

**CARA OPERATIONS LIMITED**  
**Management's Discussion and Analysis**  
**For the 13 weeks ended April 1, 2018**

The following Management's Discussion and Analysis ("MD&A") for Cara Operations Limited ("Cara" or the "Company") provides information concerning the Company's financial condition and results of operations for the 13 weeks ended April 1, 2018 ("first quarter", "Q1", "the quarter" or "the period"). This MD&A should be read in conjunction with the Company's unaudited Condensed Consolidated Interim Financial Statements ("interim financial statements") and accompanying notes as at April 1, 2018. The consolidated results from operations for the 13 weeks ended April 1, 2018 are compared to the 13 weeks ended March 26, 2017. Cara's fiscal year ends on the last Sunday in December.

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

This MD&A was prepared as at May 10, 2018. Additional information relating to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

**Basis of Presentation**

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

**Highlights for the 13 weeks ended April 1, 2018:**

- System Sales<sup>(1)</sup> grew \$96.8 million to \$755.9 million for the 13 weeks ended April 1, 2018 as compared to 2017, representing an increase of 14.7%. The increase in System Sales is primarily related to same restaurant sales increases, the additions of Burger's Priest in June 2017, Pickle Barrel in December 2017, and The Keg in February 2018, partially offset by the first quarter calendar shift where the sales period from December 26, 2016 to January 1, 2017 was included in Q1 2017 but the same holiday week, typically a higher sales week, is not in our fiscal 2018 first quarter which started on January 1, 2018.
- Same Restaurant Sales ("SRS") Growth<sup>(1)</sup> for the quarter was 2.1% compared to the same 13 weeks in 2017. Management is pleased with 2.1%, despite SRS being negatively impacted by the first quarter including Easter weekend (March 29 to 31, 2018), a low sales period, as compared to 2017 when Easter was included in Q2.
- Operating EBITDA<sup>(1)</sup> increased to \$47.4 million for the 13 weeks ended April 1, 2018 compared to \$42.9 million in 2017, an improvement of \$4.5 million or 10.5% for the quarter. The increases have been driven by the addition of The Keg, partially offset by The Keg royalty expense paid to the Keg Royalty Income Fund, and the first quarter calendar shift compared to 2017 where Q1 2018 did not include higher sales from the December 25 to December 31 holiday week, and the shift in Easter negatively impacting System Sales and related corporate and franchise contribution.
- Operating EBITDA Margin on System Sales<sup>(1)</sup> decreased to 6.3% for the first quarter compared to 6.5% in the same quarter in 2017. The decrease is related to The Keg royalty payment. Operating EBITDA Margin on System Sales before The Keg royalty was 6.5%, comparable with 2017. While The Keg will add EBITDA dollars, because of royalty payments to the Keg Royalty Income Fund, The Keg merger will reduce Cara's Operating EBITDA margin on System Sales below the target 7% to 8% range. Management's focus will continue to be on improving the earnings efficiency of our assets and our increased sales base to grow Operating EBITDA as a percentage of System Sales back to within our 7% to 8% target range by 2020-2022.
- Earnings before change in fair value and income taxes was \$27.1 million for the 13 weeks ended April 1, 2018 compared to \$27.5 million in 2017, a decrease of \$0.4 million or 1.5% for the quarter. The decrease was primarily related to lower contribution from the St-Hubert food processing and distribution as a result of a change in sales mix at lower gross margins compared to 2017 due to inventory shortages after record sales in December 2017, one-time listing fees with grocery providers for new products added for sale, transaction fees of \$0.5 million

related to The Keg merger, and the first quarter calendar shift compared to 2017 where Q1 2018 did not include higher sales from the December 25 to December 31 holiday week, and the shift in Easter negatively impacting System Sales and related corporate and franchise contribution.

- On February 22, 2018, the Company completed the merger with Keg Restaurants Ltd. (“The Keg”) for approximately \$200.0 million comprised of \$105.0 million in cash and 3,801,284 Cara subordinate voting shares at the exchange amount. In addition, Cara may be required to pay up to an additional \$30.0 million of cash consideration upon the achievement of certain financial milestones within the first three fiscal years following closing.

(1) See “Non-IFRS Measures” on page 26 for definitions of System Sales, SRS Growth, Adjusted Net Earnings, Operating EBITDA, and Operating EBITDA Margin on System Sales. See “Reconciliation of Net Earnings to EBITDA” and “Reconciliation of Net Earnings to Adjusted Net Earnings” for a reconciliation of Operating EBITDA and Adjusted Net Earnings.

## Calendar Shift

The Company’s 2018 fiscal year will end on December 30, 2018 and will consist of 52 weeks as compared to 53 weeks in fiscal 2017. For comparative purposes, results in the first quarter of 2018 compared to 2017 were negatively impacted by 2 significant factors: (1) a shift in the calendar as the sales period from December 26, 2016 to January 1, 2017 was included in Q1 2017 but the same holiday week, typically a higher sales week, is not in our fiscal 2018 first quarter, thus negatively impacting total System Sales and related corporate and franchise contribution; (2) Q1 2018 includes Easter weekend (March 29 to 31, 2018), a low sales period, as compared to 2017 when Easter was included in Q2, thus negatively impacting SRS, total System Sales and related corporate and franchise contribution. The fourth quarter of 2018 will return to 13 weeks as compared to 14 weeks in Q4 2017, a difference of 1 week. The table below summarizes the change in comparative periods:

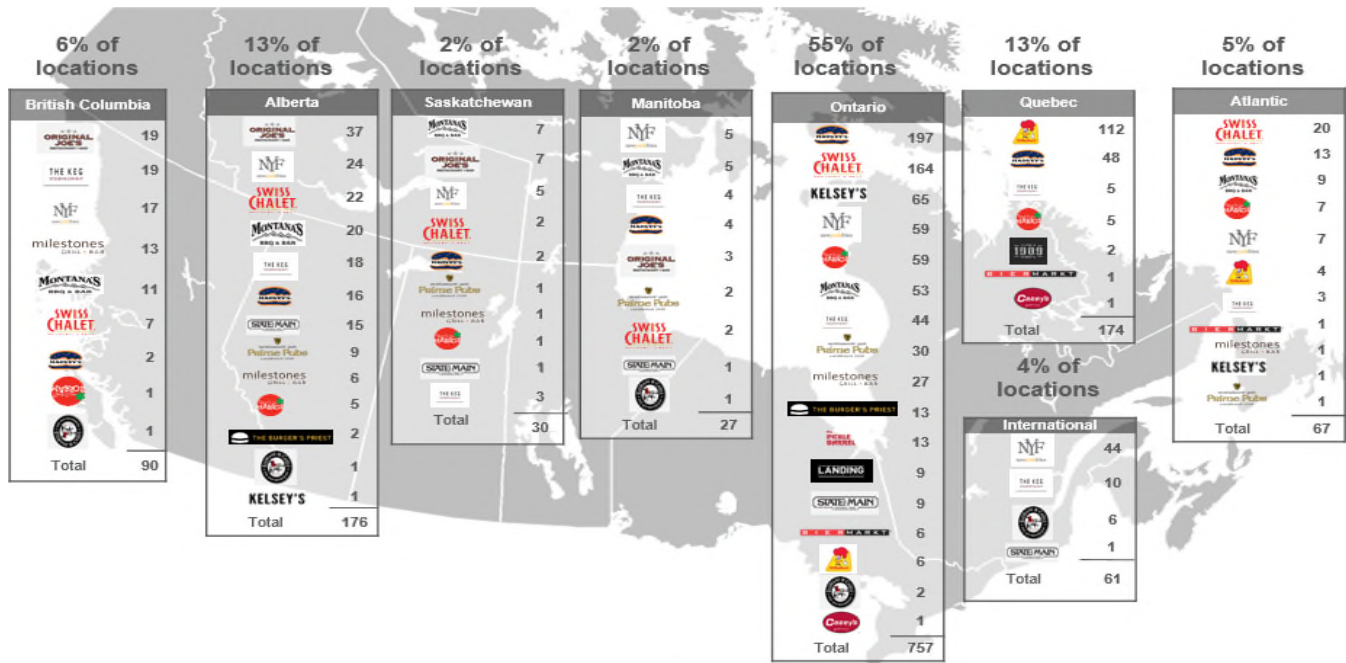
Fiscal 2016	Fiscal 2017	Fiscal 2018
52 w eeks	53 w eeks	52 w eeks
Dec 28, 2015 to Dec 25, 2016	Dec 26, 2016 to Dec 31, 2017	Jan 1, 2018 to Dec 30, 2018
<b>Q1</b>	<b>Q1</b>	<b>Q1</b>
13 w eeks	<b>13 weeks</b>	<b>13 weeks</b>
Dec 28, 2015 to Mar 27, 2016	<b>Dec 26, 2016 to Mar 26, 2017</b>	<b>Jan 1, 2018 to Apr 1, 2018</b>
<b>Q2</b>	<b>Q2</b>	<b>Q2</b>
13 w eeks	13 w eeks	13 w eeks
Mar 28, 2016 to Jun 26, 2016	Mar 27, 2017 to Jun 25, 2017	Apr 2, 2018 to Jul 1, 2018
<b>Q3</b>	<b>Q3</b>	<b>Q3</b>
13 w eeks	13 w eeks	13 w eeks
Jun 27, 2016 to Sept 25, 2016	Jun 26, 2017 to Sept 24, 2017	Jul 2, 2018 to Sept 30, 2018
<b>Q4</b>	<b>Q4</b>	<b>Q4</b>
13 w eeks	14 w eeks	13 w eeks
Sept 26, 2016 to Dec 25, 2016	Sept 25, 2017 to Dec 31, 2017	Oct 1, 2018 to Dec 30, 2018

## Subsequent events

On May 10, 2018, the Company’s Board of Directors declared a dividend of \$0.1068 per share of subordinate and multiple voting common stock. Payment of the dividend will be made on June 15, 2018 to shareholders of record at the close of business on May 31, 2018. With the Company’s strong balance sheet and growing cash flows, management will continue to pursue strategic acquisitions and will explore alternatives to return more capital to its shareholders including continuation of its NCIB and increases to the Company’s dividend rate.

## Overview

Cara is a full-service restaurant company that franchises and operates iconic restaurant brands. As at April 1, 2018, Cara had 19 brands and 1,382 restaurants, 85% of which are operated by franchisees and joint venture partners. Cara's restaurant network includes, Harvey's, Swiss Chalet, Kelsey's, East Side Mario's, Montana's, Milestones, Prime Pubs, Casey's, Bier Markt, Landing, New York Fries, St-Hubert, Original Joe's, State & Main, Elephant & Castle, Burger's Priest, Pickle Barrel, 1909 Taverne Moderne, and The Keg restaurants. Cara's iconic brands have established Cara as a nationally recognized franchisor of choice.



Unit count (unaudited)	As at April 1, 2018				As at December 31, 2017			
	Corporate	Franchise	Joint Venture	Total	Corporate	Franchise	Joint Venture	Total
Swiss Chalet	8	209	0	217	8	210	0	218
Harvey's	10	272	0	282	11	271	0	282
Montana's	7	98	0	105	7	98	0	105
East Side Mario's <sup>(1)</sup>	3	75	0	78	3	73	0	76
Kelsey's	10	57	0	67	12	56	0	68
Casey's	0	2	0	2	0	2	0	2
Prime Pubs	4	39	0	43	4	37	0	41
Bier Markt	8	0	0	8	8	0	0	8
Milestones	23	23	2	48	23	23	2	48
Landing	9	0	0	9	9	0	0	9
New York Fries	15	146	0	161	15	146	0	161
St-Hubert	12	110	0	122	12	110	0	122
Original Joe's	20	18	28	66	20	18	28	66
State & Main	15	4	8	27	15	4	8	27
Elephant & Castle	10	1	0	11	10	1	0	11
Burger's Priest	0	0	15	15	0	0	14	14
1909 Taverne Moderne	0	0	2	2	0	0	2	2
Pickle Barrel	13	0	0	13	12	0	0	12
The Keg	46	60	0	106	0	0	0	0
<b>Total restaurants</b>	<b>213</b>	<b>1,114</b>	<b>55</b>	<b>1,382</b>	<b>169</b>	<b>1,049</b>	<b>54</b>	<b>1,272</b>
	<b>15%</b>	<b>81%</b>	<b>4%</b>	<b>100%</b>	<b>13%</b>	<b>83%</b>	<b>4%</b>	<b>100%</b>

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

## Selected Financial Information

The following table summarizes select results of Cara's operations for the 13 weeks ended April 1, 2018 and March 26, 2017:

(C\$ millions unless otherwise stated)	For the 13 week period	
	April 1, 2018	March 26, 2017
<b>System Sales</b> <sup>(2)(3)</sup> (unaudited) .....	\$ 755.9	\$ 659.1
Sales .....	\$ 202.1	\$ 157.0
Franchise revenues .....	44.4	41.6
<b>Total gross revenue</b> <sup>(1)</sup> .....	\$ 246.5	\$ 198.6
Cost of inventories sold .....	(84.8)	(69.6)
Selling, general and administrative expenses .....	(130.2)	(97.1)
Impairment of assets, net of reversals .....	(0.6)	(1.2)
Restructuring .....	(0.2)	-
<b>Operating income</b> <sup>(1)</sup> .....	\$ 30.8	\$ 30.8
Net interest expense and other financing charges .....	(3.3)	(3.0)
Share of loss from investment in associates and joint ventures .....	(0.4)	(0.1)
<b>Earnings before change in fair value and income taxes</b> <sup>(1)</sup> .....	\$ 27.1	\$ 27.5
Change in fair value of exchangeable partnership units .....	2.3	-
<b>Earnings before income taxes</b> <sup>(1)</sup> .....	\$ 29.3	\$ 27.5
Income taxes - current .....	(2.7)	(3.2)
Income taxes - deferred .....	(5.1)	19.5
<b>Net earnings</b> <sup>(1)</sup> .....	\$ 21.5	\$ 43.8
 <b>Adjusted Net Earnings</b> <sup>(2)</sup> .....	 \$ 25.9	 \$ 25.8
 Total assets .....	 \$ 1,609.4	 \$ 1,302.2
Non-current financial liabilities .....	\$ 900.5	\$ 559.1
 <b>Earnings per share (in dollars)</b>		
Basic EPS .....	\$ 0.36	\$ 0.73
Diluted EPS .....	\$ 0.35	\$ 0.71
Adjusted Basic EPS <sup>(2)</sup> .....	\$ 0.43	\$ 0.43
Adjusted Diluted EPS <sup>(2)</sup> .....	\$ 0.41	\$ 0.41

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

<sup>(2)</sup> See "Non-IFRS Measures" on page 26 for definitions of System Sales, Adjusted Net Earnings, Adjusted Basic EPS and Adjusted Diluted EPS. See page 5 for a reconciliation of Net Earnings to Adjusted Net Earnings.

<sup>(3)</sup> Results from East Side Mario restaurants in the United States are excluded from System Sales totals. See "Non-IFRS Measures" on page 26 for definition of System Sales.

(C\$ millions unless otherwise stated)	For the 13 weeks ended	
	April 1, 2018	March 26, 2017
<b>Dividends Declared (in dollars per share) <sup>(1)</sup></b>		
Subordinate Voting Shares, Multiple Voting Shares and Subscription Receipts .....	\$ 0.11	\$ 0.10
<b>Reconciliation of net earnings to Adjusted Net Earnings <sup>(2)</sup></b>		
Net earnings attributable to the Common Shareholders of the Company .....	\$ 21.7	\$ 44.0
Deferred income taxes .....	5.1	(19.5)
Change in fair value of exchangeable partnership units .....	(2.3)	-
Restructuring and other costs .....	0.2	-
Impairment of assets, net of reversals .....	0.6	1.2
Transaction costs .....	0.5	0.1
<b>Adjusted Net Earnings <sup>(1)(2)</sup></b> .....	<b>\$ 25.9</b>	<b>\$ 25.8</b>
<b>Reconciliation of net earnings to EBITDA <sup>(2)</sup></b>		
Net earnings .....	\$ 21.5	\$ 43.8
Income taxes .....	7.8	(16.3)
Net interest expense and other financing charges .....	3.3	3.0
Depreciation of property, plant and equipment .....	13.1	10.0
Amortization of other assets .....	1.5	1.5
<b>EBITDA <sup>(2)</sup></b> .....	<b>\$ 47.2</b>	<b>\$ 42.0</b>
<b>Reconciliation of EBITDA <sup>(2)</sup> to Operating EBITDA <sup>(2)</sup>:</b>		
Income on Partnership units .....	1.0	-
Fair value adjustments .....	(2.3)	0.1
Restructuring .....	0.2	-
Impairment of assets, net of reversals .....	0.6	1.2
Transaction costs .....	0.5	0.1
Conversion fees .....	(0.3)	(0.3)
Net gain loss on disposal of property, plant and equipment .....	(0.2)	(0.4)
Loss on early buyout/cancellation of equipment rental contracts .....	0.2	-
Stock based compensation .....	0.5	0.5
Change in onerous contract provision .....	(0.3)	(0.3)
Proportionate share of equity account joint ventures .....	0.4	-
<b>Operating EBITDA <sup>(1)(2)</sup></b> .....	<b>\$ 47.4</b>	<b>\$ 42.9</b>
Net royalty expense .....	1.5	-
<b>Operating EBITDA <sup>(1)(2)</sup> before net royalty expense</b> .....	<b>\$ 48.8</b>	<b>\$ 42.9</b>
% change .....	13.8%	56.0%

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

<sup>(2)</sup> See "Non-IFRS Measures" on page 26 for definitions of Adjusted Net Earnings, EBITDA and Operating EBITDA.

The following table summarizes Cara's System Sales Growth, SRS Growth, number of restaurants, Selling, general and administrative expenses, Operating EBITDA, Operating EBITDA Margin, and Operating EBITDA on System Sales.

(C\$ millions unless otherwise stated)	For the 13 weeks ended	
	April 1, 2018	March 26, 2017
System Sales <sup>(1)(3)</sup> (unaudited).....	\$ 755.9	\$ 659.1
System Sales Growth <sup>(1)(3)</sup> (unaudited).....	14.7%	46.4%
SRS Growth <sup>(2)(3)</sup> (unaudited).....	2.1%	(0.6)%
Number of corporate restaurants (at period end).....	213	166
Number of joint venture restaurants (at period end).....	55	38
Number of franchised restaurants (at period end).....	1,114	1,034
Total number of restaurants (at period end).....	<b>1,382</b>	<b>1,238</b>
Total gross revenue.....	\$ 246.5	\$ 198.6
Selling, general and administrative expenses ("SG&A").....	\$ 130.2	\$ 97.1
SG&A as a percentage of gross revenue.....	52.8%	48.9%
Operating EBITDA <sup>(3)</sup> .....	\$ 47.4	\$ 42.9
Operating EBITDA Margin <sup>(3)</sup> .....	19.2%	21.6%
Operating EBITDA on System Sales <sup>(3)</sup> .....	6.3%	6.5%

<sup>(1)</sup> Results from East Side Mario restaurants in the United States are excluded in the System Sales totals and number of restaurants. See "Non-IFRS Measures" on page 26 for definition of System Sales.

<sup>(2)</sup> Results from New York Fries located outside of Canada, East Side Mario restaurants in the United States, Casey's restaurants are excluded from SRS Growth. See "Non-IFRS Measures" on page 26 for definition of SRS Growth.

<sup>(3)</sup> See "Non-IFRS Measures" on page 26 for definitions of System Sales, System Sales Growth, SRS Growth, Operating EBITDA, Operating EBITDA Margin, and Operating EBITDA on System Sales.

## Factors Affecting Our Results of Operations

### SRS Growth

SRS Growth is a metric used in the restaurant industry to compare sales earned in established locations over a certain period of time, such as a fiscal quarter, for the current period and the same period in the previous year. SRS Growth helps explain what portion of sales growth can be attributed to growth in established locations separate from the portion that can be attributed to the opening of net new restaurants. Cara calculates SRS Growth as the percentage increase or decrease in sales of restaurants open for at least 24 complete months. Cara's SRS Growth results exclude Casey's restaurants as the Company is in the process of winding down its operations; and sales from international operations from 44 New York Fries and 3 East Side Mario's.

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

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

SRS growth for the quarter was an increase of 2.1% compared to the same 13 weeks in 2017. Management is pleased with the 2.1% despite SRS being negatively impacted by the first quarter calendar shift compared to 2017 which includes Easter weekend (March 29 to 31, 2018), a low sales period, as compared to 2017 when Easter was included in Q2.

Management continues to focus on both short-term and long-term strategies to improve SRS through restaurant renovations, greater emphasis on menu innovation, enhanced guest experiences, expanded off-premise sales through new and improved e-commerce applications, operational excellence initiatives including using technology to improve the timeliness and transparency of data, and brand specific digital-social media marketing as described in the Highlights and Outlook sections of this MD&A.

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See “Non-IFRS Measures” on page 26 for a description of how Cara calculates SRS growth. SRS Growth for individual brands may be higher or lower than SRS Growth for all restaurants combined, and in some cases, SRS Growth, for individual brands, may be negative.

### ***Competition***

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

### ***New Restaurant Openings***

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

### **Financial results**

#### ***System Sales***

System Sales for 13 weeks ended April 1, 2018 were \$755.9 million compared to \$659.1 million for the 13 weeks ended March 26, 2017, representing an increase of \$96.8 million or 14.7%. This increase was primarily the result of positive SRS, new restaurants opened in 2017, the June 2017 addition of Burger’s Priest, the December 2017 addition of Pickle Barrel, and the addition of the Keg in February 2018, which together generated higher sales offsetting restaurant closures and the impact from the first quarter calendar shift.

#### ***Total gross revenue***

Total gross revenue represents sales from corporate restaurants and catering division, franchise revenues (including royalty fees net of agreed subsidies, new franchise fees, advertising fund contributions, property and equipment rental income and corporate to franchise conversion fees), fees generated from Cara’s off-premise call centre business, new restaurant development revenue, and St-Hubert food processing and distribution revenues from sales to retail grocery customers and to its franchise network.

Total gross revenue was \$246.5 million for 13 weeks ended April 1, 2018 compared to \$198.6 million in 2017, representing an increase of \$47.9 million or 24.1%. The increase in gross revenues was primarily the result of positive SRS, the Pickle Barrel acquisition in December 2017 and the addition of the Keg in February 2018, partially offset by the first quarter calendar shift where corporate restaurant sales and franchise royalty revenues were negatively impacted.

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

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

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

SG&A expenses for 13 weeks ended April 1, 2018 were \$130.2 million compared to \$97.1 million in 2017, representing an increase of \$33.1 million or 34.1%. The increase was related to 47 additional corporate restaurants, primarily from the addition of the Pickle Barrel and The Keg. The increase also includes \$3.1 million higher depreciation from 47 more corporate restaurants and \$2.4 million in Keg royalty expense. These increases were partially offset by savings realized from a reduction in central costs and other overhead costs. SG&A expenses as a percentage of gross revenue from operations increased from 48.9% in 2017 to 52.8% in 2018, an increase of 3.9 percentage points. Excluding the Keg royalty expense of \$2.4 million, SG&A expenses as a percentage of gross revenue was 51.8%, an increase of 2.9 percentage points compared to 2017.

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

Finance costs are derived from Cara's financing activities which include the Existing Credit Facility and amortization of financing fees.

Net interest expense and other financing charges were \$3.3 million for the 13 weeks ended April 1, 2018 compared to \$3.0 million in 2017, an increase of \$0.3 million. The increase is due to the additional borrowings made for the Pickle Barrel and The Keg transactions.

### ***Adjusted net earnings***

Adjusted net earnings for the 13 weeks ended April 1, 2018 was \$25.9 million compared to \$25.8 million in 2017, an increase of \$0.1 million. The increase was driven by the addition of Pickle Barrel in December 2017 and The Keg in February 2018, offset by lower contribution from the St-Hubert food processing and distribution as a result of a change in sales mix at lower gross margins compared to 2017 due to inventory shortages after record sales in December 2017, one-time listing fees with grocery providers for new products added for sale, transaction fees of \$0.5 million related to The Keg merger, and the negative impact from the first quarter calendar shift.



## Income taxes

Cara's earnings are subject to both federal and provincial income taxes. Cara has income tax losses available from prior years to offset taxable earnings and at present does not pay significant cash income taxes on its operating earnings.

The Company recorded a current income tax expense of \$2.7 million for the 13 weeks ended April 1, 2018, compared to \$3.2 million in 2017, representing an income tax expense decrease of \$0.5 million. The current income tax expense is primarily related to St-Hubert earnings that are subject to cash taxes payable.

The Company recorded a net deferred income tax expense of \$5.1 million for the 13 weeks ended April 1, 2018, compared to a recovery of \$19.5 million in 2017, representing a deferred income tax expense change of \$24.6 million. The change is due to the Company recognizing a deferred tax asset of \$24.4 million in 2017 related to additional non-capital losses available to offset future income tax payable on operating profits, offset by a deferred income tax expense of \$4.9 million. Management determined it was appropriate to record a deferred tax asset based on the likelihood that the tax losses would be available to offset future taxable profits.

## Net earnings

Net earnings were \$21.5 million for the 13 weeks ended April 1, 2018 compared to \$43.8 million in 2017, representing a decrease of \$22.3 million. The decrease is primarily related to the \$24.6 million change in deferred income taxes described above, increased depreciation and interest expense, the negative impact from lower corporate and franchise contribution related to the first quarter calendar shift, partially offset by earnings from the addition of Pickle Barrel and The Keg.

## Restaurant Count

Cara's restaurant network consists of company-owned corporate locations and franchised locations. As at the end of April 1, 2018, there were 1,382 restaurants. The following table presents the changes in Cara's restaurant unit count:

Unit count (unaudited)	For the 13 weeks ended							
	April 1, 2018				March 26, 2017			
	Corporate	Franchised	Joint Venture	Total	Corporate	Franchised	Joint Venture	Total
Beginning of period <sup>(1)</sup>	169	1,049	54	<b>1,272</b>	169	1,030	38	<b>1,237</b>
Acquisitions <sup>(2)</sup>	46	60	-	<b>106</b>	-	-	-	-
New openings	1	15	1	<b>17</b>	-	13	-	<b>13</b>
Closures	(3)	(10)	-	<b>(13)</b>	(2)	(10)	-	<b>(12)</b>
Casey's closures	-	-	-	-	-	-	-	-
Corporate buy backs <sup>(3)</sup>	1	(1)	-	-	-	-	-	-
Restaurants re-franchised <sup>(4)</sup>	(1)	1	-	-	(1)	1	-	-
End of period	<u>213</u>	<u>1,114</u>	<u>55</u>	<u><b>1,382</b></u>	<u>166</u>	<u>1,034</u>	<u>38</u>	<u><b>1,238</b></u>

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

<sup>(2)</sup> Burger's Priest was acquired on June 1, 2017, Pickle Barrel was acquired on December 1, 2017 and the Keg was acquired on February 22, 2018.

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

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

## Segment Performance

Cara divides its operations into 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, the proportionate results from 55 joint venture restaurants from the Original Joe's investment, the Burger's Priest investment, and 1909 Taverne Moderne joint venture, which generate revenues from the direct sale of prepared food and beverages to consumers.

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 and joint venture 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 and Cara 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; catering sales; 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 includes 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. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

### ***Operating EBITDA***

Operating EBITDA<sup>(1)</sup> before the Keg royalty expense was \$48.8 million, representing 6.5% contribution as a percentage of Total System Sales for the 13 weeks ended April 1, 2018 compared to \$42.9 million and 6.5% in 2017. Operating EBITDA after the Keg royalty expense was \$47.4 million for the 13 weeks ended April 1, 2018 compared to \$42.9 million in 2017, representing an increase of \$4.5 million or 10.5%. The increases were driven by increased contribution dollars in the corporate and franchise segments primarily related to the addition of the Keg in February 2018, partially offset by the lower corporate and franchise contribution from the first quarter calendar shift, a decrease in contribution from the St-Hubert food processing and distribution as a result of change in sales mix at lower gross margin and one-time listing fees with grocery providers for new products added for sale.

<sup>(1)</sup> See "Non-IFRS Measures" on page 26 for definition of Operating EBITDA.

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

(C\$ thousands unless otherwise stated)	For the 13 week period ended							
	April 1, 2018				March 26, 2017			
	Corporate	Franchised	Central	Total	Corporate	Franchised	Central	Total
	(unaudited)				(unaudited)			
<b>System Sales</b> (unaudited).....	\$ 149,971	\$ 543,064	\$ 62,878	\$ 755,913	\$ 98,680	\$ 500,810	\$ 59,628	\$ 659,118
<b>Corporate Results</b>								
Sales.....	\$ 146,138	\$ -	\$ 3,085	\$ 149,223	\$ 98,680	\$ -	\$ 3,098	\$ 101,778
Cost of inventories sold and cost of labour.....	(94,317)	-	-	(94,317)	(62,338)	-	-	(62,338)
Restaurant contribution before other	51,821	-	3,085	54,906	36,342	-	3,098	39,440
Restaurant contribution before other costs	35.5%	-	-	(38,738)	36.8%	-	-	(28,352)
Other operating costs.....	(38,738)	-	-	(38,738)	(28,352)	-	-	(28,352)
<b>Total Contribution</b> .....	<b>13,083</b>	<b>-</b>	<b>3,085</b>	<b>16,168</b>	<b>7,990</b>	<b>-</b>	<b>3,098</b>	<b>11,088</b>
<b>Franchise Results</b>								
Franchise royalty income.....	-	24,360	-	24,360	-	22,182	-	22,182
Franchise royalty income as a % of franchise sales.....	-	4.5%	-	-	-	4.4%	-	-
New franchise fees, rent revenue and equipment rent.....	-	-	3,012	3,012	-	-	3,003	3,003
Franchise rent assistance and bad debt	-	(1,992)	-	(1,992)	-	(1,739)	-	(1,739)
<b>Contribution from franchise restaurants</b> .....	<b>-</b>	<b>22,368</b>	<b>3,012</b>	<b>25,380</b>	<b>-</b>	<b>20,443</b>	<b>3,003</b>	<b>23,446</b>
<b>Food processing and distribution</b>								
Net food processing and distribution contribution.....	-	-	2,939	2,939	-	-	4,701	4,701
<b>Central</b>								
Net central contribution.....	-	-	4,321	4,321	-	-	3,664	3,664
<b>Operating EBITDA <sup>(1)</sup> before royalty expense</b> .....	<b>\$ 13,083</b>	<b>\$ 22,368</b>	<b>\$ 13,357</b>	<b>\$ 48,808</b>	<b>\$ 7,990</b>	<b>\$ 20,443</b>	<b>\$ 14,466</b>	<b>\$ 42,899</b>
Net royalty expense	\$ -	\$ -	\$ (1,450)	\$ (1,450)	\$ -	\$ -	\$ -	\$ -
<b>Operating EBITDA <sup>(1)</sup></b> .....	<b>\$ 13,083</b>	<b>\$ 22,368</b>	<b>\$ 11,907</b>	<b>\$ 47,358</b>	<b>\$ 7,990</b>	<b>\$ 20,443</b>	<b>\$ 14,466</b>	<b>\$ 42,899</b>
Contribution as a % of corporate sales.....	9.0%	-	-	-	8.1%	-	-	-
Contribution as a % of franchise sales....	-	4.1%	-	-	-	4.1%	-	-
Contribution as a % of total System Sales	-	-	1.6%	6.3%	-	-	2.2%	6.5%

<sup>(1)</sup> See "Non-IFRS Measures" on page 26 for definitions of Operating EBITDA and page 5 for a reconciliation of Net Earnings to Operating EBITDA.

## *Corporate*

As at April 1, 2018, the corporate segment restaurant count consisted of 213 restaurants compared to 166 at March 26, 2017, an increase of 47 locations. The increase is related to the acquisition of 12 Pickle Barrel restaurants in December 2017, 46 Keg locations in February 2018, 8 new restaurant openings, and 6 corporate buybacks were offset by 11 closures and 14 restaurants re-franchised during 2017 and the first quarter 2018. The corporate restaurant segment includes the proportionate results from 55 joint venture restaurants from the Original Joe's investment, the Burger's Priest investment, and 1909 Taverne Moderne joint venture.

### *Sales*

Sales represent food and beverage sales from Cara's corporate restaurants. Corporate restaurant sales are impacted by SRS Growth and the change in number of corporate restaurants. Sales were \$146.1 million for the 13 weeks ended April 1, 2018 compared to \$98.7 million in 2017, an increase of \$47.4 million or 48.0%. The increase was primarily related to the increase in number of corporate restaurants from the addition of Burger's Priest in June 2017, Pickle Barrel in December 2017, The Keg in February 2018, and the SRS increase, partially offset by closures and the first quarter calendar shift negatively impacting total System Sales.

### *Cost of inventories sold and cost of labour*

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

Cost of inventories sold and cost of labour was \$94.3 million for the 13 weeks ended April 1, 2018 compared to \$62.3 million in 2017, respectively, an increase of \$32.0 million or 51.4%. The increase was primarily due to the addition of 47 corporate restaurants primarily from the Pickle Barrel and the Keg transactions. Cost of inventories sold and cost of labour as a percentage of sales increased from 63.1% to 64.5% for the 13 weeks ended April 1, 2018, an increase of 1.4 percentage points. Management expects to operate at a lower gross margin rate in 2018 due to higher minimum wage legislation in Ontario and Alberta. Despite the impact from the minimum wage increases, sales increases have led to increased contribution dollars and a higher Operating EBITDA percentage. Original Joe's and the Pickle Barrel operate at higher costs and as these brands benefit from the Company's purchasing power and labour management tools, management expects that their costs as a percentage of sales will improve toward our targeted gross margin levels achieved by Cara's historical brands.

### *Contribution from Corporate segment*

Total contribution from corporate restaurants was \$13.1 million for the 13 weeks ended April 1, 2018 compared to \$8.0 million in 2017, an improvement of \$5.1 million or 63.8%. The increases are primarily driven by SRS increases, and the increase in number of corporate restaurants, including the additions of The Keg, Burger's Priest, and Pickle Barrel.

For the 13 weeks ended April 1, 2018, total contribution from corporate restaurants as a percentage of corporate sales was 9.0% compared to 8.1% in 2017. The addition of The Keg which operates corporate restaurants within our target range was offset by lower percentage contribution rates from Original Joe's and Pickle Barrel corporate restaurants that operate at lower contribution levels.

## ***Franchise***

As at April 1, 2018, the franchise restaurant segment consisted of 1,114 restaurants compared to 1,034 at March 26, 2017, an increase of 83 locations. The increase is related to 49 new restaurant openings in 2017 and during the first quarter of 2018, the addition of 60 restaurants from The Keg merger, 14 corporate restaurants re-franchised, partially offset by 34 closures, and 6 corporate buybacks, excluding the impact of 3 Casey's closures. The franchise segment includes the proportionate share of royalties earned from the joint venture restaurants from the Original Joe's transaction.

Franchise segment System Sales were \$543.1 million during the 13 weeks ended April 1, 2018 compared to \$500.8 in 2017, an increase of \$42.3 million or 8.4%. The increase was primarily attributed to the new restaurant openings in 2017 and 2018, the addition of The Keg, SRS improvements, partially offset by restaurant closures, corporate buybacks, and the first quarter calendar shift negatively impacting total System Sales.

### *Franchise revenues*

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

The primary factors impacting franchise revenues are SRS Growth and net new restaurant activity, as well as the rate of royalty fees (net of contractual subsidies and temporary assistance) paid to Cara by its franchisees. In certain circumstances, the royalty rate paid to Cara can be less than Cara's standard 5.0% royalty rate due to different contractual rates charged for certain brands (e.g. St-Hubert's standard royalty rate is 4%) and contractual subsidies primarily associated with prior year's conversion transactions or agreements to temporarily assist certain franchisees. With the majority of contractual subsidies scheduled to end at prescribed dates and the reduction in the number of restaurants requiring temporary assistance, management believes the effective royalty recovery rate will gradually increase over time closer to 5.0% for franchisees (excluding St-Hubert at 4%). The addition of The Keg will also increase Cara's overall net royalty rate as new and renewed Keg franchisees pay 6.0% royalty while others pay 5% until their franchise agreement is renewed.

Franchise revenues were \$24.4 million for the 13 weeks ended April 1, 2018 compared to \$22.2 million in 2017, an increase of \$2.2 million or 9.9%. The increase was primarily attributed to the addition of The Keg and new restaurants opened in 2017 and during the first quarter of 2018, the SRS improvements, partially offset by the first quarter calendar shift negatively impacting franchise royalty revenues.

### *Contribution from franchise segment*

Total contribution from franchise restaurants was \$22.4 million for the 13 weeks ended April 1, 2018 compared to \$20.4 million in 2017, an increase of \$2.0 million or 9.8%. The increase was related to increased royalty income as a result of the franchise sales increases and the addition of The Keg.

The effective net royalty rate for the 13 weeks ended April 1, 2018 was 4.1% compared to 4.1% for the 13 weeks in 2017. Cara's standard royalty rate is 5.0%. There are brands acquired since 2014 which charge different standard royalty rates, in particular St-Hubert which charges 4% as its standard royalty and The Keg which charges over 5.0% when considering its total franchise portfolio.

As at April 1, 2018, a total of 136 restaurants were paying Cara a royalty below the standard rate as compared to 138 restaurants at December 31, 2017. 58 out of the 136 restaurants paying below the standard royalty are related to previously agreed upon conversion agreements, an improvement of 1 restaurant compared to 59 as at December 31, 2017. 78 out of the 136 restaurants paying less than the standard royalty were related to temporary assistance provided to certain other restaurants, an improvement of 1 restaurant compared to 79 as at December 31, 2017.

## ***Central***

### ***Sales***

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

Total central segment sales were \$62.9 million for the 13 weeks ended April 1, 2018 compared to \$59.6 in 2017, representing an increase of \$3.3 million, or 5.5%. The increases are related to the addition of catering sales from the acquisition of Pickle Barrel and increases in food processing and distribution sales.

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

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

Franchise fees, property rent revenue and equipment rent from franchisees were \$3.0 million for the 13 weeks ended April 1, 2018 compared to \$3.0 million in 2017.

### ***Food processing and distribution***

Sales from food processing and distribution relate to the manufacture and distribution of fresh, frozen and non-perishable food products under the St-Hubert brand name as well as under several private label brands. Food processing and distribution sales are impacted by orders from franchised restaurant locations and by the volume of orders generated from retail grocery chains.

### ***Contribution from food processing and distribution***

Contribution from food processing and distribution for the 13 weeks ended April 1, 2018 was \$2.9 million compared to \$4.7 million for the same 13 week period in 2017, a decrease of \$1.8 million or 38.3%. The decrease in contribution is primarily related to a change in sales mix at lower gross margins compared to 2017 due to inventory shortages after record sales in December 2017, and one-time listing fees with grocery providers for new products added for sale.

### ***Contribution from central segment***

Central segment contribution before the net royalty expense for the 13 weeks ended April 1, 2018 was \$13.4 million compared to \$14.5 million in 2017, representing a decrease of \$1.1 million or 7.6%. Total central segment contribution, before the net royalty expense, as a percentage of total System Sales for the 13 weeks ended April 1, 2018 was 1.8% compared to 2.2% in 2017, a decrease of 0.4 percentage points. The decrease is primarily related to the decrease in contribution from the St-Hubert food processing and distribution business.

## Selected Quarterly Information

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

(C\$ millions unless otherwise stated) <sup>(1)</sup>	Q1 – 2018	Q4 – 2017	Q3 – 2017	Q2 – 2017	Q1 – 2017	Q4 – 2016	Q3 – 2016	Q2 – 2016
	Apr 1, 2018	Dec 31, 2017	Sept 24, 2017	Jun 25, 2017	Mar 26, 2017	Dec 25, 2016	Sept 25, 2016	June 26, 2016
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
System Sales <sup>(1)</sup> .....	\$ 755.9	\$ 774.9	\$ 684.7	\$ 660.8	\$ 659.1	\$ 641.1	\$ 500.1	\$ 450.3
Total System Sales Growth <sup>(1)</sup> .....	14.7%	20.9%	36.9%	46.7%	46.4%	39.0%	14.0%	3.0%
SRS Growth <sup>(1)</sup> .....	2.1%	2.5%	0.9%	(0.3%)	(0.6%)	(2.8%)	(2.3%)	(2.0%)
Number of restaurants (at period end).....	1,382	1,272	1,249	1,255	1,238	1,237	1,127	1,003
Operating EBITDA before Keg royalty <sup>(1)</sup> .....	\$ 48.8	\$ 58.5	\$ 48.0	\$ 41.6	\$ 42.9	\$ 46.7	\$ 36.9	\$ 32.8
<b>Operating EBITDA Margin on</b>								
System Sales before Keg royalty <sup>(1)</sup> .....	6.5%	7.6%	7.0%	6.3%	6.5%	7.3%	7.4%	7.3%
Operating EBITDA <sup>(1)</sup> .....	\$ 47.4	\$ 58.5	\$ 48.0	\$ 41.6	\$ 42.9	\$ 46.7	\$ 36.9	\$ 32.8
<b>Operating EBITDA Margin on</b>								
System Sales <sup>(1)</sup> .....	6.3%	7.6%	7.0%	6.3%	6.5%	7.3%	7.4%	7.3%
Corporate restaurant sales.....	\$ 146.1	\$ 125.8	\$ 111.2	\$ 103.4	\$ 98.7	\$ 82.1	\$ 74.7	\$ 68.4
Number of corporate restaurants.....	213	169	161	162	166	169	134	117
Contribution from Corporate segment.....	\$ 13.1	\$ 12.3	\$ 11.8	\$ 10.4	\$ 8.0	\$ 6.8	\$ 9.1	\$ 8.9
Contribution as a % of corporate sales.....	9.0%	9.8%	10.6%	10.1%	8.1%	8.3%	12.1%	13.0%
Number of joint venture restaurants.....	55	54	50	52	38	38	2	2
Franchise restaurant sales.....	\$ 543.1	\$ 571.0	\$ 515.7	\$ 504.7	\$ 500.8	\$ 492.5	\$ 407.7	\$ 381.9
Number of franchised restaurants.....	1,114	1,049	1,038	1,041	1,034	1,030	991	884
Contribution from Franchise segment.....	\$ 22.4	\$ 24.1	\$ 20.0	\$ 19.9	\$ 20.4	\$ 20.1	\$ 16.0	\$ 15.4
Contribution as a % of Franchise sales.....	4.1%	4.2%	3.9%	3.9%	4.1%	4.1%	3.9%	4.0%
Contribution from food processing and distribution.....	\$ 2.9	\$ 6.6	\$ 3.4	\$ 0.6	\$ 4.7	\$ 5.9	\$ 2.7	\$ -
Contribution from Central segment.....	\$ 11.9	\$ 22.1	\$ 16.2	\$ 11.3	\$ 14.5	\$ 19.8	\$ 11.8	\$ 8.5
Contribution as a % of total System Sales.....	1.6%	2.9%	2.4%	1.7%	2.2%	3.1%	2.4%	1.9%
Total gross revenue .....	\$ 246.5	\$ 242.3	\$ 203.8	\$ 193.5	\$ 198.6	\$ 191.1	\$ 127.8	\$ 100.8
Operating EBITDA Margin <sup>(1)</sup> .....	19.2%	24.2%	23.6%	21.5%	21.6%	24.4%	28.9%	32.5%
<b>Earnings before income taxes.....</b>	<b>\$ 29.3</b>	<b>\$ 37.0</b>	<b>\$ 30.4</b>	<b>\$ 21.6</b>	<b>\$ 27.5</b>	<b>\$ 30.3</b>	<b>\$ 20.7</b>	<b>\$ 24.9</b>
Net earnings .....	\$ 21.5	\$ 27.3	\$ 21.2	\$ 17.4	\$ 43.8	\$ 19.7	\$ 14.9	\$ 18.1
<b>Adjusted Net Earnings <sup>(1)</sup>.....</b>	<b>\$ 25.9</b>	<b>\$ 36.3</b>	<b>\$ 28.7</b>	<b>\$ 26.4</b>	<b>\$ 25.8</b>	<b>\$ 25.9</b>	<b>\$ 24.3</b>	<b>\$ 25.5</b>
Net earnings operations attributable to common shareholders of the Company.....	\$ 21.7	\$ 27.4	\$ 21.0	\$ 17.4	\$ 44.0	\$ 19.7	\$ 14.8	\$ 18.1
EPS attributable to common shareholders of the Company (in dollars)								
Basic EPS.....	\$ 0.36	\$ 0.47	\$ 0.35	\$ 0.29	\$ 0.73	\$ 0.33	\$ 0.29	\$ 0.37
Diluted EPS.....	\$ 0.35	\$ 0.45	\$ 0.34	\$ 0.28	\$ 0.71	\$ 0.32	\$ 0.27	\$ 0.34
<b>Adjusted Basic EPS <sup>(1)</sup>.....</b>	<b>\$ 0.43</b>	<b>\$ 0.62</b>	<b>\$ 0.48</b>	<b>\$ 0.44</b>	<b>\$ 0.43</b>	<b>\$ 0.44</b>	<b>\$ 0.47</b>	<b>\$ 0.52</b>
<b>Adjusted Diluted EPS <sup>(1)</sup>.....</b>	<b>\$ 0.41</b>	<b>\$ 0.59</b>	<b>\$ 0.46</b>	<b>\$ 0.42</b>	<b>\$ 0.41</b>	<b>\$ 0.42</b>	<b>\$ 0.43</b>	<b>\$ 0.48</b>

<sup>(1)</sup> See "Non-IFRS Measures" on page 26 for definitions of System Sales, System Sales Growth, SRS Growth, Operating EBITDA, Operating EBITDA Margin, Operating EBITDA Margin on System Sales, Adjusted Net Earnings, Adjusted Basic EPS, and Adjusted Diluted EPS.

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

- restaurant and other complimentary acquisitions;
- the timing of restaurant openings and closures;
- increases and decreases in SRS Growth;
- royalty recovery rates and the extent to which Cara provides financial assistance or incurs bad debts with franchisees;
- restaurant operating costs for corporate-owned restaurants;
- labour availability and costs for hourly and management personnel at corporate-owned restaurants and at its manufacturing and distribution facilities;
- profitability of the corporate-owned restaurants, especially in new markets;
- fluctuations in sales to retail grocery chains, including seasonality;
- changes in interest rates;
- impairment of long-lived assets and any loss on restaurant closures for corporate-owned restaurants;
- macroeconomic conditions, both nationally and locally;
- changes in consumer preferences and competitive conditions;
- expansion in new markets;
- increases in fixed costs; and
- fluctuations in commodity prices.

Seasonal factors and the timing of holidays cause the Company's revenue to fluctuate from quarter to quarter. As discussed above, the shift in the calendar has impacted SRS and earnings during the first quarter. In addition to the shift in calendar with Easter falling in the first quarter and the higher sales week between December 26 – 31 being included in 2017 versus 2018, revenue per restaurant is typically lower in the first quarter when consumer spending generally is lower following the holiday season. Adverse weather conditions may also affect customer traffic during the first quarter. The Company has outdoor patio seating at some of its restaurants, and the effects of adverse weather may impact the use of these areas and may negatively impact the Company's revenue. Food processing and distribution sales are typically highest in the fourth quarter, followed by the third quarter, then the first quarter, with the second quarter being lowest. During the quarters with higher sales, food processing and distribution contribution rate is also higher as fixed overhead costs are covered by higher gross margin.

Operating EBITDA has improved significantly from \$32.8 million in the second quarter of 2016 to \$42.9 million in the first quarter of 2017 and to \$47.4 million in the first quarter of 2018. Operating EBITDA has improved each quarter (year over year) as a result of growth in all three of the Company's historical segments, the addition of new restaurants, and from the acquisitions of St-Hubert, Original Joe's, Burger's Priest, Pickle Barrel, and the Keg.

Operating EBITDA Margin on System Sales was 6.3% and 6.5% before the net Keg royalty for the first quarter 2018 compared to 6.5% in the same quarter for 2017.

Contribution dollars from the corporate restaurant segment have increased (year over year) each quarter as a result of the addition of corporate restaurants. Contribution as a percentage of sales from the corporate restaurant segment is impacted by seasonality where the sales are lower in the first quarter and highest during the fourth quarter, thus contribution as a percentage of sales is typically lower in the first quarter as a result of lower sales in the period.



The franchise restaurant segment was 4.1% in the first quarter 2018 compared to 4.1% in 2017. Quarterly contribution from the franchise segment has improved each quarter (year over year) from \$15.4 million in the second quarter of 2016 to \$20.4 million in the first quarter of 2017 and \$22.4 million in the first quarter of 2018. The increases are the result of increased sales from the addition of new restaurants and the additions of St-Hubert in September 2016, Original Joe's in December 2016, and The Keg in February 2018.

Contribution from the central segment before the net royalty expense has increased from \$8.5 million in the second quarter of 2016 to \$14.5 million in the first quarter of 2017 and \$13.4 million in the first quarter of 2018. The increases (quarter over quarter) are a result of the head office cost reductions, the growth of the Company's off premise business and the addition of the St-Hubert food processing and distribution business. The decrease in the first quarter 2018 compared to 2017 is primarily related to reduced contribution dollars from the St-Hubert food processing and distribution during the quarter.

Total gross revenue has increased significantly each quarter (year over year) from \$100.8 million in the second quarter of 2016 to \$198.6 million in the first quarter of 2017 and \$246.5 million in the first quarter of 2018 as a result of the increase in the number corporate restaurants; the addition of corporate restaurants from the St-Hubert, Original Joe's, Pickle Barrel, and The Keg transactions; and the addition of the St-Hubert food processing and distribution business in the third quarter of 2016.

Quarterly earnings before income taxes has increased each quarter (year over year) from \$24.9 million in the second quarter of 2016 to \$27.5 million in the first quarter of 2017 and to \$29.3 million in the first quarter of 2018. The significant increases are a result of improvements in all business segments as described above partially offset by increased financing costs related to increased borrowings on the Company's credit facilities.

## **Liquidity and Capital Resources**

Cara's principal uses of funds are for operating expenses, capital expenditures, finance costs, debt service and dividends. Management believes that cash generated from operations, together with amounts available under its credit facility (refer to page 20), will be sufficient to meet its future operating expenses, capital expenditures, future debt service costs and discretionary dividends. However, Cara's ability to fund future debt service costs, operating expenses, capital expenditures and dividends will depend on its future operating performance which will be affected by general economic, financial and other factors including factors beyond its control. See "Risk and Uncertainties" (refer to page 30). Cara's management reviews acquisition and investment opportunities in the normal course of its business and, if suitable opportunities arise, may make selected acquisitions and investments to implement Cara's business strategy. Historically, the funding for any such acquisitions or investments have come from cash flow from operating activities, additional debt, or the issuance of equity. Similarly, from time to time, Cara's management reviews opportunities to dispose of non-core assets and may, if suitable opportunities arise, sell certain non-core assets.

## Working Capital

A working capital deficit is typical of restaurant operations, where the majority of sales are for cash and there are rapid turnover of inventories. In general, the turnover of accounts receivable and inventories is faster than accounts payable, resulting in negative working capital. Sales of Cara's Ultimate Gift Card and the addition of The Keg gift card significantly improve the Company's liquidity in the fourth quarter as cash is received within one to two weeks from time of sale. Gift card sales are highest in November and December followed by high redemptions in the January to March period. Cara's gift card liability at April 1, 2018 was \$106.9 million compared to \$57.5 million at December 31, 2017, an increase of \$49.4 million due to the addition of The Keg gift card liability offset by higher redemptions in the first quarter.

At April 1, 2018, Cara had a working capital deficit of (\$72.3) million compared to (\$19.8) million at December 31, 2017. The change of \$52.5 million was primarily related to the addition of The Keg which increased the working capital deficit by \$59.9 million. Excluding the impact from The Keg, the change in working capital of \$7.4 million was related to (i) decrease in cash \$22.1 million primarily related to the reduction in the credit facilities net of cash from operations; (ii) increase in accounts receivable of \$1.2 million; (iii) increase in inventories of \$1.9 million; (v) increase in prepaid expenses and other asset of \$3.3 million related to timing of April 1 rent paid in the period; (vi); increase in accounts payable and accrued liabilities of \$2.7 million related to dividends payable of \$6.7 million, partially offset by payments that were accrued at year end, (vii) decrease in current provisions of \$0.6 million; (viii) decrease in gift card liability of \$23.3 million related to higher gift card redemptions following the holiday period; and (ix); a net decrease in income taxes payable of \$1.8 million primarily related to St-Hubert.

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

## Cash Flows

The following table presents Cara's cash flows for the 13 weeks ended April 1, 2018 compared to the 13 weeks ended March 26, 2017:

(C\$ millions unless otherwise stated)	13 weeks	
	April 1, 2018	March 26, 2017
	(unaudited)	(unaudited)
Cash flows (used in) from operating activities .....	\$ (0.8)	\$ 28.4
Cash flows used in investing activities .....	\$ (78.9)	\$ (7.6)
Cash flows from (used in) financing activities .....	\$ 85.3	\$ (33.7)
Change in cash during the period <sup>(1)</sup> .....	\$ 5.6	\$ (12.9)

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

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

Cash flows from operating activities were a decrease of (\$0.8) million for the 13 weeks ended April 1, 2018 compared to \$28.4 million in 2017, a change of \$29.2 million. The decrease was primarily related to the reduction in gift card liability due to higher redemptions following the Q4 2017 holiday period, partially offset by increases in accounts payable and the change in deferred tax liability.

### *Cash flows used in investing activities of continuing operations*

The following table presents Cara's capital expenditures for the 13 weeks ended April 1, 2018 as compared to the 13 weeks ended March 26, 2017:

(C\$ millions unless otherwise stated)	For the 13 week period ended	
	April 1, 2018	March 26, 2017
Purchase of property, plant and equipment:		
Maintenance:		
Corporate restaurants .....	(2.0)	(1.1)
Central / IT expenditures / Other .....	(2.4)	(2.1)
Total maintenance .....	\$ (4.4)	\$ (3.2)
Growth initiatives:		
Major renovations .....	(0.2)	(1.1)
New builds .....	(2.1)	(5.9)
Total growth .....	\$ (2.3)	\$ (7.0)
<b>Total purchase of property, plant and equipment .....</b>	<b>\$ (6.7)</b>	<b>\$ (10.2)</b>
Common control transactions, net of cash assumed:		
Acquisitions .....	(71.8)	1.5
Buy backs <sup>(1)</sup> .....	-	-
<b>Total common control transactions, net of cash assumed .....</b>	<b>\$ (71.8)</b>	<b>\$ 1.5</b>
Total purchase of property, plant and equipment .....	(6.7)	(10.2)
Total common control transactions, net of cash assumed .....	(71.8)	1.5
Proceeds on disposal of property, plant and equipment .....	-	0.5
Proceeds on early buyout of equipment and rental contracts .....	0.1	0.1
Additions to other assets .....	(0.1)	(0.1)
Share of loss from investment in associates in joint ventures .....	0.4	0.1
Change in long term receivables .....	(0.7)	0.4
<b>Total cash flows used in investing activities <sup>(2)</sup> .....</b>	<b>\$ (78.9)</b>	<b>\$ (7.6)</b>

<sup>(1)</sup> There was 1 buy back in the first quarter of 2018 (2017 – nil)

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

Cash flows used in investing activities were (\$78.9) million during the 13 weeks ended April 1, 2018 compared to (\$7.6) million in 2017, an increase in use of \$71.3 million. The increase is primarily related to The Keg merger.

### *Commitments for Capital Expenditures*

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

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

The following table presents Cara's cash used in financing activities for the 13 weeks ended April 1, 2018 compared to the 13 weeks ended March 26, 2017:

(C\$ millions unless otherwise stated)	For the 13 weeks ended	
	April 1, 2018	March 26, 2017
Increases in debt.....	\$ 104.0	\$ -
Debt repayments .....	(15.0)	(32.0)
Issuance of subordinated voting common shares .....	0.1	0.1
Share repurchase .....	(0.7)	-
Change in finance leases .....	(0.7)	0.5
Interest paid net of interest income received .....	(2.5)	(2.3)
Cash flows from (used in) financing activities <sup>(1)</sup> .....	\$ 85.3	\$ (33.7)

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

Cash flows from financing activities were \$85.3 million for the 13 weeks ended April 1, 2018. Cash from financing activities primarily consist of a net increase in the Company's credit facility of \$89.0 million related to The Keg merger, less interest paid in the amount of \$2.5 million.

Cash flows used in financing activities were \$33.7 million for the 13 weeks ended March 26, 2017. Cash used in financing activities primarily consist of a net reduction of the Company's credit facility of \$32.0 million, less interest paid of \$2.3 million.

### **Debt**

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

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

As at April 1, 2018, \$468.0 million (December 31, 2017 - \$379.0 million) was drawn under the amended and extended term credit facility with an effective interest rate of 3.49% representing bankers acceptance rate of 1.58% plus 1.75% borrowing spread, standby fees and the amortization of deferred financing fees of 0.16%.

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 April 1, 2018, the standby fee rate was 0.35%.

## **The Keg Facility**

In connection with The Keg merger, the Company assumed a multi-option credit agreement with a Canadian banking syndicate for the expansion of restaurant operations. The revolving credit and term loan facilities, with a syndicate of two Canadian banks, are available to finance the construction of certain new corporate restaurants and major renovations in Canada. These facilities are comprised of a \$14.0 million reducing term facility, a \$35.0 million revolving facility for future restaurant expansion which is subject to annual repayment based on 25% of excess operating cash flow, and a revolving demand operating facility of up to \$3.0 million available for general corporate purposes, including working capital, overdrafts and letters of credit.

Excess operating cash flow is defined in the credit agreement as operating cash flow for the financial year plus extraordinary or non-recurring items and any net decrease in working capital less interest paid, debt principal repayments, unfunded capital expenditures, income taxes paid and any net increase in working capital. Operating cash flow is defined as the sum of net income for the financial year, adjusted for gains or losses from dispositions not in the ordinary course of business, extraordinary or non-recurring items and equity income or losses from subsidiaries plus interest expense, income tax expense and depreciation and amortization.

As at April 1, 2018, \$24.0 million of the revolving facility has been drawn and is due on the July 2, 2020 maturity date, and less than \$0.1 million of the revolving demand operating facility has been used to issue letters of credit.

All of the above facilities bear interest at a rate between bank prime plus 1.25% to bank prime plus 2.0% based on certain financial criteria. As at April 1, 2018, the Company met the criteria for interest at bank prime plus 1.25%.

The above credit facilities are secured by a general security agreement and hypothecation over KRL's Canadian and US assets and a pledge of all equity interests in the Partnership.

As at April 1, 2018, the Company was in compliance with all covenants and has not exceeded any covenant levels requiring early repayments.

## **Off Balance Sheet Arrangements**

### *Letters of credit*

Cara has outstanding letters of credit amounting to \$0.6 million as at April 1, 2018 (December 31, 2017 - \$0.6 million), primarily for various utility companies that provide services to the corporate owned locations and support for certain franchisees' external financing used to fund their initial conversion fee payable to Cara.

## **Outstanding Share Capital**

The Company's authorized share capital consists of an unlimited number of common shares and an unlimited number of non-voting common shares. As at May 10, 2018, there were 62,363,007 subordinate and multiple voting shares (December 31, 2017 – 58,572,890) issued and outstanding.

The Company has a common share stock option plan for its directors, CEO and employees. The total number of options granted and outstanding as at May 10, 2018 is 4,078,895.

## **Related Parties**

### *Shareholders*

As at April 1, 2018, the Principal Shareholders hold 66.7% of the total issued and outstanding shares and have 97.7% of the voting control attached to all the shares. Cara Holdings holds 23.2% of the total issued and outstanding shares, representing 40.8% voting control. Fairfax holds 43.5% of the total issued and outstanding shares, representing 56.9% voting control.

On February 22, 2018, 3,400,000 subordinate voting shares were issued at the exchange amount to Fairfax as part of the merger with The Keg on February 22, 2018.

During the 13 weeks ended April 1, 2018, the Company declared a dividend of \$0.1068 per share of Subordinate and Multiple Voting Shares of which Fairfax and Cara Holdings received \$2.9 million and \$1.5 million, respectively on April 16, 2018.

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.

### **The Keg**

On February 22, 2018 (the "Keg Acquisition Date"), the Company completed the merger with the Keg Restaurants Limited (the "The Keg") for approximately \$200.0 million comprised of \$105.0 million in cash and 3,801,284 Cara subordinate voting shares at the exchange amount. In addition, Cara may be required to pay up to an additional \$30.0 million of cash consideration upon the achievement of certain financial milestones within the first three fiscal years following closing. The cash portion of the purchase price was settled by drawing on its existing credit facility.

The Company has elected not to account for the merger as a business combination under IFRS 3 Business Combinations, as the transaction represents a combination of entities under common control of Fairfax. Accordingly, the combination was recorded on a book value basis.

### **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. As at April 1, 2018 there was a due from related party balance of \$12.6 million (December 31, 2017 - \$12.2 million; March 26, 2017 - \$12.9 million) which consists of term loans and demand loans secured by restaurant assets of the joint venture company which has been recorded at fair value and will be accreted up to the recoverable value over the remaining term of the loans. The term loans bear interest at rates ranging from 7.75% to 9.76% and all mature September 21, 2018. The term loans are reviewed and renewed on an annual basis. The expected current portion of these loans is \$2.2 million (December 31, 2017 - \$2.2 million; March 26, 2017 - \$2.4 million). The demand loans bear interest at 5% and have no specific terms of repayment. Pooling arrangements between the joint venture companies to share costs and repay the loans exist such that restaurants within a certain restaurant pool of common ownership agree that available cash from restaurants can be used to apply against balances outstanding among the group. Management determines the fair value of these loans based on expected cash flows from the restaurant at a discount rate of 15%. For the 13 weeks ended April 1, 2018, the Company charged interest in the amount of \$0.2 million (March 26, 2017 - \$0.2 million) on the term loans and demand loans.

The Company charges Original Joe's joint ventures a royalty and marketing fee of 5% and 2%, respectively, on net sales. As at April 1, 2018 the accounts receivable balance included \$0.4 million (December 31, 2017 - \$0.2 million; March 26, 2017 - \$0.7 million) due from related parties in relation to these royalty and marketing charges. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties in accordance

with the franchise agreement.

The Company's investment in joint ventures are increased by the proportionate share of income earned. For the 13 weeks ended April 1, 2018, a \$0.1 million reduction (13 weeks ended March 26, 2017 - \$0.1 million reduction) to the investment balance was recorded in relation to the Company's proportionate share of income or loss for the period and included in share of income from investment in associates and joint ventures on the statement of earnings.

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

On June 1, 2017, the Company completed the investment in a joint venture in New & Old Kings and Priests Restaurants Inc. ("Burger's Priest") for cash consideration of \$14.7 million. Burger's Priest owns and operates 15 fast casual restaurants in Ontario and Alberta. The Company has a 79.4% ownership interest in the joint venture with the remaining 20.6% owned by a third party who has an earn-out agreement that can grow their ownership interest to 50% if certain earnings targets are met. The transaction is considered a joint venture arrangement as both parties have joint control and all relevant activities require the unanimous consent from both parties. The Company has accounted for the investment by using the equity method.

The Company's investment is increased by the proportionate share of income earned. For the 13 weeks ended April 1, 2018, a \$0.1 million increase (13 weeks ended March 26, 2017 - \$nil) to the investment balance was recorded in relation to the Company's proportionate share of income for the period and included in share of income from investment in associates and joint ventures on the statement of earnings.

#### **Investment in restaurant joint venture**

The Company has an investment in a joint venture to operate two restaurants with a third party. As at April 1, 2018, the Company has invested \$5.2 million, recorded in long-term receivables. The loan receivable is unsecured, non-interest bearing and does not have defined repayment terms. The Company and the third party each have a 50% ownership interest in the joint venture. The transaction is considered a joint venture arrangement as both parties have joint control and all relevant activities require the unanimous consent from both parties. The Company has accounted for the investment by using the equity method.

The Company's investment is increased by the proportionate share of income earned. For the 13 weeks ended April 1, 2018, a \$0.5 million decrease (13 weeks ended March 26, 2017 - \$nil) to the long term receivable balance was recorded in relation to the Company's proportionate share of loss for the period and included in share of loss from investment in associates and joint ventures on the statement of earnings.

#### **Investment in Rose Reisman Catering joint venture**

In connection with the acquisition of Pickle Barrel on December 1, 2017, the Company has a 50% ownership interest in Rose Reisman Catering. The investment is considered a joint venture arrangement as both parties have joint control and all relevant activities require the unanimous consent from both parties. The Company has accounted for the investment by using the equity method.

The Company's investment is increased by the proportionate share of income earned. For the 13 weeks ended April 1, 2018, a \$0.1 million increase (13 weeks ended March 26, 2017 - \$nil) to the investment balance was recorded in relation to the Company's proportionate share of loss 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.

## Outlook

Management is pleased with the first quarter results especially considering the calendar shift compared to Q1 2017. Management will continue to pursue synergies to deliver profitable growth. In the first quarter, Total Systems Sales grew \$96.8 million or 14.7% to \$755.9 million, Operating EBITDA before the net royalty expense increased 13.8% to \$48.8 million with a contribution margin of 6.5% as a percentage of Total System Sales, and Adjusted Net Earnings increased to \$25.9 million. Management provides the following comments regarding its strategies and initiatives:

With the full year impact of the Keg merger, the Company will add approximately \$612.0 million in System Sales, taking the Company to approximately \$3.4 billion in 2018 compared to the initial 2015 IPO target range for 2020-2022 of \$2.5 billion to \$3.0 billion, and the updated target range provided in 2016 after the St. Hubert acquisition of \$2.9 billion to \$3.7 billion. For a full year on a pro forma basis using prior year results, The Keg merger will add approximately \$23.5 million of Operating EBITDA resulting in combined proforma Operating EBITDA of approximately \$211.0 million, also within Cara's updated target EBITDA range of \$203.0 million to \$296.0 million (based on 7% to 8% of System Sales). However, while the Keg will add EBITDA dollars, because of royalty payments to the Keg Royalty Income Fund, the Keg merger will reduce Cara's Operating EBITDA margin on System Sales below the target 7% to 8% range. Management's focus will continue to be on improving the earnings efficiency of our assets and our increased sales base to grow Operating EBITDA as a percentage of System Sales back to within our 7% to 8% target range by 2020-2022.

Management provides the following comments regarding its strategies and initiatives:

- *System Sales and SRS Growth* — Management is pleased with total System Sales growth of 14.7% for the quarter and with SRS of 2.1% for the quarter. Management continues to focus on our goal of long-term sustainable SRS growth with both short-term and long-term strategies to improve SRS through restaurant renovations, greater emphasis on menu innovation, enhanced guest experiences, expanded off-premise sales through new and improved e-commerce applications that will be expanded to most brands over the next 2 years, operational excellence initiatives including using technology to improve the timeliness and transparency of data, and brand specific digital-social media marketing.
- *Total Operating EBITDA* — The combined contributions from Corporate, Franchise, Food Processing and Distribution, and Central segments resulted in Total Operating EBITDA margin before the net royalty to the Keg Royalties Income Fund of 6.5% as a percentage of Total System Sales for the quarter compared to 6.5% in 2017. Operating EBITDA after the net royalty was 6.3% for the first quarter. While The Keg will add EBITDA dollars, because of royalty payments to the Keg Royalty Income Fund, The Keg merger will reduce Cara's Operating EBITDA margin on System Sales below the target 7% to 8% range. Management's focus will continue to be on improving the earnings efficiency of our assets and our increased sales base to grow Operating EBITDA as a percentage of System Sales back to within our 7% to 8% target range by 2020-2022.
- *Corporate restaurant profitability* — Corporate restaurant profitability was 9.0% for the quarter compared to 8.1% in 2017. The improvement during the quarter was mostly from improvements in Original Joe's corporate and joint venture restaurants that currently operate below the 10% target contribution level and the addition of The Keg which operates within our target range. Management believes there is significant opportunity for improved contribution in the future from Original Joe's and Pickle Barrel as Management realizes operating synergies from lower food and beverage costs and better labour management tools. Contribution will also improve as renovated restaurants re-open at higher sales levels, as the western provinces and Newfoundland recover from the economic slowdown and from the sale of certain corporate restaurants in franchise banners.

Management will continue to pursue the sale of certain corporate restaurants in its franchise banners to franchisees and will pursue the sale of its share in joint venture locations to the Company's joint venture partners to convert joint venture locations to franchise to improve the corporate-franchise portfolio mix. During the 13 weeks ended April 1, 2018, 1 corporate restaurant was sold and re-franchised.

- *Franchise segment* — Franchise contribution as a percentage of franchise sales remain steady at 4.1% in the first quarter of 2018 compared to 4.1% in 2017.
- *Food processing and distribution* — Contribution dollars from food processing and distribution was \$2.9 million for the 13 weeks ended April 1, 2018, compared to \$4.7 million in 2017. The decrease in the quarter relates to a change in sales mix at lower gross margins compared to 2017 due to inventory shortages after record sales in December 2017, and one-time listing fees with grocery providers for new products added for sale. Management



expects to have a new pie production line added in the third quarter which will increase capacity and enable the Company to meet the increased demand for its St-Hubert and Swiss Chalet frozen pie products with less reliance on higher cost third party producers.

- *Central segment* — Going forward, central contribution will continue to improve on our model for growing sales faster than head office expenses, and by expanding our off premise business.
- *Restaurant Count* — In the first quarter of 2018 before acquisitions, the Company opened 17 new restaurant locations as compared to 13 in 2017. Year to date the Company closed 13 restaurants (excluding Casey’s closures) compared to 12 closures in 2017. Included in the closures were underperforming locations where the closure will benefit the overall system performance and the Company’s profitability going forward. Closures also included locations that no longer fit the long term strategy of certain brands. Management will continue to review its portfolio of restaurants and will opportunistically close underperforming or non-strategic locations that will benefit the Company long term.
- *The Keg merger initiatives* – Management is focused on realizing synergy opportunities from The Keg merger to improve our combined earnings and earnings efficiency. Management is also excited to add the influence of David Aisenstat to the Milestones, Bier Markt and Landing premium brands.
- *Retail opportunities* – Since the acquisition of St-Hubert in 2017, the Company has successfully launched a number of products, including Swiss Chalet ribs and pot pies, across the country in grocery chains. Management is pursuing the launch of several more Cara branded retail products to expand its retail presence in national grocery chains.
- *Growth and acquisitions* — The Company currently has a debt to EBITDA ratio of approximately 2.1x. At this debt level, and with strong cash flow from operations, the Company has the ability to consider more growth opportunities while continuing to reduce its debt, and by opportunistically repurchasing its subordinate voting shares for cancellation under the NCIB. To supplement cash flow and debt repayment (and our ability to grow), the Company is also planning less capital expenditures in 2018 as we build fewer new corporate restaurants and as we reduce the number of corporate restaurants in franchise banners by selling restaurants to franchisees. However, there will be additional capital expenditures in 2018 compared to 2017 to support the capital expenditures for the Keg brand.
- *Name change* – To recognize and better reflect what the Company has become since Fairfax invested in the Company in 2013, including: the Company’s IPO in 2015, the acquisition of St-Hubert, Original Joe’s, and New York Fries; and the recent merger with The Keg; the Company will be changing its name to Recipe Unlimited Corporation and will be traded under the new stock symbol “RECP”. The name Recipe was selected for both its connection to the many ways we proudly serve food and to signify the broader possibilities of what can and will be created through our processes and methodologies that reflect our values and the strength of our brands, franchisees, associates, and our company. In other words, our “Recipe”.

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

## **Future Accounting Changes**

New standards and amendments to existing standards have been issued and are applicable to the Company for its annual periods beginning on or after January 1, 2018. See note 3 of the Company's condensed consolidated interim financial statements for the 13 weeks ended April 1, 2018 for a summary of new accounting standards adopted during 2018 and note 4 for a summary of future accounting standards not yet adopted.

## **Controls and Procedures**

In accordance with the provisions of National Instrument 52-109 certification of Disclosure in issued annual and interim filings, management, including the CEO and CFO, have limited the scope of their design of the Company's disclosure controls and procedures and procedures and internal control over financial reporting to exclude controls, policies and procedures of The Keg. The scope limitation is in accordance with section 3.3 (1)(b) of National Instrument 52-109, Certification of Disclosure in Issuer's Annual and Interim Filing, which allows an issuer to limit its design and evaluation of internal controls over financial reporting to exclude the controls, policies and procedures of a company acquired no more than 365 days before the end of the financial period to which the certification of interim filings relates. Cara acquired shares of The Keg on February 22, 2018.

There were no changes in the Company's internal controls over financial reporting during the 13 weeks ended April 1, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## **Critical Accounting Judgments and Estimates**

The preparation of the condensed consolidated interim financial statements requires significant judgements made by management in applying the Company's accounting policies except those adopted using the judgements from the first quarter of 2018 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 31, 2017.

## **Non-IFRS Measures**

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

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

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

“SRS Growth” is a metric used in the restaurant industry to compare sales earned in established locations over a certain period of time, such as a fiscal quarter, for the current period against sales in the same period in the previous year. SRS Growth helps explain what portion of sales growth can be attributed to growth in established locations and what portion can be attributed to the opening of net new restaurants. Cara defines SRS Growth as the percentage increase or decrease in sales during a period of restaurants open for at least 24 complete fiscal months relative to the sales of those restaurants during the same period in the prior year. Cara’s SRS Growth results excludes Casey’s restaurants as the Company is in the process of winding down its operations; and sales from international operations from 44 New York Fries and 3 US East Side Mario’s.

“EBITDA” is defined as net earnings (loss) before: (i) net interest expense and other financing charges; (ii) income taxes; (iii) depreciation of property, plant and equipment; (iv) amortization of other assets.

“Operating EBITDA” is defined as net earnings (loss) before: (i) net interest expense and other financing charges; (ii) income taxes; (iii) depreciation of property, plant and equipment; (iv) amortization of other assets; (v) impairment of assets, net of reversals; (vi) losses on early buyout / cancellation of equipment rental contracts; (vii) restructuring and other; (viii) conversion fees; (ix) net (gain) / loss on disposal of property, plant and equipment; (x) stock based compensation; (xi) changes in onerous contract provision;; (xii) expense impact from fair value inventory adjustment resulting from the St-Hubert purchase relating to inventory sold during the period; (xiii) acquisition related transaction costs; (xiv) change in fair value of Exchangeable Partnership units; (xv) the Company’s proportionate share of equity accounted investment in associates and joint ventures; and (xvi) interest income from the Partnership units.

“Operating EBITDA Margin” is defined as Operating EBITDA divided by total gross revenue.

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

“Adjusted Net Earnings” is defined as net earnings plus (i) deferred income tax expense (reversal); (ii) non-cash amortization of inventory fair value increases related to inventory sold during the period resulting from the St-Hubert purchase determined at acquisition date; (iii) change in fair value of Exchangeable Partnership units; (iv) one-time transaction costs; (v) non-cash impairment charges; and (vi) restructuring and other.

“Adjusted Basic EPS” is defined as Adjusted Net Earnings divided by the weighted average number of shares outstanding.

“Adjusted Diluted EPS” is defined as Adjusted Net Earnings divided by the weighted average number of shares outstanding plus the dilutive effect of stock options and warrants issued.

The following table provides reconciliations of Net Earnings and Adjusted Net Earnings:

	Q1 – 2018 Apr 1, 2018	Q4 – 2017 Dec 31, 2017	Q3 – 2017 Sept 24, 2017	Q2 - 2017 June 25, 2017
(C\$ millions unless otherwise stated)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Reconciliation of net earnings to Adjusted Net Earnings</b>				
Net earnings attributable to the common shareholders.....	\$ 21.7	\$ 27.3	\$ 21.2	\$ 17.4
Deferred income taxes.....	5.1	5.2	6.0	3.8
Change in fair value of exchangeable Partnership units.....	(2.3)	-	-	-
Transaction costs.....	0.5	0.1	0.1	0.1
Restructuring and other.....	0.2	1.0	0.7	2.7
Impairment charges.....	0.6	2.5	0.7	2.4
<b>Adjusted Net Earnings<sup>(1)</sup></b> .....	<b>\$ 25.9</b>	<b>\$ 36.3</b>	<b>\$ 28.7</b>	<b>\$ 26.4</b>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	Q1 - 2017 Mar 26, 2017	Q4 – 2016 Dec 25, 2016	Q3 – 2016 Sept 25, 2016	Q2 – 2016 June 26, 2016
(C\$ millions unless otherwise stated)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Reconciliation of net earnings to Adjusted Net Earnings</b>				
Net earnings attributable to the common shareholders.....	\$ 44.0	\$ 19.7	\$ 14.9	\$ 18.1
Deferred income taxes.....	(19.5)	5.5	4.3	6.5
Inventory fair value adjustment resulting from acquisition.....	-	0.3	2.5	-
Transaction costs.....	0.1	-	1.1	0.9
Restructuring and other.....	-	-	-	-
Impairment charges.....	1.2	0.4	1.5	-
<b>Adjusted Net Earnings<sup>(1)</sup></b> .....	<b>\$ 25.8</b>	<b>\$ 25.9</b>	<b>\$ 24.3</b>	<b>\$ 25.5</b>

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

The following table provides reconciliations of EBITDA and Operating EBITDA:

	Q1 - 2018	Q4 - 2017	Q3 - 2017	Q2 - 2017
(C\$ millions unless otherwise stated)	Apr 1, 2018	Dec 31, 2017	Sept 24, 2017	June 25, 2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Reconciliation of net earnings from continuing operations to EBITDA:</b>				
Net earnings .....	\$ 21.5	\$ 27.3	\$ 21.2	\$ 17.4
Net interest expense and other financing charges .....	3.3	3.5	3.2	2.7
Income taxes .....	7.8	9.7	9.2	4.2
Depreciation of property, plant and equipment .....	13.1	12.0	11.2	10.8
Amortization of other assets .....	1.5	2.3	1.7	1.6
<b>EBITDA<sup>(1)</sup></b> .....	<b>\$ 47.2</b>	<b>\$ 54.8</b>	<b>\$ 46.4</b>	<b>\$ 36.7</b>
<b>Reconciliation of EBITDA to Operating EBITDA:</b>				
Income on Partnership units .....	1.0	-	-	-
(Gains) Losses on early buyout/cancellation of equipment rental contracts .....	0.2	(0.1)	0.6	0.1
Restructuring .....	0.2	1.0	0.7	2.7
Transaction costs .....	0.5	0.1	0.1	0.1
Conversion fees .....	(0.3)	(0.3)	(0.3)	(0.3)
Net gain on disposal of property, plant and equipment .....	(0.2)	(0.3)	(0.4)	(1.1)
Impairment of assets, net of reversals .....	0.6	2.5	0.7	2.4
Fair value adjustments .....	(2.3)	-	-	-
Stock based compensation .....	0.5	0.5	0.5	0.8
Change in onerous contract provision .....	(0.3)	0.3	(0.4)	(0.2)
Proportionate share of equity accounted joint venture .....	0.4	0.2	(0.1)	0.4
<b>Operating EBITDA<sup>(1)</sup></b> .....	<b>\$ 47.4</b>	<b>\$ 58.5</b>	<b>\$ 48.0</b>	<b>\$ 41.6</b>
Net royalty expense .....	1.5	-	-	-
<b>Operating EBITDA<sup>(1)</sup></b> .....	<b>\$ 48.8</b>	<b>\$ 58.5</b>	<b>\$ 48.0</b>	<b>\$ 41.6</b>

	Q1 - 2017	Q4 - 2016	Q3 - 2016	Q2 - 2016
(C\$ millions unless otherwise stated)	Mar 26, 2017	Dec 25, 2016	Sept 25, 2016	June 26, 2016
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Reconciliation of net earnings from continuing operations to EBITDA:</b>				
Net earnings .....	\$ 43.8	\$ 19.7	\$ 14.9	\$ 18.1
Net interest expense and other financing charges .....	3.0	2.8	1.6	0.8
Income taxes .....	(16.3)	10.6	5.8	6.8
Depreciation of property, plant and equipment .....	10.0	10.1	6.6	5.5
Amortization of other assets .....	1.5	1.6	1.5	0.7
<b>EBITDA<sup>(1)</sup></b> .....	<b>\$ 42.0</b>	<b>\$ 44.9</b>	<b>\$ 30.4</b>	<b>\$ 31.9</b>
<b>Reconciliation of EBITDA to Operating EBITDA:</b>				
Losses on early buyout/cancellation of equipment rental contracts .....	-	0.4	0.5	-
Restructuring .....	-	0.6	0.1	(0.4)
Transaction costs .....	0.1	-	1.1	0.9
Conversion fees .....	(0.3)	(0.4)	(0.4)	(0.4)
Net gain on disposal of property, plant and equipment .....	(0.4)	(2.6)	(0.1)	(0.2)
Impairment of assets, net of reversals .....	1.2	0.4	1.5	-
Inventory fair value adjustment resulting from acquisition .....	0.1	0.4	2.5	-
Stock based compensation .....	0.5	0.7	1.2	1.1
Change in onerous contract provision .....	(0.3)	2.3	0.2	(0.2)
Proportionate share of equity accounted joint venture .....	(0.1)	-	-	-
<b>Operating EBITDA<sup>(1)</sup></b> .....	<b>\$ 42.9</b>	<b>\$ 46.7</b>	<b>\$ 36.9</b>	<b>\$ 32.8</b>

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

## **Forward-Looking Information**

Certain statements in this MD&A may constitute “forward-looking” statements within the meaning of applicable Canadian securities legislation which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company or the industry in which they operate, to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this MD&A, such statements use words such as “may”, “will”, “expect”, “believe”, “plan” and other similar terminology. These statements reflect management’s current expectations regarding future events and operating performance and speak only as of the date of this MD&A. These forward-looking statements involve a number of risks and uncertainties, including those related to: (a) the Company’s ability to maintain profitability and manage its growth including SRS Growth, System Sales Growth, increases in net income, Operating EBITDA, Operating EBITDA Margin on System Sales,, and Adjusted net earnings (b) competition in the industry in which the Company operates; (c) the general state of the economy; (d) integration of acquisitions by the Company; (e) risk of future legal proceedings against the Company. These risk factors and others are discussed in detail under the heading “Risk Factors” in the Company’s Annual Information Form dated March 2, 2018. New risk factors may arise from time to time and it is not possible for management of the Company to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance or achievements of the Company to be materially different from those contained in forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this MD&A.

## **Risks and Uncertainties**

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

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

Please refer to the Company’s Annual Information Form available on SEDAR at [www.sedar.com](http://www.sedar.com) for a more comprehensive list.