

Cara Operations Limited

Condensed Consolidated Interim Financial Statements (unaudited)
For the 13 weeks ended March 26, 2017 and March 27, 2016

Cara Operations Limited

Condensed Consolidated Interim Statements of Earnings and Comprehensive Income

For the 13 weeks ended March 26, 2017 and March 27, 2016

(unaudited)

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

	For the 13 weeks ended	
	March 26, 2017	March 27, 2016
Sales (note 6)	\$ 156,963	\$ 65,579
Franchise revenues (note 7)	25,766	18,635
Total gross revenue	\$ 182,729	\$ 84,214
Cost of inventories sold	(69,597)	(18,839)
Selling, general and administrative expenses (note 8)	(81,265)	(44,751)
Impairment of assets	(1,184)	-
Restructuring (note 9)	25	134
Operating income	\$ 30,708	\$ 20,758
Net interest expense and other financing charges (note 10)	(3,042)	(639)
Share of loss from investment in associates and joint ventures	(123)	-
Earnings before income taxes	\$ 27,543	\$ 20,119
Income taxes (note 11)		
Current	(3,171)	(65)
Deferred recovery (expense)	19,472	(5,725)
Net earnings	\$ 43,844	\$ 14,329
Net earnings attributable to		
Shareholders of the Company	\$ 43,986	\$ 14,496
Non-controlling interest	(142)	(167)
	\$ 43,844	\$ 14,329
Net earnings per share attributable to the Common		
Shareholders of the Company (note 22) (in dollars)		
Basic earnings per share	\$ 0.73	\$ 0.29
Diluted earnings per share	\$ 0.71	\$ 0.27

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

Cara Operations Limited
Condensed Consolidated Interim Statements of Total Equity
For the 13 weeks ended March 26, 2017 and March 27, 2016
(unaudited)

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

	Attributable to the Common Shareholders of the Company				
	Number of shares (in thousands)	Share Capital (note 21)	Contributed surplus	Deficit	Total equity
Balance at December 25, 2016	59,982	\$ 723,724	\$ 9,764	\$ (179,546)	\$ 553,942
Net earnings and comprehensive income	-	-	-	43,986	43,986
Dividends	-	-	-	(6,099)	(6,099)
Stock options exercised (note 21)	14	146	(27)	-	119
Stock-based compensation (note 20)	-	-	545	-	545
	14	146	518	37,887	38,551
Balance at March 26, 2017	59,996	\$ 723,870	\$ 10,282	\$ (141,659)	\$ 592,493

	Attributable to the Common Shareholders of the Company				
	Number of shares (in thousands)	Share Capital (note 21)	Contributed surplus	Deficit	Total equity
Balance at December 27, 2015	49,163	\$ 438,001	\$ 13,622	\$ (226,916)	\$ 224,707
Net earnings and comprehensive income	-	-	-	14,496	14,496
Dividends	-	-	-	(5,000)	(5,000)
Stock-based compensation (note 20)	-	-	1,138	-	1,138
	-	-	1,138	9,496	10,634
Balance at March 27, 2016	49,163	\$ 438,001	\$ 14,760	\$ (217,420)	\$ 235,341

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

Cara Operations Limited

Condensed Consolidated Interim Balance Sheets

As at March 26, 2017, December 25, 2016 and March 27, 2016

(in thousands of Canadian dollars)

	As at March 26, 2017	As at December 25, 2016	As at March 27, 2016
	(unaudited)		(unaudited)
Assets			
Current Assets			
Cash	\$ 13,880	\$ 26,764	\$ 3,025
Accounts receivable (note 25)	65,749	83,905	31,754
Inventories	27,015	27,837	3,685
Assets held for sale (note 12)	2,998	-	7,416
Current taxes receivable	54	146	167
Prepaid expenses and other assets	5,429	5,937	2,286
Total Current Assets	\$ 115,125	\$ 144,589	\$ 48,333
Long-term receivables (note 13)	40,826	41,427	34,515
Property, plant and equipment (note 14)	325,429	327,893	93,920
Brands and other assets (note 15)	592,720	594,512	200,294
Goodwill (note 16)	190,204	188,998	49,540
Deferred tax asset (note 11)	37,894	18,604	35,614
Total Assets	\$ 1,302,198	\$ 1,316,023	\$ 462,216
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	100,045	93,077	58,913
Provisions (note 17)	6,621	5,159	4,470
Gift card liability	35,803	62,889	29,110
Income taxes payable	5,607	4,768	-
Current portion of long-term debt (note 18)	2,527	2,443	2,207
Total Current Liabilities	\$ 150,603	\$ 168,336	\$ 94,700
Long-term debt (note 18)	379,280	410,703	70,573
Provisions (note 17)	9,534	11,436	7,086
Other long-term liabilities (note 19)	67,838	67,971	50,080
Deferred tax liability (note 11)	102,450	103,635	4,436
Total Liabilities	\$ 709,705	\$ 762,081	\$ 226,875
Shareholders' Equity			
Common share capital	\$ 723,870	\$ 723,724	\$ 438,001
Contributed surplus	10,282	9,764	14,760
Deficit	(141,659)	(179,546)	(217,420)
Total Equity	\$ 592,493	\$ 553,942	\$ 235,341
Total Liabilities and Equity	\$ 1,302,198	\$ 1,316,023	\$ 462,216

Commitments, contingencies and guarantees (note 24)**Subsequent events** (note 28)

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

Cara Operations Limited
Condensed Consolidated Statements of Cash Flows
For the 13 weeks ended March 26, 2017 and March 27, 2016
(unaudited)

(in thousands of Canadian dollars)

	For the 13 weeks ended	
	March 26, 2017	March 27, 2016
Cash from (used in)		
Operating Activities		
Net earnings	\$ 43,844	\$ 14,329
Depreciation and amortization	11,522	6,113
Net loss (gain) on disposal of property, plant and equipment	(443)	(881)
Losses on early buyout/cancellation of equipment rental contracts	(27)	-
Impairment of assets, net of reversals	1,184	-
Net interest expense and other financing charges (note 10)	3,042	639
Stock based compensation	545	1,138
Income taxes paid	2,300	(326)
Change in assets held for sale	(2,998)	(142)
Change in restructuring provision	(287)	(1,174)
Change in deferred tax (note 11)	(19,472)	5,725
Change in onerous contract provision	(284)	(129)
Other non-cash items	(1,934)	(728)
Net change in non-cash operating working capital (note 23)	(8,558)	(24,885)
Cash flows from (used in) operating activities	<u>28,434</u>	<u>(321)</u>
Investing Activities		
Business acquisitions, net of cash assumed	1,521	(224)
Purchase of property, plant and equipment	(10,224)	(3,639)
Proceeds on disposal of property, plant and equipment	527	-
Proceeds on early buyout of equipment rental contracts	100	-
Share of loss from investment in associates in joint ventures	123	-
Additions to other assets	(56)	-
Change in long-term receivables	368	683
Cash flows used in investing activities	<u>(7,641)</u>	<u>(3,180)</u>
Financing Activities		
Issuance of long-term credit facility	-	6,000
Repayment of long-term credit facility (note 18)	(32,000)	(18,000)
Issuance of subordinated voting common shares (note 21)	119	-
Change in finance leases (note 18)	512	(561)
Interest paid	(2,308)	(322)
Cash flows used in financing activities	<u>(33,677)</u>	<u>(12,883)</u>
Change in cash during the period	(12,884)	(16,384)
Cash - Beginning of period	26,764	19,409
Cash - End of period	\$ 13,880	\$ 3,025

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

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 26, 2017 and March 27, 2016

(unaudited)

1 Nature and description of the reporting entity

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

The Company's subordinate voting shares are listed on the Toronto Stock Exchange under the stock symbol "CARA". As part of the Company's initial public offering ("IPO") during fiscal 2015, the Company issued multiple voting shares to Fairfax Financial Holdings Limited and its affiliates ("Fairfax") and to the Phelan family through Cara Holdings Limited and its affiliates ("Cara Holdings", and together with Fairfax, the "Principal Shareholders"). As at March 26, 2017, the Principal Shareholders hold 63.3% of the total issued and outstanding shares and have 97.5% of the voting control attached to all the shares.

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

2 Basis of Presentation

Statement of compliance

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

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors ("Board") on May 4, 2017.

Functional and presentation currency

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

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

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

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 26, 2017 and March 27, 2016

(unaudited)

Seasonality of interim operations

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

Critical accounting judgements and estimates

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Company's accounting policies except those adopted using the judgements during the first quarter of 2017 and the key sources of estimation of uncertainty were the same as those that applied to the Company's audited annual consolidated financial statements as at and for the year ended December 25, 2016.

Comparative information

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

3 Significant accounting policies

Accounting standards implemented in 2017

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

On January 19, 2016 the IASB issued Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12). The amendments apply retrospectively for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences. There was no impact on the Company's condensed consolidated interim financial statements as a result of the amendments.

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 26, 2017 and March 27, 2016

(unaudited)

Disclosure Initiative

On January 7, 2016 the IASB issued Disclosure Initiative (Amendments to IAS 7). The amendments apply prospectively for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. One way to meet this new disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities from financing activities. The Company has adopted this disclosure in the condensed consolidated interim financial statements, see note 18.

Other Standards

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

4 Future accounting standards

Revenue

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

Financial Instruments

In July 2014, the IASB issued the complete IFRS 9 (IFRS 9 (2014)), “Financial Instruments” (“IFRS 9 (2014)”) which will ultimately replace IAS 39, “Financial Instruments: Recognition and Measurement”. IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 26, 2017 and March 27, 2016

(unaudited)

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

Leases

In January 2016, the IASB issued IFRS 16 Leases with a mandatory effective date of January 1, 2019. The new standard will replace IAS 17 Leases and will carry forward the accounting requirements for lessors. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on December 31, 2018. The Company is in the preliminary assessment stages on the impact of this standard, however, as the Company is a lessee with numerous leases and subleases to franchisees, this standard is expected to have a significant impact on assets, liabilities and the statements of earnings.

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

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

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 26, 2017 and March 27, 2016

(unaudited)

Foreign Currency Transactions

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

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

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

Other Standards

On December 8, 2016 the IASB issued narrow-scope amendments to two standards as part of its annual improvements process (Annual Improvements to IFRS Standards (2014-2016) cycle). There was clarification that the election to measure an associate or joint venture at fair value under IAS 28 "Investments in Associates and Joint Ventures" for investments held directly, or indirectly, through a venture capital or other qualifying entity can be made on an investment-by-investment basis which the Company intends to adopt in its financial statements for the annual period beginning on January 1, 2018. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 26, 2017 and March 27, 2016(unaudited)

5 Acquisitions

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

Re-acquired franchise locations

In the normal course of business, the Company may acquire or re-acquire franchise restaurants and convert them into corporate restaurants. During the 13 weeks ended March 26, 2017, there were no franchised locations re-acquired by the Company (March 27, 2016 – 3 franchised locations).

Original Joe's

On November 28, 2016, the Company completed the investment in the majority ownership of Original Joe's Franchise Group Inc. ("Original Joe's") for cash consideration of \$93.0 million plus an earn-out liability if certain targets are met over a period of time. As at March 26, 2017, there were no changes to the preliminary determination of the identifiable assets acquired and liabilities assumed at fair value in connection with the acquisition of Original Joe's disclosed in the December 25, 2016 financial statements.

St-Hubert

On September 2, 2016, the Company completed the acquisition of 100% of Groupe St-Hubert Inc. ("St-Hubert"). The transaction was accounted for as a business combination, with the Company controlling St-Hubert and consolidating 100% of their operations as at the St-Hubert Acquisition Date.

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 26, 2017 and March 27, 2016

(unaudited)

The preliminary determination of the identifiable assets acquired and liabilities assumed at fair value, in connection with the acquisition of St-Hubert was adjusted for changes in estimates during the 13 weeks ended March 26, 2017. The changes are summarized in the table below:

	March 26, 2017	December 25, 2016
Consideration		
Cash paid to vendor	\$ 386,826	\$ 388,346
Cash paid "in trust" relating to holdback	55,500	55,500
Payment of St-Hubert long-term debt	42,450	42,450
Total cash paid for shares	\$ 484,776	\$ 486,296
Cara subordinated voting shares issued	\$ 53,891	\$ 53,891
Total Consideration	\$ 538,667	\$ 540,187
Fair Value of Net Assets Acquired		
Assets		
Accounts receivable	\$ 22,054	\$ 22,054
Inventories	24,762	24,762
Prepaid expenses and other assets	4,070	4,070
Income taxes receivable	438	438
Total Current Assets	51,324	51,324
Long-term receivables	318	318
Property, plant and equipment	189,943	193,673
Brands and other assets	297,647	297,647
Total Assets	\$ 539,232	\$ 542,962
Liabilities		
Accounts payable and accrued liabilities	\$ 30,100	\$ 30,100
Provisions	501	501
Income taxes payable	600	600
Long-term debt	5,140	5,140
Other long-term liabilities	3,674	3,674
Deferred income tax liabilities	99,168	100,171
Total liabilities	\$ 139,183	\$ 140,186
Total net assets acquired	\$ 400,049	\$ 402,776
Goodwill	138,618	137,411
Total	\$ 538,667	\$ 540,187

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 26, 2017 and March 27, 2016

(unaudited)

6 Sales

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

(in thousands of Canadian dollars)	For the 13 weeks ended	
	March 26, 2017	March 27, 2016
Sales at corporate restaurants	\$ 94,237	\$ 63,205
Food processing and distribution	59,628	-
Call centre service charge revenues	3,098	2,374
	<u>\$ 156,963</u>	<u>\$ 65,579</u>

7 Franchise revenues

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

(in thousands of Canadian dollars)	For the 13 weeks ended	
	March 26, 2017	March 27, 2016
Royalty revenue	\$ 22,489	\$ 17,577
Franchise fees on new and renewal licenses	322	41
Income on finance leases	466	511
Other rental income	2,214	108
Amortization of unearned conversion fees income	275	398
	<u>\$ 25,766</u>	<u>\$ 18,635</u>

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 26, 2017 and March 27, 2016

(unaudited)

8 Selling, general and administrative expenses

(in thousands of Canadian dollars)	For the 13 weeks ended	
	March 26, 2017	March 27, 2016
Corporate restaurant expenses	\$ 58,734	\$ 39,274
Franchise assistance and bad debt	1,739	1,861
Franchisor over-contribution to advertising funds	642	675
Depreciation of property, plant and equipment (note 14)	9,983	4,937
Amortization of other assets (note 15)	1,539	1,176
Other	8,628	(3,172)
	<u>\$ 81,265</u>	<u>\$ 44,751</u>

9 Restructuring

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

The following table provides a summary of the costs recognized and cash payments made, as well as the corresponding net liability as at March 26, 2017:

(in thousands of Canadian dollars)	For the 13 weeks ended	
	March 26, 2017	March 27, 2016
Net liability, beginning of period	\$ 1,647	\$ 3,662
Cost/(recovery) recognized		
Employee termination benefits	-	(169)
Site closing costs and other	(25)	35
Total	(25)	(134)
Cash payments		
Employee termination benefits	193	1,005
Site closing costs and other	69	35
Total	262	1,040
Net liability, end of period	\$ 1,360	\$ 2,488

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 26, 2017 and March 27, 2016

(unaudited)

Recorded in the consolidated balance sheets as follows:

(in thousands of Canadian dollars)	<u>March 26, 2017</u>	<u>December 25, 2016</u>	<u>March 27, 2016</u>
Employee termination benefits:			
Accounts payable and accrued liabilities	\$ 806	\$ 962	\$ 1,957
Other long-term liabilities	-	37	120
Site closing costs and other:			
Provisions - current	344	253	141
Provisions - long-term	210	395	270
	<u>\$ 1,360</u>	<u>\$ 1,647</u>	<u>\$ 2,488</u>

10 Net interest expense and other financing charges

(in thousands of Canadian dollars)	<u>For the 13 weeks ended</u>	
	<u>March 26, 2017</u>	<u>March 27, 2016</u>
Interest expense on long-term debt	\$ 2,654	\$ 354
Interest on finance leases	502	382
Financing costs	166	34
Interest expense - other	58	-
Interest income	(338)	(131)
	<u>\$ 3,042</u>	<u>\$ 639</u>

11 Income taxes

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

(in thousands of Canadian dollars)	<u>For the 13 weeks ended</u>	
	<u>March 26, 2017</u>	<u>March 27, 2016</u>
Current income tax expense	\$ 3,171	\$ 65
Deferred income tax expense (recovery)		
Origination and reversal of temporary differences	4,972	5,625
Benefit from previously unrecognized tax asset	(24,444)	100
	<u>(19,472)</u>	<u>5,725</u>
Net income tax (recovery) expense	<u>\$ (16,301)</u>	<u>\$ 5,790</u>

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 26, 2017 and March 27, 2016

(unaudited)

Recognized deferred tax assets and liabilities

(in thousands of Canadian dollars)	As at March 26, 2017	As at December 25, 2016	As at March 27, 2016
Opening balance	\$ (85,031)	\$ 36,903	\$ 36,903
Deferred income tax (expense)/recovery	19,472	(22,008)	(5,725)
Transaction costs associated with the Subscription Receipts	-	2,160	-
St-Hubert acquisition	1,003	(100,171)	-
Original Joe's acquisition	-	(1,458)	-
Income taxes recognized in other comprehensive income	-	(457)	-
	<u>\$ (64,556)</u>	<u>\$ (85,031)</u>	<u>\$ 31,178</u>

Recorded in the consolidated balance sheets as follows:

Deferred tax asset	\$ 37,894	\$ 18,604	\$ 35,614
Deferred tax liability	<u>(102,450)</u>	<u>(103,635)</u>	<u>(4,436)</u>
	<u>\$ (64,556)</u>	<u>\$ (85,031)</u>	<u>\$ 31,178</u>

12 Assets held for sale

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

(in thousands of Canadian dollars)	March 26, 2017	December 25, 2016	March 27, 2016
Assets held for sale	<u>2,998</u>	<u>-</u>	<u>7,416</u>
	<u>\$ 2,998</u>	<u>\$ -</u>	<u>\$ 7,416</u>

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 26, 2017 and March 27, 2016

(unaudited)

13 Long-term receivables

(in thousands of Canadian dollars)	March 26, 2017	December 25, 2016	March 27, 2016
Franchise receivable	\$ 28,495	\$ 28,812	\$ 33,239
Due from related parties (note 26)	10,483	10,727	-
Promissory notes	1,848	1,888	1,271
Franchise licence notes	-	-	5
	<u>\$ 40,826</u>	<u>\$ 41,427</u>	<u>\$ 34,515</u>

Franchise receivable

In prior years, the Company converted certain corporate restaurants to franchise and sold the restaurants to independent operators (“franchisees”). As part of these conversion agreements, certain franchisees entered into rental agreements to rent certain restaurant assets from the Company. Franchise receivables of \$28.5 million (December 25, 2016 - \$28.8 million; March 27, 2016 - \$33.2 million) relate primarily to the long-term obligation of the franchisees to pay the Company over the term of the rental agreement which is equal to the term of the license agreement or the term to the expected buyout date assuming that the franchisee is more likely than not to acquire the rented assets from the Company.

Long-term franchise receivables are reviewed for impairment when a triggering event has occurred. An impairment loss is recorded when the carrying amount of the long-term franchise receivable exceeds its estimated net realizable value. For the 13 weeks ended March 26, 2017 and March 27, 2016, the Company recorded \$nil of impairment losses on long-term franchise receivables.

Long-term receivable maturities

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

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 26, 2017 and March 27, 2016

(unaudited)

14 Property, plant and equipment

(in thousands of Canadian dollars)	As at March 26, 2017						
	Land	Buildings	Equipment	Leasehold improvements	Assets under finance lease	Construction-in-progress	Total
Cost							
Balance, beginning of period	\$ 38,546	\$119,223	\$ 199,244	\$ 128,436	\$ 36,027	\$ 5,796	\$ 527,272
Additions	-	-	(216)	572	1,189	11,436	12,981
Adjustment to purchase price (note 5)	-	(3,730)	-	-	-	-	(3,730)
Disposals and adjustments	-	(2)	(1,173)	(2,497)	-	-	(3,672)
Transfer to/(from) construction-in-progress	-	214	1,731	528	-	(2,473)	-
Balance, end of period	\$ 38,546	\$115,705	\$ 199,586	\$ 127,039	\$ 37,216	\$ 14,759	\$ 532,851
Accumulated depreciation and impairment losses							
Balance, beginning of period	\$ -	\$ 3,946	\$ 117,741	\$ 61,564	\$ 16,128	\$ -	\$ 199,379
Depreciation expense	-	1,828	5,421	2,111	623	-	9,983
Impairment losses	-	-	315	683	-	-	998
Disposals and adjustments	-	-	(1,053)	(1,885)	-	-	(2,938)
Balance, end of period	\$ -	\$ 5,774	\$ 122,424	\$ 62,473	\$ 16,751	\$ -	\$ 207,422
Carrying amount as at:							
March 26, 2017	\$ 38,546	\$109,931	\$ 77,162	\$ 64,566	\$ 20,465	\$ 14,759	\$ 325,429
December 25, 2016	\$ 38,546	\$ 115,277	\$ 81,503	\$ 66,872	\$ 19,899	\$ 5,796	\$ 327,893
March 27, 2016	\$ 2,291	\$ 599	\$ 36,895	\$ 33,152	\$ 16,467	\$ 4,516	\$ 93,920

15 Brands and other assets

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

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 26, 2017 and March 27, 2016

(unaudited)

(in thousands of Canadian dollars)	<u>As at March 26, 2017</u>			
	<u>Brands</u>	<u>Other assets</u>	<u>Investment in joint ventures and associates (note 26)</u>	<u>Total</u>
Cost				
Balance, beginning of period	\$ 514,639	\$ 89,585	\$ 4,042	\$ 608,266
Additions	-	56	-	56
Share of loss from investment in joint ventures and associates	-	-	(123)	(123)
Balance as at March 26, 2017	\$ 514,639	\$ 89,641	\$ 3,919	\$ 608,199
Accumulated amortization				
Balance, beginning of period	\$ -	\$ 13,754	\$ -	\$ 13,754
Amortization	-	1,539	-	1,539
Impairment loss	-	186	-	186
Balance as at March 26, 2017	\$ -	\$ 15,479	\$ -	\$ 15,479
Net carrying amount as at:				
March 26, 2017	\$ 514,639	\$ 74,162	\$ 3,919	\$ 592,720
December 25, 2016	\$ 514,639	\$ 75,831	\$ 4,042	\$ 594,512
March 27, 2016	\$ 179,288	\$ 21,006	\$ -	\$ 200,294

16 Goodwill

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

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 26, 2017 and March 27, 2016

(unaudited)

(in thousands of Canadian dollars)	<u>March 26, 2017</u>	<u>December 25, 2016</u>	<u>March 27, 2016</u>
Cost			
Balance, beginning of period	\$ 188,998	\$ 49,540	\$ 49,540
Additions resulting from change in Preliminary Purchase Equation (note 5)	<u>1,206</u>	<u>139,458</u>	<u>-</u>
Balance, end of period	<u>\$ 190,204</u>	<u>\$ 188,998</u>	<u>\$ 49,540</u>

17 Provisions

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

(in thousands of Canadian dollars)	<u>Asset retirement obligations</u>	<u>Lease obligations for closed restaurants</u>	<u>Franchise onerous contracts</u>	<u>Other</u>	<u>Total</u>
Balance, beginning of period	\$ 6,150	\$ 2,715	\$ 4,690	3,040	\$ 16,595
Additions	63	-	-	-	63
Accretion	81	-	-	-	81
Payments	-	(306)	-	-	(306)
Gain/Loss	(162)	-	-	-	(162)
Adjustments	<u>(105)</u>	<u>133</u>	<u>(284)</u>	<u>140</u>	<u>(116)</u>
Balance, end of period as at					
March 26, 2017	<u>\$ 6,027</u>	<u>\$ 2,542</u>	<u>\$ 4,406</u>	<u>3,180</u>	<u>\$ 16,155</u>
December 25, 2016	\$ 6,150	\$ 2,715	\$ 4,690	\$ 3,040	\$ 16,595
March 27, 2016	<u>\$ 4,855</u>	<u>\$ 2,679</u>	<u>\$ 2,382</u>	<u>\$ 1,640</u>	<u>\$ 11,556</u>

Recorded in the consolidated balance sheets as follows:

(in thousands of Canadian dollars)	<u>March 26, 2017</u>	<u>December 25, 2016</u>	<u>March 27, 2016</u>
Provisions - current	\$ 6,621	\$ 5,159	\$ 4,470
Provisions - long-term	<u>9,534</u>	<u>11,436</u>	<u>7,086</u>
	<u>\$ 16,155</u>	<u>\$ 16,595</u>	<u>\$ 11,556</u>

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 26, 2017 and March 27, 2016

(unaudited)

18 Long-term debt

(in thousands of Canadian dollars)	<u>March 26, 2017</u>	<u>December 25, 2016</u>	<u>March 27, 2016</u>
Term credit facility - revolving	\$ 210,000	\$ 242,000	\$ 53,000
Term credit facility - non-revolving	150,000	150,000	-
Finance leases	<u>24,205</u>	<u>23,693</u>	<u>20,224</u>
	384,205	415,693	73,224
Less: Financing costs	<u>2,398</u>	<u>2,547</u>	<u>444</u>
	<u>\$ 381,807</u>	<u>\$ 413,146</u>	<u>\$ 72,780</u>

Recorded in the consolidated balance sheets as follows:

Current portion of long-term debt	\$ 2,527	\$ 2,443	\$ 2,207
Long-term portion of long-term debt	<u>379,280</u>	<u>410,703</u>	<u>70,573</u>
	<u>\$ 381,807</u>	<u>\$ 413,146</u>	<u>\$ 72,780</u>

The movement in long-term debt from December 25, 2016 to March 26, 2017 is as follows:

(in thousands of Canadian dollars)	<u>Term Credit facility</u>	<u>Finance leases</u>	<u>Total</u>
Balance at December 25, 2016	\$ 392,000	\$ 23,693	\$ 415,693
Less Financing costs	<u>(2,547)</u>	<u>-</u>	<u>(2,547)</u>
	389,453	23,693	413,146
Changes from financing cash flows			
Repayment of borrowings	(32,000)	-	(32,000)
Payment of finance lease liabilities	<u>-</u>	<u>(1,180)</u>	<u>(1,180)</u>
Total changes from financing cash flows	357,453	22,513	379,966
Non-cash movements			
New finance leases	-	1,190	1,190
Adjustment to Capitalized borrowing costs	(17)	-	(17)
Interest expense	<u>166</u>	<u>502</u>	<u>668</u>
Balance at March 26, 2017	<u>\$ 357,602</u>	<u>\$ 24,205</u>	<u>\$ 381,807</u>

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 26, 2017 and March 27, 2016

(unaudited)

Term credit facility

On September 2, 2016, the Company amended and extended the terms of its existing term credit facility. The fourth amended and restated term credit facility is comprised of a revolving credit facility in the amount of \$400.0 million with an accordion feature of up to \$50.0 million maturing on September 2, 2021 and a non-revolving term credit facility in the amount of \$150.0 million maturing on September 2, 2019. A maximum amount of \$26.3 million per year may be repayable on the term credit facility if certain covenant levels are exceeded by the Company.

As at March 27, 2016, the term credit facility was comprised of a revolving credit facility in the amount of up to \$150.0 million and an accordion feature up to \$50.0 million maturing on June 30, 2019.

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

As at March 26, 2017, \$360.0 million (December 25, 2016 - \$392.0 million; March 27, 2016 - \$53.0 million) was drawn under the amended and extended credit facilities with an effective interest rate of 3.0% representing bankers acceptance rate of 0.9% plus 1.75%, standby fee and the amortization of deferred financing fees of 0.35%.

The Company is required to pay a standby fee of between 0.25% to 0.60% per annum, on the unused portion of the credit facility, for the term of its credit facilities. The standby fee rate is based on the Company's total funded net debt to EBITDA ratio. As of March 26, 2017, the standby fee rate was 0.25%.

As at March 26, 2017, the Company is in compliance with all covenants and has not exceeded any covenant levels requiring early repayments.

Finance leases

Included in finance leases are obligations that bear interest at an average rate of 7.0% (December 25, 2016 – 7.0%; March 27, 2016 – 7.3%).

19 Other long-term liabilities

(in thousands of Canadian dollars)	March 26, 2017	December 25, 2016	March 27, 2016
Accrued pension and other benefit plans	\$ 22,236	\$ 22,435	\$ 21,264
Non-controlling interest liability	19,511	19,511	-
Deferred rental income	11,136	11,690	13,922
Deferred income	12,344	12,080	12,740
Accrued rent expense	4,558	4,451	3,965
Restructuring	806	999	2,077
Long-term incentive plans (note 20)	426	315	175
Other long-term liabilities	3,957	3,951	1,758
	<u>\$ 74,974</u>	<u>\$ 75,432</u>	<u>\$ 55,901</u>

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 26, 2017 and March 27, 2016

(unaudited)

Recorded in the consolidated balance sheets as follows:

(in thousands of Canadian dollars)	<u>March 26, 2017</u>	<u>December 25, 2016</u>	<u>March 27, 2016</u>
Accounts payable and accrued liabilities	\$ 7,136	\$ 7,461	\$ 5,821
Other long-term liabilities	<u>67,838</u>	<u>67,971</u>	<u>50,080</u>
	<u>\$ 74,974</u>	<u>\$ 75,432</u>	<u>\$ 55,901</u>

Accrued pension and other benefit plans

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

For the 13 weeks ended March 26, 2017, the Company recorded expenses of \$0.4 million (March 27, 2016 - \$0.2 million) related to pension benefits.

Deferred rental income

In prior years, the Company converted certain corporate restaurants to franchise and sold the restaurants to independent operators ("franchisees"). As part of these conversion agreements, certain franchisees entered into rental agreements to rent certain restaurant assets from the Company. The \$11.1 million (December 25, 2016 - \$11.7 million; March 27, 2016 - \$13.9 million) represents the unearned revenue associated with the rental agreements calculated as the present value of the minimum lease payments using an interest rate implicit in the rental agreement.

Deferred income*Unearned franchise and conversion fee income*

At March 26, 2017, the Company had deferred \$6.3 million (December 25, 2016 - \$6.6 million; March 27, 2016 - \$7.3 million) of initial franchise fees and conversion fees received from franchisees that will be recognized over the remaining term of the respective franchise agreements.

Sale-leaseback transactions

At March 26, 2017, the Company had deferred \$4.1 million (December 25, 2016 - \$4.2 million; March 27, 2016 - \$4.9 million) related to gains realized on sale-leaseback transactions.

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 26, 2017 and March 27, 2016

(unaudited)

20 Long-term incentive plans

Under the various stock option plans, Cara may grant options to buy up to 15% of its total Subordinate and Multiple Voting Shares outstanding, a total of 9.0 million shares, a guideline the Company has set on the number of stock option grants. As at March 26, 2017, approximately 4.2 million stock options were granted and outstanding.

Stock options outstanding as at March 26, 2017 have a term of up to eight years from the initial grant date. Each stock option is exercisable into one Subordinate Voting Share at the price specified in the terms of the option agreement. There were no accelerated vesting features upon the initial public offering under any of the plans described below.

The following table summarizes the options granted post share consolidation:

	For the 13 weeks ended March 26, 2017							
	Director stock option plan		CEO stock option plan		Employee stock option plan		Total	
	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share
Outstanding options, December 25, 2016	-	-	2,429,355	\$ 8.61	1,374,397	\$ 14.70	3,803,752	\$ 10.81
Granted	-	-	20,000	\$ 24.64	491,577	\$ 24.64	511,577	\$ 24.64
Forfeited	-	-	-	\$ -	(52,234)	\$ 15.27	(52,234)	\$ 15.27
Exercised	-	-	-	\$ -	(13,920)	\$ 8.51	(13,920)	\$ 8.51
Outstanding options, end of period	-	-	2,449,355	\$ 8.74	1,799,820	\$ 17.44	4,249,175	\$ 12.44
Options exercisable, end of period	-	-	2,419,355	\$ 8.51	459,038	\$ 8.51	2,878,393	\$ 8.51

	For the 13 weeks ended March 27, 2016							
	Director stock option plan		CEO stock option plan		Employee stock option plan		Total	
	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share
Outstanding options, December 27, 2015	86,021	0.01	3,504,624	\$ 5.97	1,351,603	\$ 14.06	4,942,248	\$ 8.08
Granted	-	-	-	\$ -	12,635	\$ 27.85	12,635	\$ 27.85
Forfeited	-	-	-	\$ -	(3,042)	\$ 18.31	(3,042)	\$ 18.31
Outstanding options, end of period	86,021	0.01	3,504,624	\$ 5.97	1,361,196	\$ 14.18	4,951,841	\$ 8.12
Options exercisable, end of period	53,763	0.01	1,747,312	\$ 5.89	-	\$ -	1,801,075	\$ 5.72

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 26, 2017 and March 27, 2016

(unaudited)

Director stock option plan

The Director Stock Option Plan (“Director Plan”) is for non-employee board members. Options granted under this plan entitle Directors to purchase Subordinate Voting Shares of the Company after the end of each service period, following the date of the grant. The options vest pro-rata each year based on service years completed and expire after eight years. The settlement of the option can only be into the common share equity of the Company.

During the 13 weeks ended March 26, 2017 and March 27, 2016, no stock options were granted under the Director Plan.

For the period ended March 27, 2016, the Company recognized stock-based compensation costs of \$nil (March 27, 2016 - \$24.2 thousand) related to the Director Plan Options with a corresponding increase to contributed surplus.

Certain non-employee board members receive Deferred Share Units (“DSU”) as compensation for their participation on the board. These DSUs are settled for cash when members cease to participate on the board of directors. For the period ended March 26, 2017, the Company expensed \$0.1 million (March 27, 2016 - \$9.7 thousand) and recorded as a liability part of Other Long-Term Liabilities in the amount of \$0.4 million as at March 26, 2017 (March 27, 2016 - \$0.2 million).

CEO stock option plan

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

During the 13 weeks ended March 26, 2017 20,000 stock options at an exercise price of \$24.64 (March 27, 2016 – nil) were granted under the CEO Plan.

For the 13 weeks ended March 26, 2017, the Company recognized stock-based compensation costs of \$nil million (March 27, 2016 - \$0.5 million) related to the CEO Plan with a corresponding increase to contributed surplus.

Employee stock option plan

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

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

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 26, 2017 and March 27, 2016

(unaudited)

Under this plan, the CFO now has 298,377 options at an average exercise price of \$10.39 and the Company's management team now has 1,501,443 at an average exercise price of \$18.84.

During the 13 weeks ended March 26, 2017, the Company granted an additional 491,577 stock options at a weighted average exercise price of \$24.64 (March 27, 2016 – 12,635 stock options at a weighted average exercise price of \$27.85) per Subordinate Voting Share under its existing stock option plans, which only allows for settlement in shares.

During the period ended March 26, 2017, 52,234 stock options with an exercise price of \$15.27 were forfeited (March 27, 2016 – 3,042 stock options with an exercise price of \$18.31).

During the period ended March 26, 2017 13,920 stock options were exercised at \$8.51 for 13,920 Subordinate Voting Shares of the Company (March 27, 2016 – nil).

For the 13 weeks ended March 26, 2017, the Company recognized stock-based compensation costs of \$0.5 million (March 27, 2016 - \$0.6 million) related to the Employee Plan with a corresponding increase to contributed surplus.

21 Share capital

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

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

On April 15, 2016, the Company announced that it had completed an offering of 7,863,280 subscription receipts (the "Subscription Receipts"), on a private placement basis at a price of \$29.25 per Subscription Receipt. On September 2, 2016, in conjunction with the closing of the St-Hubert transaction (see note 5), each outstanding subscription receipt was exchanged for one Subordinate Voting Share resulting in the issuance of 7,863,280 Subordinate Voting Shares for gross proceeds of \$230.0 million. The Company also issued an additional 1,788,034 Subordinate Voting Shares to the St-Hubert vendors at a price of \$30.14, or approximately \$53.9 million, as part of the St-Hubert transaction (see note 5).

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 26, 2017 and March 27, 2016

(unaudited)

For the year ended December 25, 2016, the Company paid dividends on Subordinate Voting Shares and Multiple Voting Shares totaling \$21.1 million of which \$20.9 million was cash settled and \$0.2 million was settled through the issuance of 7,359 Subordinate Voting Shares through the Company's DRIP. On May 5, 2016, the Company's Board of Directors suspended the DRIP.

As at March 26, 2017, there were 34,396,284 Multiple Voting Shares and 25,600,190 Subordinate Voting Shares issued and outstanding.

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

	Number of Common Shares (in thousands)			Share Capital (in thousands of dollars)		
	Multiple voting common shares	Subordinate voting common shares	Total Common Shares	Multiple voting common shares	Subordinate voting common shares	Total Share Capital
Balance at December 27, 2015	34,396	14,767	49,163	\$ 192,548	\$ 245,453	\$ 438,001
Subscription receipts, net of costs, exchanged for shares	-	7,863	7,863	-	223,674	223,674
Shares issued as part of St-Hubert transaction	-	1,788	1,788	-	53,891	53,891
Shares issued under dividend reinvestment plan	-	7	7	-	227	227
Shares issued under stock option plan	-	1,161	1,161	-	7,931	7,931
Balance at December 25, 2016	34,396	25,586	59,982	\$ 192,548	\$ 531,176	\$ 723,724
Shares issued under stock option plan (note 20)	-	14	14	-	146	146
Balance at March 26, 2017	34,396	25,600	59,996	\$ 192,548	\$ 531,322	\$ 723,870

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 26, 2017 and March 27, 2016

(unaudited)

22 Earnings per share

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

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

	<u>March 26, 2017</u>			<u>March 27, 2016</u>		
	<u>Net earnings attributable to shareholders of the Company</u>	<u>Weighted average number of shares</u>	<u>EPS</u>	<u>Net earnings attributable to shareholders of the Company</u>	<u>Weighted average number of shares</u>	<u>EPS</u>
Basic	\$ 43,986	59,983	\$ 0.73	\$ 14,496	49,163	\$ 0.29
Diluted	\$ 43,986	62,326	\$ 0.71	\$ 14,496	52,742	\$ 0.27

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

	<u>March 26, 2017</u>	<u>March 27, 2016</u>
Share capital	59,983,319	49,162,591
Effect of stock options issued ⁽¹⁾	2,342,496	3,579,235
	<u>62,325,815</u>	<u>52,741,826</u>

⁽¹⁾ 342,420 shares have been excluded from March 26, 2017 because they are anti-dilutive (March 27, 2016 - 322,606 shares)

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 26, 2017 and March 27, 2016

(unaudited)

23 Cash flows

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

(in thousands of Canadian dollars)	For the 13 weeks ended	
	March 26, 2017	March 27, 2016
Accounts receivable	\$ 18,119	\$ 17,101
Inventories	822	106
Income taxes payable	931	(236)
Prepaid expenses and other assets	508	164
Accounts payable and accrued liabilities	1,182	(19,226)
Gift card liability	(27,086)	(22,836)
Income taxes paid	(2,300)	326
Change in interest payable	(734)	(284)
Net change in non-cash operating working capital	\$ (8,558)	\$ (24,885)

24 Commitments, contingencies and guarantees

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

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

The Company has outstanding letters of credit amounting to \$0.8 million (December 25, 2016 - \$0.7 million) primarily for various utility companies that provide services to corporate owned or franchised locations and support for certain franchisees' external financing used to fund their initial franchise fees and conversion fees, if applicable, payable to the Company. The probability of the letters of credit being drawn as a result of default by a franchisee is low.

Indemnification provisions

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

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 26, 2017 and March 27, 2016(unaudited)

25 Financial instruments and risk management**Market risk**

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

Interest rate risk

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

Commodity price risk

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

Liquidity and capital availability risk

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

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

Credit risk

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

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

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 26, 2017 and March 27, 2016

(unaudited)

The following is an aging of the Company's accounts receivable, net of the allowance, as at March 26, 2017, December 26, 2016 and March 27, 2016:

(in thousands of Canadian dollars)

	March 26, 2017			
	Current	> 30 days past due	> 60 days past due	Total
Accounts receivable	\$ 55,348	\$ 4,685	\$ 15,467	\$ 75,500
Less: allowance for doubtful accounts	477	239	9,035	9,751
Accounts receivable, net	\$ 54,871	\$ 4,446	\$ 6,432	\$ 65,749
Balances at December 25, 2016	\$ 74,959	\$ 6,972	\$ 1,974	\$ 83,905
Balances at March 27, 2016	\$ 29,082	\$ 1,512	\$ 1,160	\$ 31,754

There are no significant impaired receivables that have not been provided for in the allowance. As of March 26, 2017, the Company believes that the \$9.8 million (December 25, 2016 - \$9.3 million; March 27, 2016 - \$7.5 million) allowance sufficiently covers any credit risk related to the receivable balances past due. The remaining amounts past due were not classified as impaired as the past due status was reasonably expected to remedied.

Fair value of financial instruments

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

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

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

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 26, 2017 and March 27, 2016

(unaudited)

The following describes the fair value determinations of financial instruments:

Long-term debt

Fair value (Level 2) is based on the Company's current incremental borrowing rate for similar types of borrowing arrangements. The carrying amount of the debt associated with the Company's current financing would approximate its fair value as at March 26, 2017.

Other financial instruments

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

26 Related parties

Shareholders

As at March 26, 2017, the Principal Shareholders hold 63.3% of the total issued and outstanding shares and have 97.5% of the voting control attached to all the shares. Cara Holdings holds 24.2% of the total issued and outstanding shares, representing 40.9% voting control. Fairfax holds 39.1% of the total issued and outstanding shares, representing 56.6% voting control.

During the 13 weeks ended March 26, 2017, the Company declared a dividend of \$0.10169 per share of Subordinate and Multiple Voting Shares of which Fairfax and Cara Holdings received \$2.4 million and \$1.5 million, respectively on April 15, 2017.

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

Insurance Provider

Some of Cara's insurance policies are held by a company that is a subsidiary of Fairfax. The transaction is on market terms and conditions. As at March 26, 2017, no payments were outstanding.

Investment in Original Joe's joint venture companies

The Company has joint venture arrangements with certain Original Joe's franchises. The Company has an equity investment in these restaurants at varying ownership interests as well as term loans and demand loans related to new restaurant construction, renovation and working capital. The due from related party balance of \$12.9 million consists of term loans and demand loans secured by restaurant assets of the joint venture company which has been recorded at fair value and will be accreted up to the recoverable value over the remaining term of the loans. The term loans bear interest at rates ranging from 7.75% to 9.76% and all mature September 21, 2017. The term loans are reviewed and renewed on an annual basis. The expected current portion of these loans is \$2.4 million. The demand loans bear interest at 5% and have no specific terms of

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 26, 2017 and March 27, 2016(unaudited)

repayment. Pooling arrangements between the joint venture companies to share costs and repay the loans exist such that restaurants within a certain restaurant pool of common ownership agree that available cash from restaurants can be used to apply against balances outstanding among the group. Management determines the fair value of these loans based on expected cash flows from the restaurant at a discount rate of 15%. For the period ended March 26, 2017, the Company charged interest in the amount of \$0.2 million on the term loans and demand loans.

The Company charges Original Joe's joint venture franchises a royalty and marketing fee of 5% and 2%, respectively, on net sales. At March 26, 2017 the accounts receivable balance included \$0.7 million due from related parties in relation to these royalty and marketing payments. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties in accordance with the franchise agreement.

The Company's investment in the joint ventures and associates are reduced by losses incurred. For the period ended March 26, 2017, a \$0.1 million reduction to the investment balance was recorded in relation to the Company's proportionate share of losses for the period and included in share of loss from investment in associates and joint ventures on the statement of earnings.

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

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 26, 2017 and March 27, 2016

(unaudited)

27 Segmented information

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

The Corporate restaurant segment includes the operations of the company-owned restaurants which generate revenues from the direct sale of prepared food and beverages to consumers. For operating segment purposes, corporate operating income includes the Company's proportionate share of revenues and expenses from 36 joint venture restaurants.

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

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

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

The CEO and CFO are the chief operating decision makers and they regularly review the operations and performance by segment. The CEO and CFO review operating income as a key measure of performance for each segment and to make decisions about the allocation of resources. The accounting policies of the reportable operating segments are the same as those described in the Company's summary of significant accounting policies except for applying proportionate consolidation to the 36 joint venture restaurants. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 26, 2017 and March 27, 2016

(unaudited)

(in thousands of Canadian dollars)	For the 13 weeks ended	
	March 26, 2017	March 27, 2016
Gross revenue		
Sales	\$ 98,680	\$ 63,205
Proportionate share of equity accounted joint venture sales	(4,443)	-
Sales at corporate restaurants	94,237	63,205
Franchise revenues	22,182	17,577
Proportionate share of equity accounted joint venture royalty revenue	307	-
Royalty revenue	22,489	17,577
Food processing and distribution	59,628	-
Central	6,100	3,034
Non-allocated revenue	275	398
	\$ 182,729	\$ 84,214
Operating income		
Corporate	\$ 3,573	\$ 2,309
Franchise	20,443	15,716
Food processing and distribution	2,637	-
Central	4,724	3,399
Proportionate share equity accounted joint venture results included in corporate and franchise segment	99	-
Non-allocated costs	(768)	(666)
	\$ 30,708	\$ 20,758
Depreciation and amortization		
Corporate	\$ 4,417	\$ 2,783
Franchise	-	-
Food processing and distribution	2,064	-
Central	5,041	3,330
	\$ 11,522	\$ 6,113
Capital expenditures		
Corporate	\$ 11,987	\$ 3,093
Franchise	-	-
Food processing and distribution	565	-
Central	429	1,252
	\$ 12,981	\$ 4,345

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 weeks ended March 26, 2017 and March 27, 2016(unaudited)

28 Subsequent Events

On May 4, 2017, the Company's Board of Directors declared a dividend of \$0.10169 per share of subordinate and multiple voting common stock. Payment of the dividend will be made on June 15, 2017 to shareholders of record at the close of business on May 31, 2017.