,603	14.06	4,942,248	\$ 8.08
Options exercisable, end of period	53,763	0.01	1,747,312	5.92	-	-	1,801,075	\$ 5.75

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	For the 52 weeks ended December 30, 2014 ⁽¹⁾							
	Director stock option plan		CEO stock option plan		Employee stock option plan		Total	
	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share
Outstanding options, December 31, 2013	64,516	0.01	3,494,624	5.89	241,935	8.51	3,801,075	\$ 5.95
Granted	21,504	0.01	-	-	924,444	8.51	945,948	\$ 8.32
Outstanding options, end of period	86,021	0.01	3,494,624	5.89	1,166,379	8.51	4,747,024	6.42
Options exercisable, end of period	21,505	0.01	-	-	-	-	21,505	0.01

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

Director stock option plan

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

On April 10, 2015, all stock options granted prior to the Offering were consolidated at a ratio of 2.79 to 1 to entitle holders of the options to purchase Subordinate Voting Shares of the Company. Under this plan, the Directors now have 86,021 options at an exercise price of \$0.01.

During the period ended December 27, 2015, the Company granted nil (December 30, 2014 – 21,504) stock options at an exercise price of \$0.01 per share to purchase non-voting shares of the Company under the Director Plan.

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The Company has accounted for these grants as if they will be equity settled using the grant date fair value in accordance with IFRS 2. The fair value of options granted was determined by applying the Black-Scholes option pricing model using the following assumptions:

Option Grant Date	Number of Options	Exercise Price	Time to Expiration	Stock Price Volatility	Risk-Free Interest Rate	Grant Date Fair Value of Option
October 31, 2013	21,505	\$ 0.01	3 years	35.00%	1.12%	\$ 6.70
October 31, 2013	21,505	\$ 0.01	3 years	35.00%	1.12%	\$ 6.70
October 31, 2013	21,505	\$ 0.01	3 years	35.00%	1.12%	\$ 6.70
November 1, 2014	10,753	\$ 0.01	3 years	27.00%	1.06%	\$ 12.69
November 1, 2014	10,753	\$ 0.01	3 years	27.00%	1.06%	\$ 12.69
Total	86,021					

Stock price was determined using a standard Enterprise Value calculation with an implied private company illiquidity discount of 15-20%. The expected annual volatility at October 31, 2013 and November 1, 2014 is based on industry benchmarks against a common pool of comparable industry stocks, using average 5-year volatility trends as of the grant date, which is the time period expected to be outstanding. The Risk-Free Interest Rate is based on Government of Canada bond yields with maturities that coincide with the exercise period and terms of the grant.

For the period ended December 27, 2015, the Company recognized stock-based compensation costs of \$0.3 million (December 30, 2014 - \$0.3 million) related to the Director Plan Options with a corresponding increase to contributed surplus.

Certain non-employee board members receive Deferred Share Units (“DSU”) as compensation for their participation on the board. These DSUs are settled for cash when members cease to participate on the board of directors. For the period ended December 27, 2015, the Company recognized an expense of \$0.2 million (December 30, 2014 - \$nil) and a liability recorded as part of Other Long-Term Liabilities in the amount of \$0.2 million as at December 27, 2015 (December 30, 2014 - \$nil).

CEO stock option plan

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

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

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During the period ended December 27, 2015, 10,000 stock options at an exercise price of \$32.37 (December 30, 2014 - \$nil) were granted under the CEO Plan.

The Company has accounted for these grants as if they will be equity settled using the grant date fair value in accordance with IFRS 2. The fair value of options granted in 2014 was determined by applying the Black-Scholes option pricing model using the following assumptions:

Option Grant Date	Number of Options	Exercise Price	Time to Expiration	Stock Price Volatility	Risk-Free Interest Rate	Grant Date Fair Value of Option
October 31, 2013	1,075,269	0.01	5 years	35.00%	1.42%	\$ 6.70
October 31, 2013	2,419,355	8.51	5 years	35.00%	1.42%	\$ 1.68
December 4, 2015	10,000	32.37	5.5 years	26.00%	0.92%	\$ 6.80
Total	3,504,624					

The expected annual volatility at October 31, 2013 is based on industry benchmarks against a common pool of comparable industry stocks, using average 3-year volatility trends as of the grant date. For options granted prior to the Offering, stock price was determined using a standard Enterprise Value calculation with an implied private company illiquidity discount of 20%. The Risk-Free Interest Rate is based on Government of Canada bond yields with maturities that coincide with the exercise period and terms of the grant.

For the period ended December 27, 2015, the Company recognized stock-based compensation costs of \$4.2 million (December 30, 2014 - \$3.3 million) related to the CEO Plan with a corresponding increase to contributed surplus.

Employee stock option plan

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

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

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

During the period ended December 27, 2015, the Company granted an additional 308,106 stock options at a weighted average exercise price of \$32.86 (December 30, 2014 – 924,444 at a weighted average exercise price

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of \$8.51) per Subordinate Voting Share under its existing stock option plans, which only allows for settlement in shares.

During the period ended December 27, 2015, 122,882 stock options with an exercise price of \$8.51 were forfeited (December 30, 2014 – nil).

The Company has accounted for these grants as if they will be equity settled using the grant date fair value in accordance with IFRS 2. The fair value of options granted under the Employee Plan was determined by applying the Black-Scholes option pricing model using the following assumptions:

Option Grant Date	Number of Options	Exercise Price	Time to Expiration	Stock Price Volatility	Risk-Free Interest Rate	Grant Date Fair Value of Option
October 31, 2013	241,935	8.51	5 years	35.00%	1.42%	\$ 1.68
January 1, 2014	217,103	8.51	6.5 years	35.00%	1.99%	\$ 1.97
September 8, 2014	215,054	8.51	6.5 years	35.00%	2.02%	\$ 5.60
December 4, 2014	492,287	8.51	6.5 years	35.00%	1.90%	\$ 9.99
July 6, 2015	40,000	34.10	5.5 years	26.00%	0.76%	\$ 7.18
October 1, 2015	20,282	32.87	5.5 years	26.00%	0.81%	\$ 7.47
October 14, 2015	15,000	33.91	5.5 years	26.00%	0.77%	\$ 7.08
October 31, 2015	16,699	34.51	5.5 years	26.00%	0.88%	\$ 8.13
November 11, 2015	5,000	34.90	5.5 years	26.00%	1.00%	\$ 7.79
December 4, 2015	211,125	32.37	5.5 years	26.00%	0.92%	\$ 6.80
Less forfeitures	(122,882)					
Total	1,351,603					

The expected annual volatility is based on industry benchmarks against a common pool of comparable industry stocks, using average 5-year volatility trends as of the grant date. For options granted prior to the Offering, Stock price was determined using a standard Enterprise Value calculation with an implied private company illiquidity discount of 15-20%. The Risk-Free Interest Rate is based on Government of Canada bond yields with maturities that coincide with the exercise period and terms of the grant.

For the period ended December 27, 2015, the Company recognized stock-based compensation costs of \$1.9 million (December 30, 2014 - \$2.5 million) related to the Employee Plan with a corresponding increase to contributed surplus.

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25 Share capital

Prior to the Offering, the Company's authorized share capital consisted of an unlimited number of common shares and an unlimited number of non-voting common shares. There were 50,467,709 voting common shares (December 30, 2014 – 50,467,709) issued and outstanding prior to the Offering.

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

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

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

On April 10, 2015 the Company converted certain common voting shares previously held by shareholders into 1,537,871 Subordinate Voting Shares and issued 10,005,000 Subordinate Voting Shares for a total of 11,542,871. As part of the Offering, the Principal Shareholders received 37,396,284 Multiple Voting Shares. See note 31 for further detail.

On June 26, 2015 the Company issued an additional 209,526 Subordinate Voting Shares as part of the Landing buyout. See note 5 for further detail.

On August 11, 2015, the Company's Board of Directors declared the 2015 second quarter dividend of \$0.0917 on its outstanding Subordinate Voting Shares and Multiple Voting Shares payable on September 15, 2015 to shareholders of record as of August 31, 2015.

On November 11, 2015, the Company's Board of Directors declared the 2015 third quarter dividend of \$0.102 on its outstanding Subordinate Voting Shares and Multiple Voting Shares payable on December 15, 2015 to shareholders of record as of November 30, 2015.

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

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 (December 30, 2014 - \$nil) to Cara Holdings, of which \$11.0 million were declared in 2014.

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

As at December 27, 2015, there were 34,396,284 Multiple Voting Shares and 14,766,307 Subordinate Voting Shares issued and outstanding. There were no preference shares issued and outstanding as at December 27, 2015.

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

	Number of Common Shares (in thousands)				Share Capital (in thousands of dollars)			
	Common shares (prior to offering) (note 1)	Multiple voting common shares	Subordinate voting common shares	Total Common Shares	Common shares (prior to offering) (note 1)	Multiple voting common shares	Subordinate voting common shares	Total Share Capital
Balance at December 31, 2013 and December 30, 2014	50,468	-	-	50,468	\$ 29,285	\$ -	\$ -	\$ 29,285
Share consolidation	(32,379)	-	-	(32,379)	-	-	-	-
Share conversion	(18,089)	14,493	3,596	-	(29,285)	11,526	17,759	-
Issuance of common stock	-	19,903	11,157	31,060	-	181,022	227,274	408,296
Shares issued under dividend reinvestment plan	-	-	14	14	-	-	420	420
Balance at December 27, 2015 ⁽¹⁾	-	34,396	14,766	49,163	\$ -	\$ 192,548	\$ 245,453	\$ 438,001

⁽¹⁾ Figures may not total due to rounding.

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Notes to the Consolidated Financial Statements

For the 52 weeks ended December 27, 2015 and December 30, 2014**26 Earnings per share**

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

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

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

	December 27, 2015			December 30, 2014		
	Attributable to Common Shareholders			Attributable to Common Shareholders		
	Net earnings	Weighted average number of shares	EPS	Net earnings	Weighted average number of shares	EPS
Basic						
Continuing Operations	\$ 99,395	40,403	\$ 2.46	\$ 5,515	18,089	\$ 0.30
Discontinued Operations	(10)	40,403	(0.00)	85	18,089	0.00
	\$ 99,385	40,403	\$ 2.46	\$ 5,600	18,089	\$ 0.31
Diluted						
Continuing Operations	\$ 99,395	47,345	\$ 2.10	\$ 5,515	28,739	\$ 0.19
Discontinued Operations	(10)	47,345	(0.00)	85	28,739	0.00
	\$ 99,385	47,345	\$ 2.10	\$ 5,600	28,739	\$ 0.19

The weighted average number of shares used in the calculation of basic and diluted earnings per share, after giving effect on a retrospective basis to the share consolidation for shares outstanding as at April 10, 2015, is summarized below:

	For the 52 weeks ended	
	December 27, 2015	December 30, 2014
Share capital (note 25)	40,402,706	18,088,785
Effect of warrants issued	4,103,241	8,098,399
Effect of stock options issued	2,838,582	2,552,015
	47,344,529	28,739,199

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27 Capital management

Capital is defined as total long-term debt and shareholders' equity. The objectives of the Company when managing capital are to safeguard the Company's ability to continue as a going concern while maintaining adequate financial flexibility to invest in new business opportunities that will provide attractive returns to shareholders. The primary activities engaged by the Company to generate attractive returns include the construction and related leasehold improvements of new and existing restaurants, the development of new business concepts, the acquisition of restaurant concepts complementary to the Company's existing portfolio of restaurant brands, and the investment in information technology to increase scale and support the expansion of the Company's multi-branded restaurant network.

The Company's main sources of capital are cash flows generated from operations, a revolving line of credit, long-term debt and the issue of share capital. These sources are used to fund the Company's debt service requirements, capital expenditures, working capital needs, and dividend distributions to shareholders.

The Company monitors its anticipated capital expenditures to ensure that acceptable returns will be generated from the invested funds and will increase or decrease the program accordingly. Capital expenditures may also be adjusted in light of changes in economic conditions, the objectives of its shareholders, the cash requirements of the business and the condition of capital markets.

The following table provides a summary of certain information with respect to the Company's capital structure and financial position:

(in thousands of Canadian dollars)	<u>As at December 27, 2015</u>	<u>As at December 30, 2014</u>
Current portion of long-term debt (note 19)	2,156	17,702
Long-term debt (note 19)	83,152	260,661
Preferred shares (note 20)	-	135,545
Letters of credit (note 29)	863	947
Total	<u>86,171</u>	<u>414,855</u>
Shareholders' equity	<u>224,707</u>	<u>(253,061)</u>
Total capital under management	\$ <u>310,878</u>	\$ <u>161,794</u>

The Company's term credit facility contains common restrictive and financial covenants, including maintenance of certain leverage ratios and a fixed charge coverage ratio, which are calculated quarterly on a rolling four-quarter basis. As at December 27, 2015 and December 30, 2014, the Company was in compliance with all covenants.

Cara Operations Limited

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For the 52 weeks ended December 27, 2015 and December 30, 2014**28 Cash flows**

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

(in thousands of Canadian dollars)	For the 52 weeks ended	
	December 27, 2015	December 30, 2014
Accounts receivable	\$ (17,322)	\$ 9,416
Inventories	(6,762)	(1,252)
Income taxes payable	(3,922)	3,627
Prepaid expenses and other assets	321	(449)
Accounts payable and accrued liabilities	11,050	9,105
Provisions	(2,476)	2,010
Gift card liability	2,485	6,392
Income taxes paid	5,464	775
Change in interest payable	(4,032)	(8,170)
Net change in non-cash operating working capital	\$ <u>(15,194)</u>	\$ <u>21,454</u>

29 Commitments, contingencies and guarantees

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

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

The Company has outstanding letters of credit amounting to \$0.9 million (December 30, 2014 - \$0.9 million) primarily for various utility companies that provide services to corporate owned or franchised locations and support for certain franchisees' external financing used to fund their initial franchise fees and conversion fees, if applicable, payable to the Company. The probability of the letters of credit being drawn as a result of default by a franchisee is low.

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For the 52 weeks ended December 27, 2015 and December 30, 2014**Obligations under operating leases**

The Company has an obligation for certain leases primarily related to franchisees. In the event of default by franchisees, the Company retains ultimate responsibility to the landlord for payment of amounts under these lease agreements. The future minimum lease payments of continuing operations related to these operating leases, in addition to operating leases for corporate operating locations, are set out below. Included in the gross amount are the minimum obligations under real estate leases (excluding those based on sales) that are subleased to franchisees in the normal course of business. The Company has a number of options available to it to mitigate this liability and historically has not incurred any significant incremental liabilities pertaining to such leases.

(in thousands of Canadian dollars)	<u>Gross operating lease payments⁽¹⁾</u>	<u>Expected sub- lease income</u>	<u>Net operating lease payments</u>
Payments due by period ending			
2016	\$ 89,482	\$ 68,830	\$ 20,652
2017	80,134	61,639	18,495
2018	68,216	52,804	15,412
2019	57,629	44,075	13,554
2020	50,319	37,777	12,542
Thereafter	189,912	128,167	61,745
	<u>\$ 535,692</u>	<u>\$ 393,292</u>	<u>\$ 142,400</u>

⁽¹⁾Minimum lease payments exclusive of taxes, insurance and other occupancy charges.

Obligations under financing leases

The Company has financing lease obligations for land and buildings. The leases have an average remaining term of approximately 6.4 years (December 30, 2014 – 7.5 years).

(in thousands of Canadian dollars)	<u>Finance lease payments</u>
Payments due by period ending	
2016	\$ 4,245
2017	4,042
2018	3,736
2019	3,302
2020	2,526
Thereafter	10,706
	<u>\$ 28,557</u>

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For the 52 weeks ended December 27, 2015 and December 30, 2014

Indemnification provisions

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

30 Financial instruments and risk management

Market risk

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

Interest rate risk

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

Commodity price risk

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

Liquidity and capital availability risk

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

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

Credit risk

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

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Notes to the Consolidated Financial Statements

For the 52 weeks ended December 27, 2015 and December 30, 2014

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

The following is an aging of the Company's accounts receivable, net of the allowance, as at December 27, 2015 and December 30, 2014:

(in thousands of Canadian dollars)

	As at December 27, 2015				As at December 30, 2014			
	Current	> 30 days past due	> 60 days past due	Total	Current	> 30 days past due	> 60 days past due	Total
Accounts receivable	\$ 46,726	\$ 2,443	\$ 7,061	\$ 56,230	\$ 30,928	\$ 785	\$ 8,177	\$ 39,890
Less: allowance for doubtful accounts	711	308	6,174	\$ 7,193	990	175	5,617	\$ 6,782
Accounts receivable, net	<u>\$ 46,015</u>	<u>\$ 2,135</u>	<u>\$ 887</u>	<u>\$ 49,037</u>	<u>\$ 29,938</u>	<u>\$ 610</u>	<u>\$ 2,560</u>	<u>\$ 33,108</u>

There are no significant impaired receivables that have not been provided for in the allowance. As at December 27, 2015, the Company believes that the \$7.2 million (December 30, 2014 - \$6.8 million) allowance sufficiently covers any credit risk related to the receivable balances past due. The remaining amounts past due were not classified as impaired as the past due status was reasonably expected to be remedied.

Fair value of financial instruments

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

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

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

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For the 52 weeks ended December 27, 2015 and December 30, 2014

The following describes the fair value determinations of financial instruments:

Long-term debt

Fair value (Level 2) is based on the Company's current incremental borrowing rate for similar types of borrowing arrangements. The carrying amount of the debt associated with the Company's current financing would approximate its fair value as at December 27, 2015.

Derivative financial instruments

Fair value (Level 2) for derivative assets and liabilities are estimated using industry standard valuation models. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves and credit spreads. As at December 27, 2015, there were no derivatives.

Other financial instruments

Other financial instruments of the Company consist of cash, accounts receivable, bank indebtedness and accounts payable and accrued liabilities. The carrying amount for these financial instruments approximates fair value due to the short term maturity of these instruments. The fair value of derivative financial instruments is the estimated amount that the Company would receive or pay to terminate the instrument at the reporting date. The fair values have been determined by reference to prices provided by counterparties. The fair values of all derivative financial instruments are recorded in other long-term liabilities on the consolidated balance sheets.

31 Related parties

Shareholders

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.

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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.

The Company's policy is to conduct all transactions and settle all balances with related parties on market terms and conditions.

Insurance Provider

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

Transactions with key management personnel

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:

(in thousands of Canadian dollars)	For the 52 weeks ended	
	December 27, 2015	December 30, 2014
Short-term employee benefits	\$ 4,114	\$ 2,384
Long-term incentive plans (note 24)	6,126	6,093
Termination benefits	635	68
Total compensation	\$ 10,875	\$ 8,545

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For the 52 weeks ended December 27, 2015 and December 30, 2014

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.

Post-employment benefit plans

The Company sponsors a number of defined benefit plans as described in note 23. In 2015, the Company's contributions to these plans were \$nil (December 30, 2014 - \$0.1 million). Contributions made by the Company to its post-employment benefit plans are disclosed in note 23. The Company does not receive any reimbursement of expenses incurred by the Company to provide services to these plans.

Significant subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements. Intercompany balances and transactions are eliminated in preparing the consolidated financial statements.

32 Segmented information

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

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

Franchised restaurants represent the operations of its franchised restaurant network operating under the Company's several brand names from which the Company earns royalties calculated at an agreed upon percentage of franchise restaurant sales. Cara provides financial assistance to certain franchisees and the franchise royalty income reported is net of any assistance being provided.

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

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

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For the 52 weeks ended December 27, 2015 and December 30, 2014

For the 52 weeks ended December 27, 2015	Corporate	Franchise	Central	Total
Sales	\$ 237,808	\$ -	\$ 9,670	\$ 247,478
Franchise revenues	-	68,274	3,207	71,481
Cost of inventories sold and cost of labour	(149,694)	-	-	(149,694)
Other revenues (costs)	(63,134)	(7,918)	13,167	(57,885)
	<u>\$ 24,980</u>	<u>\$ 60,356</u>	<u>\$ 26,044</u>	<u>\$ 111,380</u>
Conversion revenues	-	-	1,781	1,781
Development revenues	-	-	5,594	5,594
Development expenses	-	-	(5,560)	(5,560)
Impairment of assets, net of reversals	-	-	1,104	1,104
Restructuring	-	-	(368)	(368)
Non-allocated selling, general and administrative expenses	-	-	(32,063)	(32,063)
Operating income	<u>\$ 24,980</u>	<u>\$ 60,356</u>	<u>\$ (3,468)</u>	<u>\$ 81,868</u>
For the 52 weeks ended December 30, 2014	Corporate	Franchise	Central	Total
Sales	\$ 195,424	\$ -	\$ 9,649	\$ 205,073
Franchise revenues	-	66,126	3,851	69,977
Cost of inventories sold and cost of labour	(130,770)	-	-	(130,770)
Other revenues (costs)	(54,671)	(10,550)	4,508	(60,713)
	<u>\$ 9,983</u>	<u>\$ 55,576</u>	<u>\$ 18,008</u>	<u>\$ 83,567</u>
Conversion revenues	-	-	1,777	1,777
Development revenues	-	-	4,979	4,979
Development expenses	-	-	(4,451)	(4,451)
Impairment of assets, net of reversals	-	-	(4,922)	(4,922)
Restructuring	-	-	(6,573)	(6,573)
Non-allocated selling, general and administrative expenses	-	-	(30,593)	(30,593)
Operating income	<u>\$ 9,983</u>	<u>\$ 55,576</u>	<u>\$ (21,775)</u>	<u>\$ 43,784</u>

33 Subsequent Event

On March 3, 2016, the Company's Board of Directors declared a dividend of \$0.102 per share of subordinate and multiple voting common stock. Payment of the dividend will be made on March 31, 2016 to shareholders of record at the close of business on March 15, 2016.