



NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that an Annual Meeting of Shareholders of Cara Operations Limited (the “**Company**”) will be held at Novotel Toronto Vaughan Centre, 200 Bass Pro Mills Dr., Vaughan, Ontario, L4N 0B9 on May 6, 2016 at 11:00 a.m. (Toronto time) for the following purposes:

- (a) to receive the consolidated financial statements for the year ended December 27, 2015 and the auditor’s report of those statements;
- (b) to elect directors;
- (c) to appoint auditors and authorize the directors to fix their remuneration; and
- (d) to transact such other business as may properly come before the meeting.

By Order of the Board,

Dave Lantz
Vice President, General Counsel and Corporate Secretary

Vaughan, March 24, 2016

If you cannot be present to vote in person at the meeting, please complete and sign the enclosed form of proxy and return it in the envelope provided to Computershare Trust Company of Canada at 100 University Avenue, 8th Floor, Toronto, Ontario M5J 2Y1 (if delivered by mail or by hand); at (416) 263-9524 or (866) 249-7775 (if delivered by fax); or by Internet at www.investorvote.com so that it is received by 11:00 a.m. (Toronto time) on Wednesday, May 4, 2016. Please refer to the accompanying Management Proxy Circular for further information regarding completion and use of the proxy and other information pertaining to the meeting.

MANAGEMENT PROXY CIRCULAR

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SECTION 1 – GENERAL AND VOTING INFORMATION

Solicitation of Proxies

Our management is soliciting the enclosed proxy for use at the Annual Meeting of Shareholders to be held on May 6, 2016 and at any adjournment or postponement thereof. We will bear the cost of soliciting proxies. We will reimburse brokers, custodians, nominees and other fiduciaries for their reasonable charges and expenses incurred in forwarding proxy material to beneficial owners of shares. In addition to solicitation by mail, certain of our officers and employees may solicit proxies personally or by a means of telecommunication. These persons will receive no compensation beyond their regular salaries for so doing.

Date of Information

The information contained in this Management Proxy Circular is given as at March 24, 2016, except where otherwise noted.

Currency

Dollar amounts in this Management Proxy Circular are in Canadian dollars except as otherwise indicated.

Provisions Relating to Proxies

A properly executed proxy delivered to our transfer agent, Computershare Trust Company of Canada, at 100 University Avenue, 8th Floor, Toronto, Ontario M5J 2Y1 (if delivered by mail or by hand); at (416) 263-9524 or (866) 249-7775 (if delivered by fax); or by Internet at www.investorvote.com, so that it is received before 11:00 a.m. (Toronto time) on Wednesday, May 4, 2016 (or, in the event of an adjournment or postponement, the last business day prior to the adjourned or postponed meeting); or to the chair or secretary of the meeting for which the proxy is given before the time of voting, will be voted or withheld from voting, as appropriate, at the meeting and, if a choice is specified in respect of any matter to be acted upon, will be voted or withheld from voting in accordance with the direction given. In the absence of such direction, such proxy will be voted with respect to the election of directors and appointment of auditors as described above.

The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments to or variations of matters identified in the notice of meeting and with respect to other matters which may properly come before the meeting. At the date of this Management Proxy Circular, our management knows of no such amendments, variations or other matters.

The persons named in the enclosed proxy are two of our officers. **If you wish to appoint some other person to represent you at the meeting, you may do so either by inserting such other person's name in the blank space provided in the enclosed proxy or by completing another form of proxy.** Such other person need not be a shareholder.

Under governing law, only registered holders of our subordinate voting and multiple voting shares (collectively, the “**Shares**”), or the persons they appoint as their proxies, are permitted to attend and vote at the meeting. However, in many cases, our subordinate voting shares beneficially owned by a holder (a “**Non-Registered Holder**”) are registered either:

- (a) in the name of an intermediary that the Non-Registered Holder deals with in respect of the shares, such as, among others, banks, trust companies, securities dealers, brokers, or trustees or administrators of self-administered RRSPs, RRIFs, RESPs and similar plans; or
- (b) in the name of a depository (such as CDS Clearing and Depository Services Inc. or Depository Trust Company).

In accordance with Canadian securities law, we are distributing copies of the notice of meeting, this Management Proxy Circular, the form of proxy and management's discussion and analysis (collectively, the “**meeting materials**”) to the depositories and intermediaries for onward distribution to Non-Registered Holders. The Company does not intend to pay for intermediaries to forward the meeting materials to Non-Registered Holders and Non-Registered Holders will not receive the meeting materials unless the intermediary assumes the cost of delivery.

Intermediaries are required to forward meeting materials to Non-Registered Holders unless a Non-Registered Holder has waived the right to receive them. Very often, intermediaries will use service companies to forward the meeting materials to Non-Registered Holders. Non-Registered Holders who have not waived the right to receive meeting materials will:

- A. be given a proxy which has already been signed by the intermediary (typically by a facsimile, stamped signature) which is restricted to the number of shares beneficially owned by the Non-Registered Holder but which is otherwise uncompleted. This form of proxy need not be signed by the Non-Registered Holder. In this case, the Non-Registered Holder who wishes to submit a proxy should otherwise properly complete the form of proxy and deposit it as described above; or
- B. more typically, receive, as part of the meeting materials, a voting instruction form which must be completed, signed and delivered by the Non-Registered Holder in accordance with the directions on the voting instruction form (which may in some cases permit the completion of the voting instruction form by telephone or through the Internet).

The purpose of these procedures is to permit Non-Registered Holders to direct the voting of the shares they beneficially own. Should a Non-Registered Holder who receives either a proxy or a voting instruction form wish to attend and vote at the meeting in person (or have another person attend and vote on behalf of the Non-Registered Holder), the Non-Registered Holder should strike out the names of the persons named in the proxy and insert the Non-Registered Holder's (or such other person's) name in the blank space provided or, in the case of a voting instruction form, follow the corresponding instructions on the form. **In either case, Non-Registered Holders should carefully follow the instructions of their intermediaries and their service companies.**

If you have given a proxy, you may revoke it by an instrument in writing executed by you or by your attorney authorized in writing or, if you are a corporation, under your corporate seal or by an officer or attorney duly authorized, and deposited either at our head office at any time up to and including the last business day preceding the day of the meeting, or any adjournment or postponement thereof, at which the proxy is to be used or with the chair or secretary of the meeting on the day of the meeting or any adjournment or postponement thereof.

A Non-Registered Holder may revoke a voting instruction form or a waiver of the right to receive meeting materials and to vote given to an intermediary at any time by written notice to the intermediary, except that an intermediary is not required to act on a revocation of voting instruction form or of a waiver of the right to receive materials and to vote that is not received by the intermediary at least seven days prior to the meeting.

Voting Shares and Principal Holders Thereof

As of March 24, 2016, we have 14,766,307 subordinate voting shares and 34,396,284 multiple voting shares outstanding (these are our only voting securities). Each subordinate voting share carries one vote per share at all meetings of shareholders except for separate meetings of holders of another class of shares. Each multiple voting share carries twenty-five votes per share at all meetings of shareholders except in certain circumstances (which have not occurred) and except for separate meetings of holders of another class of shares. 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 outstanding subordinate voting shares currently represent 1.7% of the total votes attached to all classes of our outstanding shares.

The subordinate voting shares are "restricted securities" within the meaning of such term under applicable Canadian securities laws. Under applicable Canadian law, an offer to purchase multiple voting shares would not necessarily require that an offer be made to purchase subordinate voting shares. In accordance with the rules of the Toronto Stock Exchange (the "TSX") designed to ensure that, in the event of a take-over bid, the holders of subordinate voting shares will be entitled to participate on an equal footing with holders of multiple voting shares, pursuant to a coattail agreement entered into on April 10, 2015 among the Company, the holders of the multiple voting shares and a trustee (the "**Coattail Agreement**"). The Coattail Agreement contains provisions customary for dual class, TSX-listed corporations designed to prevent transactions that otherwise would deprive the holders of subordinate voting shares of rights under applicable provincial take-over bid legislation to which they would have been entitled if the multiple voting shares had been subordinate voting shares.

Each holder of our subordinate voting shares or multiple voting shares of record at the close of business on March 24, 2016 (the "**record date**" established for notice of the meeting and for voting in respect of the meeting) will be entitled to

vote at the meeting or any adjournment or postponement thereof, either in person or by proxy. Shareholders representing in person or by proxy at least 15% of our outstanding voting shares constitute a quorum at any meeting of shareholders.

Fairfax Financial Holdings Limited and its affiliates (“**Fairfax**”) owns 87,000 subordinate voting shares and 19,903,378 multiple voting shares, representing 56.9% of the total votes attached to all classes of our shares (0.59% of the total votes attached to the subordinate voting share and 57.9% of the total votes attached to the multiple voting shares).

The Phelan family through Cara Holdings Limited and its affiliates (“**Cara Holdings**”) owns 14,492,906 multiple voting shares, representing 41.4% of the total votes attached to all classes of our shares (42.1% of the total votes attached to the multiple voting shares).

To the knowledge of our directors and officers, there are no other persons who (directly or indirectly) beneficially own, or control or direct, shares carrying 10% or more of the votes attached to any class of our voting shares.

Interest of Certain Persons or Companies in Matters to be Acted Upon

To the knowledge of the directors, except as otherwise set out in this Management Proxy Circular, none of our directors, officers or insiders, or any associate or affiliate of any of the foregoing persons, has any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter to be acted upon at the meeting. Furthermore, no “informed person” of the Company (as such term is defined under applicable securities laws), proposed nominee for election as a director of the Company and no associate or affiliate of any such informed person or proposed nominee has or had a material interest, direct or indirect, in any transaction which has materially affected or would materially affect the Company or any of its subsidiaries or affiliates.

Annual Information Form

You may obtain a copy of our latest annual information form (together with the documents incorporated therein by reference), our comparative consolidated financial statements for 2015 together with the report of the auditors thereon, management’s discussion and analysis of our financial condition and results of operations for 2015, any of our interim financial statements for periods subsequent to the end of our 2015 fiscal year and this circular, upon request to our Corporate Secretary. If you are one of our securityholders, there will be no charge to you for these documents. You can also find these documents on our website (www.cara.com) or on SEDAR (www.sedar.com).

Shareholder Proposals for Next Year’s Annual Meeting

The *Business Corporations Act* (Ontario) permits certain eligible shareholders to submit shareholder proposals to us, which proposals may be included in a management proxy circular relating to an annual meeting of shareholders. The final date by which we must receive shareholder proposals for our annual meeting of shareholders to be held in 2017 is February 23, 2017.

SECTION II – BUSINESS OF THE MEETING

We will address three items at the meeting:

1. receiving the consolidated financial statements for the year ended December 27, 2015 and the auditor’s report of those statements;
2. electing directors; and
3. appointing auditors and authorizing directors to fix their remuneration.

We will also consider other business that may properly come before the meeting.

1. Receiving the Consolidated Financial Statements

The consolidated financial results for the year ended December 27, 2015 and the auditor’s report on those statements will be presented at the meeting and shareholders will be given the opportunity to discuss these results with management.

2. Election of Directors

A board of six directors (the “**Board**”) is to be elected at the meeting to serve until the next annual meeting. Each nominee is voted for on an individual basis. If you submit a proxy in the enclosed form, it will, unless you direct otherwise, be voted **FOR** the election of each of the nominees named below. However, in case any of the nominees should become unavailable for election for any presently unforeseen reason, the persons named in the proxy will have the right to use their discretion in selecting a substitute. The following information is submitted with respect to the nominees for director:

| Names of nominees, offices held in Cara (or significant affiliates) and principal occupations | Director since | Ownership or control over voting securities (subordinate voting shares) of Cara ⁽¹⁾⁽²⁾ |
|---|------------------|---|
| William D. Gregson Chair and Chief Executive Officer of Cara Operations Limited Alberta, Canada | October 31, 2013 | - |
| Stephen K. Gunn ^(a) Co-Founder and Co-Chair of Sleep Country Canada Inc. Ontario, Canada | March 26, 2013 | - |
| Christopher D. Hodgson ^{(a)(b)} President, Ontario Mining Association Ontario, Canada | April 10, 2015 | - |
| Michael J. Norris ^(a) Corporate Director Ontario, Canada | January 2, 2012 | - |
| John A. Rothschild ^(b) Corporate Director Ontario, Canada | October 31, 2013 | 487,605 (3.3%) |
| Sean Regan ^(b) President of Cara Holdings Limited Ontario, Canada | April 10, 2015 | - |

(a) Member of the Audit Committee (Chair — Stephen K. Gunn).

(b) Member of the Governance, Compensation and Nominating Committee (Chair — John A. Rothschild).

(1) Details on all outstanding options and share-based awards held by our directors are shown in the table below giving details of the outstanding option and share-based awards granted to our directors and are further described below under “Executive Compensation Discussion and Analysis - Outstanding Option-Based Awards and Share Base Awards” and “Director Compensation – Outstanding Options-Based Awards and Share Based Awards”. None of the shares mentioned in this footnote are included in the numbers of our shares shown in the above table.

(2) Mr. Regan is the President of Cara Holdings Limited, which beneficially owned, or controlled or directed, directly or indirectly 14,492,906 Multiple Voting Shares, representing approximately 42.1% of issued and outstanding Multiple Voting Shares.

The information as to shares beneficially owned or controlled by each nominee, and certain of the biographical information provided below, not being within our knowledge, has been furnished by such nominee.

Legend:

BD—Board of Directors AC—Audit Committee GC&NC—Governance, Compensation and Nominating Committee

William D. Gregson — Mr. Gregson is the Chief Executive Officer of the Company, a position he has held since October, 2013 and has been the Chair of the Board since April 10, 2015. Mr. Gregson served as the Executive Chair of the board of directors of The Brick from January, 2012 until March, 2013. Mr. Gregson was appointed President and Chief Executive Officer of The Brick Warehouse LP on July 10, 2009 and held that office until December 31, 2011. Prior to that, Mr. Gregson was the President and Chief Operating Officer of Forzani, where he worked for 11 years. Mr. Gregson is also a Director of Keg Restaurants Ltd. and a former director of MEGA Brands Inc. and Shop.ca Network Inc. He has a long and distinguished track record of over 30 years in retail operations. Mr. Gregson holds a Bachelor of Commerce degree from the University of Toronto.

Meetings Attended in 2015
11 of 11 BD

Stephen K. Gunn — Mr. Gunn is the Co-Chair of Sleep Country Canada Inc., a position he has held since 1997. He co-founded Sleep Country Canada in 1994 and served as its Chief Executive Officer from 1997 to 2014. Mr. Gunn was a management consultant with McKinsey & Company from 1981 to 1987 and then co-founded and was President of Kenrick Capital. Mr. Gunn has served as the Lead Director of Dollarama Inc. since 2009. He is also a director of Golfsmith International Holdings GP Inc. and Mastermind Toys. Mr. Gunn holds a Master of Business Administration from the University of Western Ontario and a B.Sc. degree in Electrical Engineering from Queen's University.

Meetings Attended in 2015
11 of 11 BD
4 of 4 AC

Christopher D. Hodgson — Mr. Hodgson is the President of the Ontario Mining Association, President of Chris Hodgson Enterprises and a board member for Fairfax India Holding Corp. He previously served as Lead Director for The Brick. As a member of Ontario's provincial parliament, Mr. Hodgson served as Minister of Natural Resources, Minister of Northern Development and Mines, Chairman of the Management Board of Cabinet, Commissioner of the Board of Internal Economy, and Minister of Municipal Affairs and Housing. Previously he enjoyed a career in municipal government and real estate development and is an Honours Bachelor of Arts graduate from Trent University.

Meetings Attended in 2015⁽¹⁾
8 of 11 BD
3 of 4 AC
2 of 2 GC&NC

Michael J. Norris — Mr. Norris has been a director of the Company since January 2, 2012 and acted as Interim Chair of the Board from October 31, 2013 to April 10, 2015. He was Deputy Chair of RBC Capital Markets from 2003 through 2012. Prior to his appointment as Deputy Chair, Mr. Norris, held numerous positions with RBC Capital Markets, including Head of the Energy Practice from 1992 through 1998 and Head of Global Investment Banking from 1998 through 2003. Prior to his career at RBC, Mr. Norris had a successful career with Mobil Oil and Gulf Canada. Mr. Norris currently sits on the boards of a number of public, private and non-profit organizations. Mr. Norris holds a B.Sc. degree in Civil Engineering from Queen's University and holds a Master of Business Administration from the University of Western Ontario.

Meetings Attended in 2015
11 of 11 BD
4 of 4 AC

John A. Rothschild — Mr. Rothschild has been a board member of the Company since October, 2013. He retired from his position as Senior Vice President, Restaurant Development of the Company in November 2014, a position he had held since October 2013. Mr. Rothschild was the former Chief Executive Officer of Prime from 1992 to 2014. Mr. Rothschild has been a senior officer and member of the Boards of Directors of Prime’s predecessors since 1988. From 1979 until 1993, Mr. Rothschild worked for Claridge Inc. (formerly Cemp Investments Ltd.), rising to become Vice President of Investments, and then President of one of that company’s subsidiaries specializing in investing in small to medium sized businesses. Mr. Rothschild also sits on the boards of directors of several Canadian companies. Mr. Rothschild holds a Bachelor of Arts from the University of Toronto, a Master of Business Administration from the University of Western Ontario, and is a FCPA/FCA.

Meetings Attended in 2015
11 of 11 BD
2 of 2 GC&NC

Sean Regan — Mr. Regan is the President of Cara Holdings, a position he has held since 2013. Mr. Regan was most recently Senior Vice President, Corporate Development at the Company in 2013, where he was responsible for acquisition and partnership opportunities and the Company’s gift card program. Prior to that, Mr. Regan ran the IT Group including the Call Centre Business at the Company from 2009 to 2013, at which time he led the Company’s business transformation process to the current cloud computing environment. Prior to his work at the Company, Mr. Regan was a commercial helicopter pilot operating in British Columbia. Mr. Regan holds a Master of Business Administration from the University of Western Ontario.

Meetings Attended in 2015⁽¹⁾
8 of 11 BD
2 of 2 GC&NC

(1) Mr. Hodgson and Mr. Regan were appointed to the Board on April 10, 2015, and, therefore, were only eligible to attend 8 out of 11 meetings of the Board and 3 out of 4 of the meetings of the Audit Committee.

3. Appointment of Auditor and Director Remuneration

KPMG LLP has been our auditor since December 2010. Information concerning fees paid to our external auditors for services they have rendered to us in each of the last two fiscal years can be found in our Annual Information Form, under the heading “Audit Committee – External Auditor Service Fees”, which is available on SEDAR (www.sedar.com).

If you submit a proxy in the enclosed form, it will, unless you direct otherwise, be voted **FOR** the appointment of KPMG LLP as our auditor to hold office until the next annual meeting and authorize the directors to fix their remuneration. In order to be effective, the resolution to appoint KPMG LLP as our auditor must be passed by a majority of the votes cast in person or by proxy at the meeting.

Other Business

Our management is not aware of any other matters which are to be presented at the meeting. However, if any matters other than those referred to herein should be presented at the meeting, the persons named in the enclosed proxy are authorized to vote the shares represented by the proxy in their discretion and in accordance with their best judgment.

SECTION III – EXECUTIVE COMPENSATION DISCUSSION AND ANALYSIS

Overview

The following discussion describes the significant elements of the compensation of the Company’s Chief Executive Officer, Chief Financial Officer, President, Family Dining Division & Chief Development Officer, Sr. Vice President, Casual Dining Division and Sr. Vice President, Milestones and Chief Executive Officer, The Landing Group (collectively, the “**named executive officers**” or “**NEOs**”), namely:

William D. Gregson, Chief Executive Officer;

Kenneth J. Grondin, Chief Financial Officer;

Kenneth Otto, President, Family Dining Division & Chief Development Officer;

Grant Cobb, Sr. Vice President, Casual Dining Division; and

Steve Pelton, Sr. Vice President, Milestones and Chief Executive Officer, The Landing Group.

Compensation Discussion and Analysis

Overview

The Governance, Compensation and Nominating Committee, in consultation with the Chief Executive Officer, is responsible for establishing, reviewing and overseeing the compensation policies of the Company and compensation of the named executive officers. The Company's executive compensation program is designed to attract, retain and motivate highly qualified executives while also aligning the interests of the executives with the Company's shareholders.

Our executive compensation program is designed to (i) align the interests of our executives with our shareholders by linking compensation with our performance, and (ii) to be competitive on a total compensation basis in order to attract and retain executives. The remuneration of our NEOs consists of an annual base salary, an annual bonus and long term equity incentives, consisting of options granted from time to time under the Company's 2015 share option plan (the "Share Option Plan"). Perquisites and personal benefits are not a significant element of compensation of the NEOs.

Each year, our CEO makes compensation recommendations to the Governance, Compensation and Nominating Committee in consideration of the achievements of our executive team during the year and our corporate objective to achieve a high rate of return on invested capital and build long term shareholder value. The Governance, Compensation and Nominating Committee evaluates the factors considered by our CEO and decides whether to approve or adjust the recommendations for compensation of our executive officers. The Governance, Compensation and Nominating Committee separately considers the compensation for our CEO, as more fully described below.

Mr. Gregson proposed to our Governance, Compensation and Nominating Committee the remuneration of our executive officers for 2015. The Governance, Compensation and Nominating Committee considered the proposals by Mr. Gregson, which included a description of the accomplishments of our executives. The Governance, Compensation and Nominating Committee evaluated and approved the compensation of our executive officers. Details of the compensation awarded to our named executive officers for 2015 are shown in the "Summary Compensation Table" below.

Compensation Risk

In reviewing the compensation policies and practices of the Company each year, the Governance, Compensation and Nominating Committee seeks to ensure the executive compensation program provides an appropriate balance of risk and reward consistent with the risk profile of the Company. The Governance, Compensation and Nominating Committee also seeks to ensure the Company's compensation practices do not encourage excessive risk-taking behaviour by the executive team. The Company's long-term incentive plan has been designed to focus on the long-term performance of the Company, which discourages executives from taking excessive risks in order to achieve short-term, unsustainable performance.

All of the Company's executives, including the NEOs, directors and employees are subject to the Company's insider trading policy, which prohibits trading in the securities of the Company while in possession of material undisclosed information about the Company. Under this policy, such individuals are also be prohibited from entering into certain types of hedging transactions involving the securities of the Company, such as short sales, puts and calls. Furthermore, the Company permits executives, including the NEOs, to trade in the Company's securities, including the exercise of options, only during prescribed trading windows.

Base salaries

A primary element of the Company's compensation program is base salary. The Company's view is that a competitive base salary is a necessary element for attracting and retaining qualified executive officers. The amount payable to a NEO is determined based on the scope of the executive's responsibilities and prior experience, while taking into account competitive market compensation and overall market demand for such executives at the time of hire.

Base salaries are reviewed annually and increased for merit reasons based on the executive's success in meeting or exceeding Company and individual objectives. Additionally, base salaries can be adjusted as warranted throughout the year

to reflect promotions or other changes in the scope or breadth of an executive's role or responsibilities, as well as for market competitiveness.

Each of the NEOs has elected to remain eligible to participate in the Share Option Plan in exchange for foregoing: (a) eligibility for any annual merit increases, (b) participating in the Company's 3% RSP match program and, where applicable, (c) receiving a car allowance from the Company. Each NEO received a grant of 10,000 Options in December, 2015 under the Share Option Plan.

Annual bonuses

Annual bonuses are designed to motivate executive officers to meet the Company's business objectives and annual financial performance targets in particular. Bonuses are earned and measured with reference to the Company's Operating EBITDA and, where applicable, that of any specific brand(s) for which the applicable executive officer has responsibility. Annual bonus targets are set as a percentage of the relevant individuals' base salary (generally 25% of base salary) and can double (up to 50% of base salary), increase by up to 91% of base salary or increase by such other amounts as the Board may elect from time to time in the case of the Chief Executive Officer, if maximum financial performance targets are achieved. The Company sets Operating EBITDA targets in connection with the annual budget process to ensure that bonus targets are realized at predetermined levels of Operating EBITDA growth, representing a significant improvement over prior year and/or budget. Under the current program, all bonus payouts are rendered in cash.

For 2015, bonus targets were set based on improved EBITDA performance over 2014. The Cara overall portion of 2015 annual bonuses paid out at the maximum level for eligible participants. Like 2015, 2016 annual bonus targets have been set based on improving EBITDA performance over 2015.

Long-term incentives

Share Option Plan

The named executive officers, along with other employees and non-employee directors, are eligible to participate in the Company's Share Option Plan. The purpose of the Share Option Plan is to motivate and provide rewards for the senior management team and other plan participants to achieve long-term goals of improving the performance of the Company and increasing shareholder value. Under the plan, the Company awards long-term incentives in the form of options, the values of which are directly linked to the change in value of the Subordinate Voting Shares.

Executives and employees eligible for grants under the Share Option Plan generally receive them as determined by the Board from time to time on an annual basis. The value of awards under the plan is based on an employee's seniority of job function. All grants are reviewed and approved by the Governance, Compensation and Nominating Committee and the Board as part of its regular compensation review.

Administration

The Share Option Plan is administered by the Board. The Board determines which employees and non-employee directors of the Company or a related entity of the Company are eligible to receive options to purchase Subordinate Voting Shares ("**Options**") under the Share Option Plan. In addition, the Board administers and interprets the Share Option Plan and may adopt, amend, prescribe or rescind any administrative guidelines or other rules and regulations relating to the Share Option Plan, as it deems appropriate. On May 12, 2015, the Board delegated the authority to determine the number of Options to be granted to the management level directors, lead chefs, vice presidents, senior vice presidents, the Chief Executive Officer and Chief Financial Officer to Mr. Gregson.

To the extent permitted by law, the Board may delegate its powers under the Share Option Plan to the Governance, Compensation and Nominating Committee. In such event, the Governance, Compensation and Nominating Committee will exercise the powers delegated to it by the Board in the manner and on such terms authorized by the Board, and all decisions made, or actions taken, by the Governance, Compensation and Nominating Committee arising in connection with the administration or interpretation of the Share Option Plan, within its delegated authority, are final and conclusive.

Eligibility

All current non-employee directors and employees of the Company or related entities of the Company are eligible to participate in the Share Option Plan.

Subordinate Voting Shares Subject to the Share Option Plan and Participation Limits

The Share Option Plan provides that the number of Subordinate Voting Shares available for issuance upon exercise of options (including Options, options granted under the Legacy Share Option Plan, options granted under the Legacy CEO Share Option Plan (“**CEO Options**”) and options granted under the Director Share Option Plan (“**Director Options**”)) will not exceed 15% of the Company’s issued and outstanding Shares from time to time. If, for any reason, any Options or CEO Options terminate prior to their exercise in full or are exercised or cancelled, the Subordinate Voting Shares subject to such Options or CEO Options will again become available for issuance under the Share Option Plan. As a result, the Share Option Plan is considered an “evergreen” plan. Accordingly, pursuant to the rules of the TSX, the Share Option Plan will be subject to approval by security holders other than insiders eligible to participate in the Share Option Plan every three years. The Share Option Plan is not subject to any insider or other participation limits.

As at March 24, 2016, 329,490 Options were outstanding under the Share Option Plan, representing approximately 0.67% of the Company’s issued and outstanding Shares. As at March 24, 2016, an aggregate of 329,490 Options, 1,041,700 options granted under the Legacy Share Option Plan, 3,494,624 CEO Options and nil Director Options were outstanding, together representing approximately 9.90% of the Company’s issued and outstanding Shares as at that date.

Exercise and Vesting

The Board may grant Options to any participant under the Share Option Plan at any time. The exercise price for Options will be determined by the Board, but may not be less than the greater of (i) the fair market value of a Subordinate Voting Share (generally being the volume weighted average trading price of the Subordinate Voting Shares on the TSX on the five trading days immediately preceding the applicable day (the “**Market Value**”)) on the date the Option is granted, and (ii) the price required by applicable regulatory authorities.

Unless otherwise specified in a participant’s option agreement, Options will vest on the third anniversary of their date of grant. Each vested Option becomes exercisable on the later of (i) January 1, 2019, and (ii) the third anniversary of the date of grant. Unless otherwise specified by the Board, each Option expires on the eighth anniversary of the date of grant, except in the case where the expiry period falls during a blackout period, in which case the expiry period will be automatically extended until 10 business days after the end of the blackout period. The Share Option Plan also provides for earlier expiration of Options upon the occurrence of certain events, including the termination of a participant’s employment.

In order to facilitate the payment of the exercise price of the Options, the Share Option Plan has a cashless exercise feature. The participant may elect to receive (i) an amount in cash per Option equal to the cash proceeds realized upon the sale of the Subordinate Voting Shares by a securities dealer in the capital markets, less the applicable exercise price and any applicable withholding taxes, (ii) an aggregate number of Subordinate Voting Shares that is equal to the number of Subordinate Voting Shares underlying the Options minus the number of Subordinate Voting Shares sold by a securities dealer in the capital markets as required to realize cash proceeds equal to the applicable exercise price and any applicable withholding taxes, or (iii) a combination of (i) and (ii). The transfer cost incurred to sell the Subordinate Voting Shares will be deducted from the net proceeds payable to the participant.

Termination of Employment

Unless otherwise permitted by the Board, upon a participant’s qualified retirement after 2018, death or disability, any unvested Options held by the participant as at the termination date will accelerate and vest on a pro rata basis up to the termination date. All of a participant’s vested Options may be exercised until the earlier of (i) the expiry date of the Options, or (ii) 180 days after the termination date, after which time all Options will expire. The concept of retirement is qualified in accordance with the terms of the Share Option Plan.

Unless otherwise permitted by the Board, upon termination of a participant’s employment without cause, any vested Options held by the participant as at the termination date may be exercised until the earlier of (i) the expiry date of the Options, or (ii) 90 days after the termination date, after which time all Options will expire. Any unvested Options held by the participant as at the termination date immediately expire.

Unless otherwise permitted by the Board, upon termination of a participant's employment for cause or the participant voluntarily resigns, any unvested Options held by the participant as at the termination date immediately expire. If a participant's employment is terminated by voluntary resignation, then (i) if the resignation occurs prior to 2019, the participant's right to exercise his or her Options will not apply and the vested Options (if any) will immediately expire, and (ii) if the resignation occurs in 2019 or beyond, the participant's vested Options continue to be exercisable until the earlier of (a) the expiry date of the Options, or (b) 90 days after the termination date, after which time all Options will expire. If a participant's employment is terminated for cause, any vested Options may be exercised until the earlier of (i) the expiry date of the Options, or (ii) 90 days after the termination date (provided the termination is not due to a criminal act, in which case all vested Options will immediately expire), after which time all Options will expire.

Unless otherwise permitted by the Board, if the participant is a director who ceases to hold office as a result of (i) his or her removal by shareholders, or (ii) voluntary resignation, any vested Options held by the participant as at the termination date may be exercised until the earlier of (a) the expiry date of the Options, or (b) 60 days after the termination date (provided the termination is not due to a criminal act, in which case all vested Options will immediately expire), after which time all Options will expire. Any unvested Options held by the participant as at the termination date immediately expire.

Adjustments

In the event of any change in the Company's capital structure, the payment of an extraordinary stock dividend or any other change made in the capitalization of the Company, that, in the opinion of the Board, would warrant the amendment or replacement of any existing Options (collectively, the "**Adjustment Events**"), the Share Option Plan provides for appropriate adjustments in the number of Subordinate Voting Shares that may be acquired upon the exercise of Options or the exercise price of outstanding Options (collectively, the "**Adjustments**"), as necessary in order to preserve proportionately the rights and obligations of the participants under the Share Option Plan.

In the event of an amalgamation, combination, merger or other reorganization involving the Company by exchange of Subordinate Voting Shares, by sale or lease of assets or otherwise, that, in the opinion of the Board, warrants the replacement or amendment of any existing Options, the Board may make Adjustments in order to preserve proportionately the rights and obligations of the participants under the Share Option Plan.

In the event that the Board determines that the Adjustments would not preserve proportionately the rights and obligations of the participants, or the Board otherwise determines it is appropriate, the Board may permit the vesting and/or exercise of any outstanding Options that are not otherwise vested and/or exercisable and the cancellation of any outstanding Options which are not exercised within any specified period.

Amendment or Discontinuance

The Board may, at any time, amend, suspend or terminate the Share Option Plan, or any portion thereof, subject to applicable law (including stock exchange rules) that requires the approval of security holders or any governmental or regulatory body, provided that no such action may be taken that adversely alters or impairs any rights of a participant under any Option previously granted without the consent of such affected participant.

Notwithstanding the above, the Board may make amendments to the Share Option Plan without seeking security holder approval, including, for example (and without limitation), housekeeping amendments, amendments to comply with applicable laws or to qualify for favourable treatment under tax laws or amendments to accelerate vesting. The following types of amendments cannot be made without obtaining security holder approval:

1. amendments to the number of Subordinate Voting Shares reserved for issuance;
2. increases in the length of the period after a blackout period during which Options may be exercised;
3. amendments which would result in the exercise price for any Option being lower than the Market Value at the time the Option is granted;
4. reductions to the exercise price of an Option, other than pursuant to an Adjustment Event;
5. extension of the term of an Option held by an insider beyond the expiry of its exercise period;

6. amendments to the amendment provisions;
7. permits awards to be transferred or assigned, other than for normal estate settlement purposes; and
8. amendments required to be approved by security holders under applicable law (including the rules, regulations and policies of the TSX).

Assignment

Except as required by law and subject to the retirement, death or disability of a participant, no assignment or transfer of Options, whether voluntary, involuntary, by operation of law or otherwise, is permitted.

Change of Control

In the event of a change of control of the Company (which occurs when the Principal Shareholders cease to have control) (a “**Change of Control**”), all unvested Options will vest and become exercisable on an accelerated basis and, if requested by the participant, the Company will pay each participant an amount in cash equal to the whole number of Subordinate Voting Shares covered by the Option to be tendered multiplied by the amount by which the price paid for a Subordinate Voting Share pursuant to the Change of Control exceeds the exercise price of the Options, net of withholding taxes. The Company will pay the foregoing amounts contemporaneously with completion of the transaction resulting in the Change of Control.

Legacy Share Option Plan

The Legacy Share Option Plan is part of a legacy compensation program pursuant to which certain employees of the Company were granted options to purchase shares in the capital of the Company. No additional awards will be made under the Legacy Share Option Plan, but options previously granted under this plan continue to be governed by the provisions of the Legacy Share Option Plan.

Under the Legacy Share Option Plan, there are currently outstanding options to purchase an aggregate of 1,041,700 Subordinate Voting Shares, representing approximately 2.12% of the Company’s issued and outstanding Shares as at March 24, 2016. Subject to accelerated vesting as noted below, options generally vest not earlier than the third anniversary of the grant date. Accordingly, other than the options granted to Mr. Grondin in 2013, the first portion of the outstanding options granted in 2014 will vest in 2017. In the event of the retirement, death or disability of a participant, unvested options under the Legacy Share Option Plan will accelerate and vest on a pro-rata basis, up to the applicable termination date. In the event of a Change of Control, all unvested options will accelerate and vest. Options granted under the Legacy Share Option Plan (excluding Mr. Grondin’s options) may not be exercised prior to January 1, 2019, except in the event of the death, disability or termination without cause of a participant.

Subject to earlier expiration in connection with termination of employment as provided for under the Legacy Share Option Plan, options granted under the Legacy Share Option Plan have an eight-year term. In order to facilitate the payment of the exercise price of the options, the Legacy Share Option Plan has a cashless exercise feature similar to the Share Option Plan.

The options granted to Mr. Grondin are subject to the Legacy Share Option Plan, except that the grant agreement provides for accelerated vesting on the occurrence of certain termination events in addition to those listed above, including Mr. Grondin’s termination without cause, constructive dismissal and if his employment is not renewed or extended at the completion of the five year term of his employment agreement (ending on October 31, 2018). Upon the occurrence of such events, Mr. Grondin’s unvested options will accelerate and vest on a pro-rata basis, up to the applicable termination date. Additionally, his options are not subject to the general Legacy Share Option Plan vesting schedule and exercise provisions. Mr. Grondin’s options vest over a 3-year period ending on October 31, 2016, and are exercisable immediately when vested.

Legacy Chief Executive Officer Share Option Plan (“Legacy CEO Share Option Plan”)

The Legacy CEO Share Option Plan is a part of a legacy compensation program pursuant to which Mr. Gregson was granted CEO Options as an employment inducement. The CEO Options continue to be governed by the provisions of the Legacy CEO Share Option Plan. However, there will be no additional grants made under this plan.

Mr. Gregson was granted a first tranche of 1,075,269 CEO Options with an exercise price of \$0.01 and a second tranche of 2,419,355 CEO Options with an exercise price of \$8.51. As at March 24, 2016, 3,494,624 CEO Options were outstanding, representing approximately 7.11% of the Company's issued and outstanding Shares as at that date. Subject to accelerated vesting, half of each tranche vested on October 31, 2015, with the balance vesting on October 31, 2016. In the event of Mr. Gregson's voluntary resignation, termination without cause, constructive dismissal, death or disability, unvested CEO Options will accelerate and vest on a pro-rata basis, up to the applicable termination date. In the event of a Change of Control, all unvested CEO Options will accelerate and vest. Vested options will be exercisable immediately.

Subject to earlier expiration in connection with his termination of employment or service, the CEO Options granted to Mr. Gregson will expire on October 31, 2021. In order to facilitate the payment of the exercise price of the CEO Options, the Legacy CEO Share Option Plan has a cashless exercise feature. The participant may elect to receive (i) an amount in cash per CEO Option equal to the cash proceeds realized upon the sale of the Subordinate Voting Shares by a securities dealer in the capital markets, less the applicable exercise price and any applicable withholding taxes, (ii) an aggregate number of Subordinate Voting Shares that is equal to the number of Subordinate Voting Shares underlying the CEO Options minus the number of Subordinate Voting Shares sold by a securities dealer in the capital markets as required to realize cash proceeds equal to the applicable exercise price and any applicable withholding taxes, or (iii) a combination of (i) and (ii). The transfer cost incurred to sell the Subordinate Voting Shares will be deducted from the net proceeds payable to the participant.

Summary Compensation Table

The following table sets out the compensation earned by, paid to, or awarded to the NEOs during 2015.

| Name | Position/Title | Salary | Share-Based Awards | Option-Based Awards (\$) ⁽¹⁾⁽²⁾ | Non-Equity Incentive Plan Compensation (Bonus) ⁽³⁾ | All Other Compensation ⁽⁴⁾ | Total Compensation |
|--------------------|--|--------------------------|--------------------|--|---|---------------------------------------|--------------------|
| William D. Gregson | Director, Chair and Chief Executive Officer | \$650,000 | - | \$68,015 | \$750,000 | - | \$1,468,015 |
| Kenneth J. Grondin | Chief Financial Officer | \$375,000 | - | \$68,015 | \$375,000 | 11,250 | \$829,265 |
| Kenneth Otto | President, Family Dining Division & Chief Development Officer | \$600,000 | - | \$68,015 | \$300,000 | 12,685 | \$980,700 |
| Grant Cobb | Sr. Vice President, Casual Dining Division | \$315,959 | - | \$68,015 | \$138,151 | 54,930 | \$577,055 |
| Steve Pelton | Vice President of Milestones and CEO Landing Group Premium Dining Division | \$132,212 ⁽⁵⁾ | - | \$355,215 | \$68,750 | 3,966 | \$560,143 |

- (1) In 2015, the company granted 90,000 stock options at a weighted average exercise price of \$33.14 per Subordinate Voting Share. NEOs were awarded with 10,000 options each in December 2015 with an exercise price of \$32.37. In addition, as part of the June 2015 acquisition of The Landing Group, Steve Pelton was awarded 40,000 options at an exercise price of \$34.10 in connection with the closing.
- (2) Amounts reflect the grant date fair value of stock options awarded to NEOs in 2015. The Company accounts for 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 NEOs was determined by applying the Black-Scholes option pricing model. Options granted to the NEOs in 2015 were granted at a weighted average grant date fair value of \$6.97 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 |
|-------------------|-------------------|----------------|--------------------|------------------------|-------------------------|---------------------------------|
| July 6, 2015 | 40,000 | \$ 34.10 | 5.5 years | 26.00% | 0.76% | \$ 7.18 |
| December 4, 2015 | 50,000 | \$ 32.37 | 5.5 years | 26.00% | 0.92% | \$ 6.80 |
| Weighted Average | | \$ 33.14 | | | | \$ 6.97 |

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. 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.

- (3) Amounts reflect the annual bonuses paid to NEOs in 2016 in respect of Fiscal 2015.
- (4) Reflects Company contributions in respect of Messrs. Grondin, Cobb and Pelton under the Company's deferred profit share plan. The Company provided Mr. Cobb with \$24,930 in 2015, which was to be directed to a personal retirement savings plan.
- (5) Mr. Pelton commenced employment with the Company on July 6, 2015. The amount reflects Mr. Pelton's annual salary of \$275,000, prorated for his term of employment in 2015.

Employment Agreements, Termination and Change of Control Benefits

The Company has written employment agreements with each of its NEOs and each executive is entitled to receive compensation established by the Company as well as other benefits in accordance with plans available to the most senior employees (including health, dental, life insurance, accidental death and dismemberment, sick days and short-term disability

and long-term disability). The Company's NEO employment contracts do not contain any provisions relating to a change of control.

Messrs. Gregson, Grondin and Cobb

Each NEO executive employment agreement provides that the Company may terminate the NEO's employment at any time, without cause, by providing the NEO with notice of termination. If the NEO's employment is terminated without cause, or the NEO terminates employment as a result of constructive dismissal, he will be entitled to receive his base salary in effect as of the termination date for two (2) years following the termination date, a pro-rated annual bonus based on the number of days worked prior to the termination date (subject to achievement of the applicable performance criteria), entitlements under any Company incentive plans in accordance with plan terms, the reimbursement of expenses properly incurred in the course of employment up to the termination date, accrued but unpaid vacation pay up to the termination date, the continuation of life, health and dental insurance coverage for two (2) years following the termination date, and any additional payments required by applicable employment standards legislation (collectively, the "**Severance Entitlements**"). These entitlements are conditioned on the NEO's execution of a release of claims. The estimated incremental value of the Severance Entitlements assuming the termination occurred on December 27, 2015 is \$1,304,103 for Mr. Gregson, \$758,191 for Mr. Grondin and \$640,109 for Mr. Cobb.

In addition to the Severance Entitlements, in the case of termination without cause, or termination by the NEO as a result of constructive dismissal, Messrs. Gregson and Grondin are entitled to pro-rata vesting of their outstanding stock options (with an estimated incremental value of \$79.3 million and \$4.1 million, respectively, assuming the termination occurred on December 27, 2015 and based on the closing price of the Subordinate Voting Shares on the TSX on December 24, 2015). Mr. Grondin is also entitled to the Severance Entitlements and pro-rata vesting of his outstanding stock options if his employment is not renewed or extended at the completion of the five-year term of his employment agreement (ending on October 31, 2018). Pursuant to Mr. Cobb's executive employment agreement, he is entitled to receive a severance payment equal to 18 months of his base salary if his employment is not renewed at the completion of the five-year term of his employment agreement (ending on October 31, 2018).

If the NEO's employment is terminated for cause or due to his resignation, death or incapacity, he or his estate, as applicable, will be entitled to accrued but unpaid base salary and vacation pay up to the termination date, the reimbursement of expenses properly incurred in the course of the NEO's employment up to the termination date, the NEO's entitlements under any Company incentive plans in accordance with plan terms, and any additional payments required by applicable employment standards legislation. In addition, each of Messrs. Gregson and Grondin is entitled to pro-rata vesting of stock options if his employment is terminated due to his death or incapacity.

Each NEO's executive employment agreement contains customary confidentiality covenants and certain restrictive covenants that will continue to apply following the termination of his employment, including non-solicitation and non-competition provisions which are both in effect during the NEO's employment and for the 24 months (in the case of Messrs. Gregson and Grondin) or 18 months (in the case of Mr. Cobb), as the case may be, following the termination of his employment.

Mr. Pelton

Mr. Pelton's employment agreement is for an indefinite term and stipulates that the Company has the right to terminate his employment for just cause, at any time, without notice and without pay in lieu of notice. The Company has the right to terminate Mr. Pelton's employment for any reason other than for just cause by providing Mr. Pelton with six month's base salary (with an estimated incremental value of \$137,500 assuming the termination occurred on December 27, 2015).

Mr. Otto

Mr. Otto's employment agreement is for an indefinite term and stipulates that the Company has the right to terminate his employment for just cause, at any time, without notice and without pay in lieu of notice. The Company has the right to terminate Mr. Otto's employment for any reason other than for just cause by providing Mr. Otto with one year's base salary and the average bonus paid over the most recent two-year period (with an estimated incremental value of \$879,963 assuming the termination occurred on December 27, 2015). If the average of a two-year bonus period is not available, the bonus will be based on the previous year's bonus payment.

Entitlements under the Share Option Plan and Legacy Share Option Plan

In the event of a Change of Control, all unvested stock options will vest and become exercisable on an accelerated basis pursuant to the Share Option Plan and the Legacy Share Option Plan, the estimated incremental value of which would be \$86.7 million for Mr. Gregson, \$6 million for Mr. Grondin, \$1 million for Mr. Cobb, \$0.3 million for Mr. Pelton and \$4.8 million for Mr. Otto assuming the Change of Control occurred on December 27, 2015 and based on the closing price of the Subordinate Voting Shares on the TSX on December 24, 2015.

Outstanding Option-Based Awards and Share-Based Awards

The following table sets out information concerning the outstanding option-based awards held by each of the NEOs as at December 27, 2015. The Company has no outstanding share-based awards held by NEOs.

| Name | Position/Title | Option-Based Awards | | | |
|--------------------|---|---|-----------------------|------------------------|--|
| | | Number of shares underlying unexercised options | Option exercise price | Option expiration date | Value of unexercised in-the-money options ⁽¹⁾ |
| William D. Gregson | Director, Chair and Chief Executive Officer | 1,075,269 | \$0.01 | October 31, 2021 | \$33,010,758 |
| | | 2,419,355 | \$8.51 | October 31, 2021 | \$53,709,681 |
| | | 10,000 | \$32.37 | December 4, 2023 | \$0 |
| Kenneth J. Grondin | Chief Financial Officer | 241,935 | \$8.51 | October 31, 2021 | \$5,370,957 |
| | | 26,441 | \$8.51 | December 4, 2022 | \$586,990 |
| | | 10,000 | \$32.37 | December 4, 2023 | \$0 |
| Kenneth Otto | President, Family Dining Division & Chief Development Officer | 215,054 | \$8.51 | September 8, 2022 | \$4,774,199 |
| | | 10,000 | \$32.37 | December 4, 2023 | \$0 |
| Grant Cobb | Sr. Vice President, Casual Dining Division | 14,712 | \$8.51 | January 1, 2022 | \$326,606 |
| | | 29,424 | \$8.51 | December 4, 2022 | \$653,212 |
| | | 10,000 | \$32.37 | December 4, 2023 | \$0 |
| Steve Pelton | Sr. Vice President, Milestones and Chief Executive Officer, The Landing Group | 15,512 | \$8.51 | December 4, 2022 | \$344,366 |
| | | 40,000 | \$34.10 | July 6, 2025 | \$0 |
| | | 10,000 | \$32.37 | December 4, 2023 | \$0 |

- (1) The value of unexercised in-the-money options is calculated by subtracting the exercise price of an option on one share from the closing price of a Subordinate Voting Shares on the TSX on December 24, 2015 (the last trading day of the Company's 2015 fiscal year) (\$30.71), and multiplying that difference by the number of unexercised options. That value does not include any deduction to recognize that some or all unexercised options may never become exercisable.

Incentive Plan Awards - Value Vested or Earned During the Year

The following table sets out the value of option-based and share-based awards held by our NEOs that vested during fiscal 2015, as well as the value of non-equity incentive plan compensation that NEOs earned during fiscal 2015:

| Name | Option-Based Awards — Value vested during the year ⁽¹⁾ | Share-Based Awards — Value vested during the year ⁽²⁾ | Non-equity incentive plan compensation — Value earned during the year ⁽³⁾ |
|--------------------|---|--|--|
| William D. Gregson | \$51,659,982 | - | \$750,000 |
| Kenneth J. Grondin | - | - | \$375,000 |
| Kenneth Otto | - | - | \$300,000 |
| Grant Cobb | - | - | \$138,151 |
| Steve Pelton | - | - | \$68,750 |

- (1) The value vested is calculated by multiplying the number of options which became vested during the year by the amount by which the market value of one of our Subordinate Voting Shares on the day of vesting (\$35.46), exceeded the exercise price of an option. Out-of-the-money options are excluded from the calculation. As no options which vested during the year were exercised, the values shown in this table are included in the values of options shown in the preceding table.
- (2) None.
- (3) Amounts reflect the annual bonuses paid to NEOs in 2016 in respect of Fiscal 2015.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets out information on the Company's equity compensation plans as at December 27, 2015:

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|--|---|---|---|
| | (a) | (b) | (c) |
| <i>Equity compensation plans approved by securityholders</i> | N/A | N/A | N/A |
| <i>Equity compensation plans not approved by securityholders</i> | | | |
| • <i>Share Option Plan</i> | 322,606 | \$32.84 | 2,427,636 ¹ |
| • <i>Legacy Share Option Plan</i> | 1,043,502 | \$8.51 | 0 ¹ |
| • <i>Legacy CEO Share Option Plan</i> | 3,494,624 | \$5.89 | 0 ¹ |
| • <i>Director Share Option Plan</i> | N/A | N/A | 2,427,636 ¹ |
| • <i>Legacy DSOP</i> | 86,021 | \$0.01 | 0 ¹ |

(1) Represents the aggregate number of securities remaining available for future issuance under the Share Option Plan and the Director Share Option Plan.

SECTION IV – DIRECTOR COMPENSATION

Directors' Compensation

The Board, through the Governance, Compensation and Nominating Committee, is responsible for reviewing and approving the directors' compensation arrangements and any changes to those arrangements.

The Governance, Compensation and Nominating Committee established the compensation arrangements for each director that is not an employee of the Company or one of its affiliates. The directors' compensation program is designed to attract, retain and motivate the most qualified individuals to serve on the Board. Non-employee directors (other than Messrs. Gunn, Norris and Rothschild) are entitled to an annual retainer of \$50,000 and are entitled to receive all or a proportion of their annual retainer in deferred share units ("DSUs"). Directors have the option to convert their annual cash retainer into DSUs at a 10% premium. There are no additional fees based on meeting attendance. In addition, non-management directors joining the Board are granted DSUs with a value of approximately \$30,000 which vest three years after the date of grant.

A DSU is a unit, equivalent in value to a Subordinate Voting Share, credited by means of a bookkeeping entry in the books of the Company, to an account in the name of the director. DSUs accumulate additional DSUs at the same rate as dividends, if any, paid on the Subordinate Voting Shares. Following the end of the director's tenure as a member of the Board, the director will be paid in cash the Market Value of the Subordinate Voting Shares represented by the DSUs.

Upon the appointment of Messrs. Gunn and Norris to the Board on November 1, 2013, each of the directors was granted 32,258 options under the Legacy DSOP in lieu of receiving a retainer for serving as a member of the Board for a three-year period ending October 31, 2016. In addition, upon the retirement of Mr. Rothschild from the Company on November 1, 2014, Mr. Rothschild was granted 21,505 options under the Legacy DSOP in lieu of receiving a retainer for serving as a member of the Board for the two-year period ending October 31, 2016. Accordingly, Messrs. Gunn, Norris and Rothschild will not receive any annual fees for serving as directors in respect of the period ending on October 31, 2016, following which it is expected they will each be paid an annual retainer as noted above.

Directors are reimbursed for their reasonable out-of-pocket expenses incurred in serving as directors. In addition, directors will be entitled to receive remuneration for services rendered to the Company in any other capacity, except in respect of their service as directors of any of the Company's subsidiaries. Directors who are employees of and who receive a salary from the Company or one of its affiliates or subsidiaries will not be entitled to receive any remuneration for serving as directors, but will be entitled to reimbursement of their reasonable out-of-pocket expenses incurred in serving as directors.

The following table sets out the compensation provided to our directors during 2015.

| Name | Position/Title | Fees Earned⁽¹⁾ | Total Compensation |
|------------------------|-----------------------|----------------------------------|---------------------------|
| Stephen K. Gunn | Director | - | - |
| Christopher D. Hodgson | Director | \$57,778 | \$57,778 |
| Michael J. Norris | Director | - | - |
| John A. Rothschild | Director | - | - |
| Sean Regan | Director | \$57,778 | \$57,778 |

(1) Amounts reflect the value of DSUs granted to the directors in lieu of receiving an annual cash retainer for serving on the Board. The value is calculated by multiplying the number of DSUs granted by the closing price of the Subordinate Voting Shares on the TSX on the date of grant.

Director Share Option Plan

The material features of the Director Share Option Plan are summarized below.

Administration

The Director Share Option Plan is administered by the Board. The Board determines which non-employee directors of the Company or related entities of the Company are eligible to receive Director Options under the Director Share Option Plan. In addition, the Board administers and interprets the Director Share Option Plan and may adopt, amend, prescribe or rescind any administrative guidelines or other rules and regulations relating to the Director Share Option Plan, as it deems appropriate.

Eligibility

All non-employee directors of the Company or related entities of the Company are eligible to participate in the Director Share Option Plan.

Subordinate Voting Shares Subject to the Director Share Option Plan and Participation Limits

The Director Share Option Plan provides that the number of Subordinate Voting Shares available for issuance upon exercise of options (including Options, options granted under the Legacy Share Option Plan, CEO Options and Director Options), will not exceed 15% of the Company's issued and outstanding Shares from time to time. If, for any reason, any Director Options terminate prior to their exercise in full or are exercised or cancelled, the Subordinate Voting Shares subject to such Director Options will again become available for issuance under the Director Share Option Plan. As a result, the Director Share Option Plan is considered an "evergreen" plan. Accordingly, pursuant to the rules of the TSX, the Director Share Option Plan will be subject to approval by security holders other than insiders eligible to participate in the Director Share Option Plan every three years. The Director Share Option Plan is not subject to any insider or other participation limits.

As at March 24, 2016, no Director Options were outstanding under the Director Share Option Plan.

Director Options

The Board may grant Director Options to any participant under the Director Share Option Plan at any time. The exercise price for Director Options will be determined by the Board, but may not be less than the greater of the Market Value on the date the Director Option is granted and the price required by applicable regulatory authorities.

Unless otherwise specified in a participant's option agreement, Director Options will vest on a pro-rata basis calculated from the first day of the applicable 12-month period (or such pro-rated period as contemplated by the Director Share Option Plan) that is determined by the Board pursuant to a participant's option agreement (the "**Service Period**") until the last day of the applicable Service Period.

Unless otherwise permitted by the Board, each vested Director Option becomes exercisable following the end of the Service Period in respect of which the Director Option was granted until expiration or termination of the Director Option (the "**Exercise Period**"). Each Director Option expires on the 8th anniversary of the date of grant, except in the case where the expiry period falls during a blackout period, in which case the expiry period will be automatically extended until

10 business days after the end of the blackout period. The Director Share Option Plan also provides for earlier expiration of Director Options upon the occurrence of certain events, including the termination of a participant's service.

In order to facilitate the payment of the exercise price of the Director Options, the Director Share Option Plan has a cashless exercise feature. The participant may elect to receive (i) an amount in cash per Director Option equal to the cash proceeds realized upon the sale of the Subordinate Voting Shares by a securities dealer in the capital markets, less the applicable exercise price and any applicable withholding taxes, (ii) an aggregate number of Subordinate Voting Shares that is equal to the number of Subordinate Voting Shares underlying the Director Options minus the number of Subordinate Voting Shares sold by a securities dealer in the capital markets as required to realize cash proceeds equal to the applicable exercise price and any applicable withholding taxes, or (iii) a combination of (i) and (ii). The transfer cost incurred to sell the Subordinate Voting Shares will be deducted from the net proceeds payable to the participant.

Notwithstanding the above and subject to a change of control of the Company, for so long as the participant remains a director of the Company or one of its related entities, the participant may only sell or otherwise monetize any Subordinate Voting Shares provided the options and Subordinate Voting Shares held by the participant have a Market Value of at least \$300,000 at such time (the "**Minimum Holdings Requirement**").

Cessation of Service

Unless otherwise permitted by the Board, if a participant ceases to hold office as a result of (i) his or her removal by shareholders, or (ii) his or her voluntary resignation, any vested Director Options (including pro-rata vesting) held by the participant as at the cessation date may be exercised until the earlier of (a) the expiry date of the Director Options, or (b) 90 days after the cessation date (provided the cessation is not due to a criminal act, in which case all vested Director Options will immediately expire), after which time all Director Options will expire. Any unvested Director Options held by the participant as at the cessation date immediately expire.

Adjustments

In the event of any change in the Company's capital structure, the payment of an extraordinary stock dividend or any other change made in the capitalization of the Company, that, in the opinion of the Board, would warrant the amendment or replacement of any existing Director Options (collectively, the "**DSOP Adjustment Events**"), the Director Share Option Plan provides for appropriate adjustments in the number of Subordinate Voting Shares that may be acquired upon the exercise of Director Options or the exercise price of outstanding Director Options (collectively, the "**DSOP Adjustments**"), as necessary in order to preserve proportionately the rights and obligations of the participants under the Director Share Option Plan.

In the event of an amalgamation, combination, merger or other reorganization involving the Company by exchange of Subordinate Voting Shares, by sale or lease of assets or otherwise, that, in the opinion of the Board, warrants the replacement or amendment of any existing Director Options, the Board may make DSOP Adjustments in order to preserve proportionately the rights and obligations of the participants under the Director Share Option Plan.

In the event that the Board determines that the DSOP Adjustments would not preserve proportionately the rights and obligations of the participants, or the Board otherwise determines it is appropriate, the Board may permit the vesting and/or exercise of any outstanding Director Options that are not otherwise vested and/or exercisable and the cancellation of any outstanding Director Options which are not exercised within any specified period.

Amendment or Discontinuance

The Board may, at any time, amend, suspend or terminate the Director Share Option Plan, or any portion thereof, subject to applicable law (including stock exchange rules) that requires the approval of security holders or any governmental or regulatory body, provided that no such action may be taken that adversely alters or impairs any rights of a participant under any Director Option previously granted without the consent of such affected participant.

Notwithstanding the above, the Board may make amendments to the Director Share Option Plan without seeking security holder approval, including, for example (and without limitation), housekeeping amendments, amendments to comply with applicable laws or to qualify for favourable treatment under tax laws or amendments to accelerate vesting. The following types of amendments cannot be made without obtaining security holder approval:

1. amendments to the number of Subordinate Voting Shares reserved for issuance;
2. increases in the length of the period after a blackout period during which Director Options may be exercised;
3. amendments which would result in the exercise price for any Director Option being lower than the Market Value at the time the Director Option is granted;
4. reductions to the exercise price of a Director Option, other than pursuant to a DSOP Adjustment Event;
6. extension of the term of a Director Option held by an insider beyond the expiry of its exercise period;
7. amendments to the amendment provisions;
8. permits awards to be transferred or assigned, other than for normal estate settlement purposes; and
9. amendments required to be approved by security holders under applicable law (including the rules, regulations and policies of the TSX).

Assignment

Except as required by law and subject to the retirement, death or disability of a participant, no assignment or transfer of Director Options, whether voluntary, involuntary, by operation of law or otherwise, is permitted.

Change of Control

In the event of a Change of Control, all unvested Director Options will vest and become exercisable on an accelerated basis and, if requested by the participant, the Company will pay each participant an amount in cash equal to the whole number of Subordinate Voting Shares covered by the Director Option to be tendered multiplied by the amount by which the price paid for a Subordinate Voting Share pursuant to the Change of Control exceeds the exercise price of the Director Options, net of withholding taxes. The Company will pay the foregoing amounts contemporaneously with completion of the transaction resulting in the Change of Control.

Legacy Director Share Option Plan ("Legacy DSOP")

The Legacy DSOP is a part of a legacy compensation program pursuant to which options to purchase shares in the capital of the Company with an exercise price of \$0.01 per option ("**Legacy DSOP Options**") were granted to certain non-employee directors. No additional grants can be made under this plan.

Subject to accelerated vesting in the event of the retirement, death or disability of the participant or upon a Change of Control, Legacy DSOP Options vest on a pro-rata basis as to 10,753 Legacy DSOP Options each year over a prescribed service period (two or three years). Vested Legacy DSOP Options are exercisable on the day after they vest.

Subject to earlier expiration in connection with termination of service as provided for under the Legacy DSOP, each Legacy DSOP Option will expire eight years from the date of grant. In order to facilitate the payment of the exercise price of the Legacy DSOP Options, the Legacy DSOP has a cashless exercise feature. The participant may elect to receive (i) an amount in cash per Legacy DSOP Option equal to the cash proceeds realized upon the sale of the Subordinate Voting Shares by a securities dealer in the capital markets, less the applicable exercise price and any applicable withholding taxes, (ii) an aggregate number of Subordinate Voting Shares that is equal to the number of Subordinate Voting Shares underlying the Legacy DSOP Options minus the number of Subordinate Voting Shares sold by a securities dealer in the capital markets as required to realize cash proceeds equal to the applicable exercise price and any applicable withholding taxes, or (iii) a combination of (i) and (ii). The transfer cost incurred to sell the Subordinate Voting Shares will be deducted from the net proceeds payable to the participant. Except in the event of a Change of Control, for so long as the individual is a director, he can only exercise Legacy DSOP Options for cash and sell or otherwise monetize his Subordinate Voting Shares provided the remaining options and Subordinate Voting Shares held by the participant have a fair market value of at least \$300,000 at such time.

Outstanding Option-Based Awards and Share-Based Awards

The following table sets out the information concerning the outstanding option and share-based awards held by our directors as at December 27, 2015.

| Name | Position/Title | Option-Based Awards | | | Share-Based Awards | | | |
|------------------------|----------------|---|-----------------------|------------------------|--|---------------------------------------|--|---|
| | | Number of shares underlying unexercised options | Option exercise price | Option expiration date | Value of unexercised in-the-money options ⁽¹⁾ | Number of shares that have not vested | Market value of share-based awards that have not vested ⁽²⁾ | Market Value of vested share-based awards not paid out or distributed |
| Stephen K. Gunn | Director | 32,258 | \$0.01 | October 31, 2021 | \$990,321 | - | - | - |
| Christopher D. Hodgson | Director | - | - | - | - | - | - | \$82,856 |
| Michael J. Norris | Director | 32,258 | \$0.01 | October 31, 2021 | \$990,321 | - | - | - |
| John A. Rothschild | Director | 21,505 | \$0.01 | November 1, 2022 | \$660,204 | - | - | - |
| Sean Regan | Director | - | - | - | - | - | - | \$82,856 |

- (1) The value of unexercised in-the-money options is calculated by subtracting the exercise price of an option on one share from the closing price of a Subordinate Voting Shares on the TSX on December 24, 2015 (the last trading day of the Company's 2015 fiscal year) (\$30.71), and multiplying that difference by the number of unexercised options. That value does not include any deduction to recognize that some or all unexercised options may never become exercisable.
- (2) The amounts reflect the value of DSUs granted to the directors in lieu of receiving an annual retainer for serving on the Board. The value is calculated by multiplying the number of DSUs held as at December 27, 2015 by the closing price of a Subordinate Voting Shares on the TSX on December 24, 2015 (the last trading day of the Company's 2015 fiscal year) (\$30.71).

Incentive Plan Awards - Value Vested or Earned During the Year

The following table sets out the value of option-based and share-based awards held by our directors that vested during fiscal 2015, as well as the value of non-equity incentive plan compensation that directors earned during fiscal 2015:

| Name | Option-Based Awards — Value vested during the year ⁽¹⁾ | Share-Based Awards — Value vested during the year ⁽²⁾ | Non-equity incentive plan compensation — Value earned during the year |
|------------------------|---|--|---|
| Stephen K. Gunn | \$381,194 | - | - |
| Christopher D. Hodgson | - | \$57,778 | - |
| Michael J. Norris | \$381,194 | - | - |
| John A. Rothschild | \$381,194 | - | - |
| Sean Regan | - | \$57,778 | - |

- (1) The value vested is calculated by multiplying the number of options which became vested during the year by the amount by which the market value of one of our subordinate voting shares on the day of vesting (\$35.46), exceeded the exercise price of an option. Out-of-the-money options are excluded from the calculation. As no options which vested during the year were exercised, the values shown in the above table are included in the values of options shown in the preceding table.
- (2) Amounts reflect the value of DSUs granted to the directors in lieu of receiving an annual cash retainer for serving on the Board. The value is calculated by multiplying the number of DSUs granted by the closing price of the Subordinate Voting Shares on the TSX on the date the DSUs vest. DSUs held by a director will not be paid out until after the director resigns, dies or otherwise ceases to be engaged by the Company.

Directors' and Officers' Insurance

The directors and officers of the Company and its subsidiaries are covered by directors' and officers' liability insurance. Under this insurance coverage, the Company and its subsidiaries will be reimbursed for insured claims where payments have been made under indemnity provisions on behalf of the directors and officers of the Company and its subsidiaries, subject to a deductible for each loss, which will be paid by the Company. Individual directors and officers of the Company and its subsidiaries will also be reimbursed for insured claims arising during the performance of their duties for which they are not indemnified by the Company or its subsidiaries. Excluded from insurance coverage are illegal acts, acts which result in personal profit and certain other acts.

The Company's directors' and officers' liability insurance program provides an aggregate limit of liability of USD\$10 million, with a deductible to us of \$nil to USD\$0.2 million per loss, varying with the nature of the loss. The approximate annual premium for this directors' and officers' liability insurance is USD\$50,000.

This insurance forms part of a blended insurance program with Fairfax that provides excess coverage above the Company's USD\$10 million directors' and officers' liability insurance program mentioned above. Fairfax currently purchases USD\$70 million of blended directors' and officers' liability, errors and omissions, employment practices liability, fiduciary and bond coverage and an additional USD\$125 million of side "A" directors' & officers' liability insurance which covers both legal defense expenses and payments of settlements that arise from claims brought against directors and officers, when those costs cannot be indemnified by the Company and claims are in excess of the blended limits.

Indebtedness of Directors and Executive Officers

As at March 24, 2016, there was no indebtedness owing to the Company or any of its subsidiaries by any directors, executive officers, employees or former directors, executive officers or employees of the Company or any of its subsidiaries. In addition, no director or officer, proposed nominee for election as a director of the Company, nor any associate of any director, officer or proposed nominee was indebted to the Company in our 2015 fiscal year.

SECTION V – CORPORATE GOVERNANCE

Statement of Corporate Governance Practices

Our corporate governance policies and practices are reviewed regularly by our Board and updated as necessary or advisable. Our corporate governance practices are in compliance with all applicable rules and substantially comply with all applicable policies and guidelines, including those of the Canadian Securities Administrators. A description of our corporate governance practices is set out below.

Independent Directors

The Board consists of six directors, three of whom (Messrs. Gunn, Hodgson and Norris) are considered "independent" under Canadian securities laws. In making this determination, the Board considered, among other things, that none of those individuals (i) is, or has been within the last three years, an employee or member of management of us or related to any member of management, (ii) is related to our principal shareholders, (iii) is associated with our auditor or has any family member that is associated with our auditor, (iv) receives any direct or indirect compensation (including to family members) from us except in connection with Board related work, (v) works or has worked at a company for which any member of our management was a member of the compensation committee, or (vi) has (other than possibly as an insured under an insurance policy issued on usual commercial terms) any material business or other relationship with us or our principal shareholders. Messrs. Gregson, Rothschild and Regan are not considered to be "independent" within the meaning of applicable securities law as a result of their respective relationships with the Company — Mr. Gregson as a result of his position as Chief Executive Officer of the Company and Messrs. Rothschild and Regan as a result of their previous employment with the Company.

Our directors have an ongoing obligation to inform the Board of any material changes in their circumstances or relationships that may affect the Board's determination as to their independence and, depending on the nature of the change, a director may be asked to resign as a result.

The independent directors, non-independent directors and members of management met during our 2015 fiscal year during regularly scheduled Board meetings, including via in-camera sessions. The size of the Board and the nature of the Company's operations ensure that open and candid discussion among the independent directors is possible and encouraged.

Corporate Governance Guidelines (including Board Mandate)

The Board mandate sets out the overall governance principles that apply to us.

The mandate of the Board is to provide governance and stewardship to the Company and its business. In fulfilling its mandate, the Board has adopted a written charter setting out its responsibility for, among other things, (i) participating in the development of and approving a strategic plan for the Company; (ii) supervising the activities and managing the affairs of the Company; (iii) approving major decisions regarding the Company; (iv) defining the roles and responsibilities of management and delegating management authority to the Chief Executive Officer; (v) reviewing and approving the business objectives to be met by management; (vi) assessing the performance of and overseeing management; (vii) reviewing the Company's debt strategy; (viii) identifying and managing risk exposure; (ix) ensuring the integrity and adequacy of the Company's internal controls and management information systems; (x) succession planning; (xi) establishing committees of the Board, where required or prudent, and defining their mandate; (xii) maintaining records and providing reports to shareholders;

(xiii) ensuring effective and adequate communication with shareholders, other stakeholders and the public; (xiv) determining the amount and timing of dividends, if any, to shareholders; and (xv) monitoring the social responsibility, integrity and ethics of the Company.

Our Board has delegated to management responsibility for our day to day operations, including for all matters not specifically assigned to the Board or any committee of the Board.

The current mandate of the Board is set out in Schedule “A”.

Audit Committee

The Audit Committee consists of three directors, all of whom are persons determined by the Company to be both independent and financially literate within the meaning of NI 52-110 and a majority of whom are residents of Canada. The Audit Committee is comprised of Stephen K. Gunn, who will act as Chair of this committee, Michael J. Norris and Christopher D. Hodgson. Each of the Audit Committee members has an understanding of the accounting principles used to prepare financial statements and varied experience as to the general application of such accounting principles, as well as an understanding of the internal controls and procedures necessary for financial reporting. For additional information concerning Messrs. Gunn, Norris and Hodgson, please see the information above under the heading “Election of Directors”.

The responsibilities of the Audit Committee include: (i) reviewing the Company’s procedures for internal control with the Company’s auditors and Chief Financial Officer; (ii) reviewing and approving the engagement of the auditors; (iii) reviewing annual and quarterly financial statements and all other material continuous disclosure documents, including the Company’s annual information form and management’s discussion and analysis; (iv) assessing the Company’s financial and accounting personnel; (v) assessing the Company’s accounting policies; (vi) reviewing the Company’s risk management procedures; (vii) reviewing any significant transactions outside the Company’s ordinary course of business and any legal matters that may significantly affect the Company’s financial statements; (viii) overseeing the work and confirming the independence of the external auditors; and (ix) reviewing, evaluating and approving the internal control procedures that are implemented and maintained by management. The Audit Committee reviews the Company’s quarterly results and makes a recommendation to the Board with respect to approving such quarterly results. The text of our Audit Committee Charter can be found on our website (www.cara.com) or in our Annual Information Form under the heading “Audit Committee”, which is available on SEDAR (www.sedar.com).

The Audit Committee has an annual approval of audit and non-audit services provided by the Company’s auditor.

Governance, Compensation and Nominating Committee

The Governance, Compensation and Nominating Committee is comprised of three directors, one of whom is a person determined by the Board to be independent and a majority of whom are residents of Canada, and will be charged with reviewing, overseeing and evaluating the corporate governance, compensation and nominating policies of the Company. The Governance, Compensation and Nominating Committee is comprised of John A. Rothschild, who will act as Chair of this committee, Christopher D. Hodgson and Sean Regan. No member of the Governance, Compensation and Nominating Committee is an officer of the Company, and as such, the Board feels that the Governance, Compensation and Nominating Committee will be able to conduct its activities in an objective manner. The responsibilities of the Committee include: (i) assessing the effectiveness of the Board, each of its committees and individual directors; (ii) overseeing the recruitment and selection of candidates as directors; (iii) organizing an orientation and education program for new directors; (iv) considering and approving proposals by the directors to engage outside advisors on behalf of the Board as a whole or on behalf of the independent directors; (v) reviewing and making recommendations to the Board concerning any change in the number of directors composing the Board; (vi) considering questions of management succession; (vii) administering any share purchase plan of the Company and any other compensation incentive programs; (viii) assessing the performance of management of the Company; (ix) reviewing and approving the compensation paid by the Company, if any, to the officers of the Company; and (x) reviewing and making recommendations to the Board concerning the level and nature of the compensation payable to directors and officers of the Company. In establishing the compensation of the directors, the Governance, Compensation and Nominating Committee will examine the time commitment, responsibilities and risks associated with being a director and compensation paid by companies similar to us. In approving the compensation of the CEO and other executive officers, the important factors for evaluating performance are our corporate objectives, as more fully described above under the heading “Compensation Discussion and Analysis”.

Selection of Directors

We seek as directors committed individuals who have a high degree of integrity, sound practical and commercial judgment and an interest in the long term best interests of us and our shareholders. With this goal in mind, each year the Board determines what competencies and skills the Board as a whole should possess (taking into account our particular business and what competencies and skills each existing director possesses). The Board makes these determinations at a time suitable for the Governance, Compensation and Nominating Committee to reflect them in its recommendations for nominees to the Board. In making its recommendations, the Governance, Compensation and Nominating Committee also considers the competencies and skills any new nominee may possess, the independence requirements and the requirements for any distinctive expertise.

Diversity

The Governance, Compensation and Nominating Committee believes that having a diverse Board and senior management offers a depth of perspective and enhances Board and management operations. The Governance, Compensation and Nominating Committee identifies candidates to the Board and management of the Company that possess skills with the greatest ability to strengthen the Board and management and the Company is focused on continually increasing diversity within the Company.

The Governance, Compensation and Nominating Committee does not specifically define diversity, but values diversity of experience, perspective, education, race, gender and national origin as part of its overall annual evaluation of director nominees for election or re-election as well as candidates for management positions. Gender and geography are of particular importance to the Company in ensuring diversity within the Board and management. Recommendations concerning director nominees are, foremost, based on merit and performance, but diversity is taken into consideration, as it is beneficial that a diversity of backgrounds, views and experiences be present at the Board and management levels.

The Company attempts to recruit and select board and management candidates that represent both gender diversity and business understanding and experience. However, the Board does not support fixed percentages for any selection criteria, as the composition of the Board and management is based on the numerous factors established by the selection criteria and it is ultimately the skills, experience, character and behavioral qualities that are most important to determining the value which an individual could bring to the Board or management of the Company.

At the senior management level of the Company, 21.6% (16 of the 74) members of Cara's leadership team, are female. There are currently no female directors. The Company does not have a formal policy on the representation of women on the Board or senior management of the Company. The Governance, Compensation and Nominating Committee already takes gender into consideration as part of its overall recruitment and selection process in respect of its Board and senior management and will continue to do so. However, the Board does not believe that quotas or strict rules set forth in a formal policy necessarily result in the identification or selection of the best candidates. As such, the Company does not see any meaningful value in adopting a formal policy in this respect at this time as it does not believe that it would further enhance gender diversity beyond the current recruitment and selection process carried out by the Governance, Compensation and Nominating Committee.

The Board is mindful of the benefit of diversity on the Board and management of the Company and the need to maximize the effectiveness of the Board and management and their respective decision-making abilities. Accordingly, in searches for new directors, the Governance, Compensation and Nominating Committee will consider the level of female representation and diversity on the Board and management and this will be one of several factors used in its search process. This will be achieved through continuously monitoring the level of female representation on the Board and in senior management positions and, where appropriate, recruiting qualified female candidates as part of the Company's overall recruitment and selection process to fill Board or senior management positions, as the need arises, through vacancies, growth or otherwise. Where a qualified female candidate can offer the Company a unique skill set or perspective (whether by virtue of such candidate's gender or otherwise), the Governance, Compensation and Nominating Committee anticipates that it would typically select such a female candidate over a male candidate. Where the Governance, Compensation and Nominating Committee believes that a male candidate and a female candidate each offer the Company substantially the same skill set and perspective, such Committee anticipates that it will consider numerous other factors beyond gender and the overall level of female representation in deciding the candidate to whom to the offer will be made.

Orientation and Continuing Education of Directors

Each new director receives a comprehensive orientation from our Chair, including an overview of the role of the Board, the Board committees and each individual member, the nature and operation of our business and the contribution and time commitment the new director is expected to make. The orientation includes access to our senior management and facilities. Our directors are invited to ask questions at any time of any officer or director of Cara.

The Board is responsible for considering from time to time appropriate continuing education for directors, which may include presentations from management, site visits and presentations from industry experts. Each director is expected to maintain the necessary level of expertise to perform his or her responsibilities as a director and, as discussed in more detail below, is subject to an annual evaluation.

Board Performance Evaluation

The Governance, Compensation and Nominating Committee is responsible, along with the Chair of the Board, for establishing and implementing procedures to evaluate the effectiveness of the Board, committees of the Board and the contributions of individual Board members. The Governance, Compensation and Nominating Committee takes reasonable steps to evaluate and assess, on an annual basis, directors' performance and effectiveness of the Board, Board committees, individual members, the Board Chair and committee Chairs. The assessment addresses, among other things, individual director independence, individual director and overall Board skills, and individual director financial literacy. The Board receives and considers the recommendations from the Governance, Compensation and Nominating Committee regarding the results of the evaluation of the performance and effectiveness of the Board, Board committees and individual members.

The directors believe that the members of the Governance, Compensation and Nominating Committee individually and collectively possess the requisite knowledge, skill and experience in governance and compensation matters, including human resource management, executive compensation matters and general business leadership, to fulfill the Governance, Compensation and Nominating Committee's mandate. All members of the Governance, Compensation and Nominating Committee have substantial knowledge and experience as current and former senior executives of large and complex organizations and/or on the boards of other publicly traded entities.

Ethical Business Conduct

The Company has adopted a written code of conduct (the "**Code of Conduct**") that applies to all directors, officers, and management of the Company and its subsidiaries. The objective of the Code of Conduct is to provide guidelines for maintaining the integrity, reputation, honesty, objectivity and impartiality of the Company and its subsidiaries. The Code of Conduct addresses conflicts of interest, protection of the Company's assets, confidentiality, fair dealing with securityholders, competitors and employees, insider trading, compliance with laws and reporting any illegal or unethical behaviour. As part of the Code of Conduct, any person subject to the Code of Conduct is required to avoid or fully disclose interests or relationships that are harmful or detrimental to the Company's best interests or that may give rise to real, potential or the appearance of conflicts of interest. The Board has ultimate responsibility for the stewardship of the Code of Conduct and monitors compliance through the Governance, Compensation and Nominating Committee. Employees and directors are required to annually certify that they have not violated the Code of Conduct. You may obtain a copy of the Code of Conduct upon request to our Corporate Secretary. If you are one of our securityholders, there will be no charge to you for this document. You can also find the Code of Conduct on our website (www.cara.com) or on SEDAR (www.sedar.com).

Term Limits

The Company does not impose term limits on its directors as it takes the view that term limits are an arbitrary mechanism for removing directors which can result in valuable, experienced directors being forced to leave the Board solely because of length of service. Instead, the Company believes that directors should be assessed based on their ability to continue to make a meaningful contribution. The Company's annual performance review of directors assesses the strengths and weaknesses of directors and, in its view, is a more meaningful way to evaluate the performance of directors and to make determinations about whether a director should be removed due to under-performance.

Approval

Our Board has approved the contents of this Management Proxy Circular and the sending thereof to our shareholders.

Dated March 24, 2016

By Order of the Board,
Dave Lantz
Vice President, General Counsel
and Corporate Secretary

SCHEDULE A

CARA OPERATIONS LIMITED MANDATE OF THE BOARD OF DIRECTORS

1. Statement of Purpose

The Board of Directors (the “**Board**”) is responsible for the stewardship of Cara Operations Limited (“**Cara**”) and for supervising the management of the business and affairs of Cara. Accordingly, the Board acts as the ultimate decision-making body of Cara, except with respect to those matters that must be approved by the shareholders. The Board has the power to delegate its authority and duties to committees or individual members and to senior management as it determines appropriate, subject to any applicable law. The Board explicitly delegates to senior management responsibility for the day to day operations of Cara, including for all matters not specifically assigned to the Board or to any committee of the Board. Where a committee of the Board or senior management is responsible for making recommendations to the Board, the Board will carefully consider those recommendations.

2. Board Mandate

The directors’ primary responsibility is to act in good faith and to exercise their business judgment in what they reasonably believe to be the best interests of Cara. In fulfilling its responsibilities, the Board is, among other matters, responsible for the following:

- Determining, from time to time, the appropriate criteria against which to evaluate performance, and set strategic goals and objectives within this context;
- Monitoring performance against both strategic goals and objectives of Cara;
- Appointing the CEO and other corporate officers;
- Delegating to the CEO the authority to manage and supervise the business of Cara, including making any decisions regarding Cara’s ordinary course of business and operations that are not specifically reserved to the Board under the terms of that delegation of authority;
- Determining what, if any, executive limitations may be required in the exercise of the authority delegated to management;
- On an ongoing basis, satisfying itself as to the integrity of the CEO and other executive officers and that the CEO and the other executive officers create a culture of integrity throughout Cara;
- Monitoring and evaluating the performance of the CEO and the other executive officers against the corporate objectives;
- Succession planning;
- Participating in the development of and approving a long-term strategic plan for Cara;
- Reviewing and approving the business and investment objectives to be met by management and ensuring they are consistent with long-term goals;
- Satisfying itself that Cara is pursuing a sound strategic direction in accordance with the corporate objectives;
- Reviewing operating and financial performance results relative to established corporate objectives;
- Approving an annual fiscal plan and setting targets and budgets against which to measure executive performance and the performance of Cara;
- Ensuring that it understands the principal risks of Cara’s business, and that appropriate systems to manage these risks are implemented;
- Ensuring that the materials and information provided by Cara to the Board and its committees are sufficient in their scope and content and in their timing to allow the Board and its committees to satisfy their duties and obligations;
- Reviewing and approving Cara’s annual and interim financial statements and related management’s discussion and analysis, annual information form, annual report (if any) and management proxy circular;

- Overseeing Cara’s compliance with applicable audit, accounting and reporting requirements, including in the areas of internal control over financial reporting and disclosure controls and procedures;
- Confirming the integrity of Cara’s internal control and management information systems;
- Approving any securities issuances and repurchases by Cara;
- Determining the amount and timing of dividends to shareholders, if any;
- Approving the nomination of directors;
- Maintaining records and providing reports to shareholders;
- Establishing committees of the Board, where required or prudent, and defining their respective mandates;
- Approving the charters of the Board committees and approving the appointment of directors to Board committees and the appointment of the Chairs of those committees;
- Satisfying itself that a process is in place with respect to the appointment, development, evaluation and succession of senior management;
- Adopting a communications policy for Cara (including ensuring the timeliness and integrity of communications to shareholders, other stakeholders and the public and establishing suitable mechanisms to receive shareholder views); and
- Monitoring the social responsibility, integrity and ethics of Cara.

3. Independence of Directors

The Board is comprised of an equal number of independent and non-independent members. For this purpose, a director is independent if he or she would be independent within the meaning of National Instrument 58-101 — *Disclosure of Corporate Governance Practices*, as the same may be amended from time to time. On an annual basis, the Board will determine which of its directors is independent based on the rules of applicable stock exchanges and securities regulatory authorities and will publish its determinations in the management circular for Cara’s annual meeting of shareholders. Directors have an on-going obligation to inform the Board of any material changes in their circumstances or relationships that may affect the Board’s determination as to their independence and, depending on the nature of the change, a director may be asked to resign as a result.

At any time that Cara has a Chair of the Board who is not “independent” within the meaning of applicable securities laws and stock exchange rules, the Chair of the Board shall be responsible for ensuring that the Directors who are independent of management have opportunities to meet without management present. Discussions are to be led by an independent director who will provide feedback subsequently to the Chair of the Board. Independent directors will be encouraged by the Chair of the Board to have open and candid discussions with the Chair.

4. Board Size

The Board is currently comprised of six (6) members, three (3) of which are independent and three (3) of which are not independent. The Board will periodically review whether its current size is appropriate. The size of the Board will, in any case, be within the minimum and maximum number provided for in the articles of Cara (6 to 7).

5. Committees

The Board will have an Audit Committee, and a Governance, Compensation and Nominating Committee, the charters of each of which will be as established by the Board from time to time. The Board may, from time to time, establish and maintain additional or different committees as it deems necessary or appropriate.

Circumstances may warrant the establishment of new committees, the disbanding of current committees or the reassignment of authority and responsibilities amongst committees. The authority and responsibilities of each committee are set out in a written mandate approved by the Board. At least annually, each mandate shall be reviewed and, on the recommendation of the Governance, Compensation and Nominating Committee, approved by the Board. Each Committee Chair shall provide a report to the Board on material matters considered by the Committee at the next regular Board meeting following such Committee’s meeting.

6. Board Meetings

Agenda

The Chair is responsible for establishing the agenda for each Board meeting.

Frequency of Meetings

The Board will meet as often as the Board considers appropriate to fulfill its duties, but in any event at least once per quarter.

Responsibilities of Directors with Respect to Meetings

Directors are expected to regularly attend Board meetings and Committee meetings (as applicable) and to review in advance all materials for Board meetings and Committee meetings (as applicable).

Minutes

Regular minutes of Board and Committee proceedings will be kept and will be circulated on a timely basis to all directors and Committee members, as applicable, and the Chair (and to other directors, by request for review and approval).

Attendance at Meetings

The Board (or any Committee) may invite, at its discretion, non-directors to attend a meeting. Any member of management will attend a meeting if invited by the directors. The Chair may attend any Committee meeting.

Meetings of Independent Directors

After each meeting of the Board, the independent directors may meet without the non-Independent Directors. In addition, separate, regularly scheduled meetings of the independent directors of the Board may be held, at which members of management are not present. The agenda for each Board meeting (and each Committee meeting to which members of management have been invited) will afford an opportunity for the independent directors to meet separately.

Residency

Applicable residency requirements will be complied with in respect of any Board or Committee meeting.

7. Communications with Shareholders and Others

The Board will ensure that there is timely communication of material corporate information to shareholders.

Shareholders and others, including other securityholders, may contact the Board with any questions or concerns, including complaints with respect to accounting, internal accounting controls, or auditing matters, by contacting the Chief Financial Officer of Cara at:

199 Four Valley Drive
Vaughan, Ontario, Canada L4K 0B8

8. Service on other Boards and Audit Committees

The Board believes that its members should be permitted to serve on the boards of other public entities so long as these commitments do not materially interfere with and are not incompatible with their ability to fulfill their duties as a member of the Board.

9. Code of Conduct

The Board will adopt a Code of Business Conduct and Ethics (the “Code”). The Board expects all directors, officers and employees of Cara and its subsidiaries to conduct themselves in accordance with the highest ethical standards, and to adhere to the Code. Any waiver of the Code for directors or executive officers may only be made by the Board or one of its Committees and will be promptly disclosed by Cara, as required by applicable law, including the requirements of any applicable stock exchanges.

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