

**Cara Operations Limited**

Condensed Consolidated Interim Financial Statements (unaudited)  
**For the 13 weeks ended March 29, 2015 and April 1, 2014**

Note: The comparative financial results for the 13 weeks ended April 1, 2014 have not been reviewed by the Company's auditors.

**Cara Operations Limited**

Condensed Consolidated Interim Statements of Earnings and Comprehensive Income

**For the 13 weeks ended March 29, 2015 and April 1, 2014**

(unaudited)

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

	<b>For the 13 weeks ended</b>	
	<b>March 29, 2015</b>	<b>April 1, 2014</b>
Sales (note 6)	\$ 55,784	\$ 47,179
Franchise revenues (note 7)	18,196	17,509
Development revenues	1,686	36
<b>Total gross revenue from continuing operations</b>	<b>\$ 75,666</b>	<b>\$ 64,724</b>
Cost of inventories sold	(16,021)	(13,939)
Selling, general and administrative expenses (note 8)	(40,547)	(37,190)
Development expenses	(1,645)	(27)
Restructuring (note 9)	205	(218)
<b>Operating income</b>	<b>\$ 17,658</b>	<b>\$ 13,350</b>
<b>Finance costs</b>		
Net interest expense and other financing charges (note 11)	(8,311)	(8,679)
Loss on derivative (note 27)	(1,600)	-
<b>Earnings from continuing operations before income taxes</b>	<b>\$ 7,747</b>	<b>\$ 4,671</b>
Income taxes (note 12)	(1,519)	(1,349)
<b>Net earnings from continuing operations</b>	<b>\$ 6,228</b>	<b>\$ 3,322</b>
Discontinued operations - net of income taxes	(3)	(18)
<b>Net earnings and comprehensive income</b>	<b>\$ 6,225</b>	<b>\$ 3,304</b>
<b>Net earnings attributable to</b>		
Shareholders of the Company	\$ 6,303	\$ 3,475
Non-controlling interest	(78)	(171)
	<b>\$ 6,225</b>	<b>\$ 3,304</b>
<b>Net earnings per share attributable to the Common</b>		
<b>Shareholders of the Company</b> (note 22) (in dollars)		
Basic earnings per share	\$ 0.349	\$ 0.192
Diluted earnings per share	\$ 0.173	\$ 0.183
Basic earnings per share from continuing operations	\$ 0.349	\$ 0.193
Diluted earnings per share from continuing operations	\$ 0.173	\$ 0.184

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

**Cara Operations Limited**

Condensed Consolidated Interim Statements of Total Equity

**For the 13 weeks ended March 29, 2015 and April 1, 2014**

(unaudited)

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

	<b>Attributable to the Common Shareholders of the Company</b>							<b>Total equity</b>
	<b>Number of shares</b> (in thousands)	<b>Common share capital</b>	<b>Warrant certificates</b>	<b>Contributed surplus</b>	<b>Deficit</b>	<b>Non-controlling interest</b>		
<b>Balance at December 30, 2014</b>	<b>50,467</b>	<b>\$ 29,285</b>	<b>\$ 18,490</b>	<b>\$ 7,204</b>	<b>\$ (308,040)</b>	<b>\$ 15,020</b>	<b>\$ (238,041)</b>	
Net earnings (loss) and comprehensive income	-	-	-	-	6,303	(78)	6,225	
Dividends	-	-	-	-	(3,044)	-	(3,044)	
Buyout of non-controlling interest	-	-	-	-	-	(315)	(315)	
Stock-based compensation (note 24)	-	-	-	1,655	-	-	1,655	
	-	-	-	1,655	3,259	(393)	4,521	
<b>Balance at March 29, 2015</b>	<b>50,467</b>	<b>\$ 29,285</b>	<b>\$ 18,490</b>	<b>\$ 8,859</b>	<b>\$ (304,781)</b>	<b>\$ 14,627</b>	<b>\$ (233,520)</b>	

	<b>Attributable to the Common Shareholders of the Company</b>							<b>Total equity</b>
	<b>Number of shares</b> (in thousands)	<b>Common share capital</b>	<b>Warrant certificates</b>	<b>Contributed surplus</b>	<b>Deficit</b>	<b>Non-controlling interest</b>		
<b>Balance at December 31, 2013</b>	<b>50,467</b>	<b>\$ 29,285</b>	<b>\$ 17,913</b>	<b>\$ 852</b>	<b>\$ (300,640)</b>	<b>\$ 245</b>	<b>\$ (252,345)</b>	
Net earnings (loss) and comprehensive income	-	-	-	-	3,475	(171)	3,304	
Dividends	-	-	-	-	-	50	50	
Stock-based compensation (note 24)	-	-	-	-	-	(6)	(6)	
	-	-	-	-	3,475	(127)	3,348	
<b>Balance at April 1, 2014</b>	<b>50,467</b>	<b>\$ 29,285</b>	<b>\$ 17,913</b>	<b>\$ 852</b>	<b>\$ (297,165)</b>	<b>\$ 118</b>	<b>\$ (248,997)</b>	

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

**Cara Operations Limited**

Condensed Consolidated Interim Balance Sheets

As at March 29, 2015, December 30, 2014 and April 1, 2014

(in thousands of Canadian dollars)

	As at March 29, 2015  (unaudited)	As at December 30, 2014	As at April 1, 2014  (unaudited)
<b>Assets</b>			
<b>Current Assets</b>			
Cash	\$ 714	\$ 3,808	\$ 1,534
Accounts receivable (note 27)	24,446	33,108	22,739
Inventories (note 10)	3,209	4,223	3,566
Prepaid expenses and other assets	3,772	2,556	3,203
<b>Total Current Assets</b>	<b>\$ 32,141</b>	<b>\$ 43,695</b>	<b>\$ 31,042</b>
<b>Long-term receivables</b> (note 13)	<b>46,565</b>	<b>50,173</b>	<b>66,440</b>
<b>Property, plant and equipment</b> (note 14)	<b>84,609</b>	<b>86,597</b>	<b>75,804</b>
<b>Brands and other assets</b> (note 15)	<b>163,229</b>	<b>163,650</b>	<b>157,403</b>
<b>Goodwill</b> (note 16)	<b>45,981</b>	<b>43,051</b>	<b>21,716</b>
<b>Deferred tax asset</b>	<b>341</b>	<b>671</b>	<b>1,889</b>
<b>Total Assets</b>	<b>\$ 372,866</b>	<b>\$ 387,837</b>	<b>\$ 354,294</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Bank indebtedness	\$ 5,288	\$ -	\$ 10,223
Accounts payable and accrued liabilities	64,645	81,352	68,079
Provisions (note 17)	5,158	6,904	3,573
Gift card liability	26,954	49,461	23,556
Income taxes payable	68	3,991	1,134
Current portion of long-term debt (note 18)	17,750	17,702	16,810
Discontinued operations	174	184	374
<b>Total Current Liabilities</b>	<b>\$ 120,037</b>	<b>\$ 159,594</b>	<b>\$ 123,749</b>
<b>Long-term debt</b> (note 18)	<b>280,808</b>	<b>260,661</b>	<b>271,105</b>
<b>Preferred shares</b> (note 19)	<b>136,536</b>	<b>135,545</b>	<b>127,803</b>
<b>Provisions</b> (note 17)	<b>7,885</b>	<b>7,630</b>	<b>7,312</b>
<b>Other long-term liabilities</b> (note 21)	<b>61,120</b>	<b>62,448</b>	<b>73,322</b>
<b>Total Liabilities</b>	<b>\$ 606,386</b>	<b>\$ 625,878</b>	<b>\$ 603,291</b>
<b>Shareholders' Equity</b>			
Common share capital	\$ 29,285	\$ 29,285	\$ 29,285
Warrant certificates (note 20)	18,490	18,490	17,913
Contributed surplus	8,859	7,204	852
Deficit	(304,781)	(308,040)	(297,165)
<b>Total Shareholders' Equity</b>	<b>\$ (248,147)</b>	<b>\$ (253,061)</b>	<b>\$ (249,115)</b>
Non-controlling interest	14,627	15,020	118
<b>Total Equity</b>	<b>\$ (233,520)</b>	<b>\$ (238,041)</b>	<b>\$ (248,997)</b>
<b>Total Liabilities and Equity</b>	<b>\$ 372,866</b>	<b>\$ 387,837</b>	<b>\$ 354,294</b>

**Commitments, contingencies and guarantees** (note 26)

**Subsequent events** (note 30)

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

**Cara Operations Limited**  
Condensed Consolidated Statements of Cash Flows  
**For the 13 weeks ended March 29, 2015 and April 1, 2014**  
(unaudited)

(in thousands of Canadian dollars)

	<b>For the 13 weeks ended</b>	
	<b>March 29, 2015</b>	<b>April 1, 2014</b>
<b>Cash from (used in)</b>		
<b>Operating Activities</b>		
Net earnings from continuing operations	\$ 6,228	\$ 3,322
Restructuring (note 9)	(205)	218
Depreciation of property, plant and equipment	4,689	4,433
Amortization of other assets	1,009	299
Lease costs and tenant inducement amortization	142	166
Net gain on disposal of property, plant and equipment	(636)	(246)
Losses on early buyout/cancellation of equipment rental contracts	1,135	-
Net interest expense and other financing charges (note 11)	8,311	8,679
Change in fair value of derivative	1,600	-
Stock based compensation	1,655	345
Income taxes (paid) received	(5,008)	(308)
Change in onerous contract provision	(29)	(201)
Other non-cash items	(3,199)	(2,276)
Net change in non-cash operating working capital (note 25)	(27,500)	(2,627)
Cash flows from (used in) operating activities of continuing operations	(11,808)	11,804
Cash flows used in operating activities of discontinued operations	(13)	(52)
Cash flows from (used in) operating activities	(11,821)	11,752
<b>Investing Activities</b>		
Business acquisitions (note 5)	(3,312)	(9,103)
Purchase of property, plant and equipment	(2,168)	(2,779)
Proceeds on disposal of property, plant and equipment	10	47
Proceeds on early buyout of equipment rental contracts	369	-
Additions to other assets	(17)	(48)
Change in long-term receivables	3,033	1,245
Cash flows used in investing activities	(2,085)	(10,638)
<b>Financing Activities</b>		
Change in bank indebtedness	5,288	3,297
Issuance of long-term credit facility (note 18)	44,000	34,000
Repayment of long-term credit facility (note 18)	(24,000)	(36,000)
Change in finance leases (note 18)	(361)	(469)
Interest paid	(3,115)	(2,014)
Dividends paid on common shares (note 28)	(11,000)	-
Other	-	30
Cash flows from (used in) financing activities	10,812	(1,156)
<b>Change in cash during the period</b>	<b>(3,094)</b>	<b>(42)</b>
<b>Cash - Beginning of period</b>	<b>3,808</b>	<b>1,576</b>
<b>Cash - End of period</b>	<b>\$ 714</b>	<b>\$ 1,534</b>

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

## **Cara Operations Limited**

Notes to the Condensed Consolidated Interim Financial Statements

**For the 13 weeks ended March 29, 2015 and April 1, 2014**

(unaudited)

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### **1 Nature and description of the reporting entity**

As at March 29, 2015, Cara Operations Limited was a Canadian private Company incorporated under the Ontario Business Corporations Act and is a Canadian full service restaurant operator and franchisor. Its registered office is located at 199 Four Valley Drive, Vaughan, Canada L4K 0B8. Cara Operations Limited and its controlled subsidiaries are together referred to in these condensed consolidated interim financial statements as “Cara” or “the Company”.

On April 10, 2015, the Company completed an initial public offering (the “Offering”). The Company’s shares are listed on the Toronto Stock Exchange under the stock symbol “CAO”. See Subsequent Events (note 30).

### **2 Basis of Presentation**

#### **Statement of compliance**

The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and International Accounting Standard (“IAS”) 34, “Interim Financial Reporting” as issued by the International Accounting Standards Board (“IASB”). The unaudited condensed consolidated interim financial statements should be read in conjunction with the Company’s 2014 audited annual consolidated financial statements and accompanying notes. The unaudited condensed consolidated interim financial statements for the 13 weeks ended April 1, 2014 were not subject to review by auditors.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors (“Board”) on May 12, 2015.

#### **Functional and presentation currency**

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

#### **Seasonality of interim operations**

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

#### **Critical accounting judgements and estimates**

The preparation of these interim financial statements requires management to make judgements, estimates and assumptions that affect the Company’s accounting policies that affect the reported amounts and disclosures

## **Cara Operations Limited**

Notes to the Condensed Consolidated Interim Financial Statements

**For the 13 weeks ended March 29, 2015 and April 1, 2014**

(unaudited)

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made in the condensed consolidated interim financial statements and accompanying notes. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Company's accounting policies 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 30, 2014.

### **3 Significant accounting policies**

#### **Accounting standards implemented in 2015**

##### **Employee benefits**

In November 2013, the IASB issued narrow-scope amendments to IAS 19, "Employee Benefits" ("IAS 19"), and entitled Defined Benefit Plans: Employee Contributions (Amendments to IAS 19). The amendments apply to certain contributions from employees or third parties to defined benefit plans. The amendments apply retrospectively for annual periods beginning on or after July 1, 2014. There was no impact on the Company's condensed consolidated interim financial statements as a result of the amendments to IAS 19.

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

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

All other accounting policies applied by the Company in these condensed consolidated interim financial statements are the same as those applied by the Company in its audited annual consolidated financial statements as at and for the year ended December 30, 2014.

### **4 Future accounting standards**

#### **Business Combinations**

In May 2014, the IASB issued amendments to IFRS 11, "Joint Arrangements" ("IFRS 11") entitled "Accounting for Acquisitions of Interests in Joint Operations" (Amendments to IFRS 11). The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitute a business. The amendments apply prospectively for annual periods beginning on or after December 28, 2015. Earlier application is permitted. The extent of the impact of adoption of the standard has not yet been determined.

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### **Depreciation and Amortization**

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

### **Revenue**

In May 2014, the IASB issued IFRS 15 “Revenue from Contracts with Customers” (“IFRS 15”). IFRS 15 will replace IAS 11, “Construction Contracts”, IAS 18 “Revenue”, IFRIC 13, “Customer Loyalty Programmes”, IFRIC 15, “Agreements for the Construction of Real Estate”, IFRIC 18, “Transfer of Assets from Customers”, and SIC 31, “Revenue – Barter Transactions Involving Advertising Services”. The new standard contains a single model that applies to contracts with customers and two approaches for recognizing revenue. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard is effective for annual periods beginning on or after January 2, 2017, but earlier application is permitted either following a full retrospective approach or a modified retrospective approach. The modified retrospective approach allows the standard to be applied to existing contracts beginning with the initial period of adoption and restatements to the comparative periods are not required. The Company is required to disclose the impact to the financial line item as a result of the adoption of this new standard. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 2, 2017. Earlier application is permitted. The extent of the impact of adoption of the standard has not yet been determined.

### **Financial Instruments**

In July 2014, the IASB issued the complete IFRS 9 (IFRS 9 (2014)), “Financial Instruments” (“IFRS 9 (2014)”) which will ultimately replace IAS 39, “Financial Instruments: Recognition and Measurement”. IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new ‘expected credit loss’ model for calculating impairment. IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model. The mandatory effective date of IFRS 9



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(2014) is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

**Transfer of Assets**

In September 2014, the IASB issued amendments to IFRS 10 “Consolidated Financial Statements” (“IFRS 10”) and IAS 28, “Investments in Associates” (“IAS 28”) entitled “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)”. The amendment addresses the inconsistencies between the requirements in IFRS 10 and IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments apply prospectively for annual periods beginning on or after December 28, 2015. Early adoption is permitted. The Company intends to adopt these amendments in its financial statements for the annual period beginning on December 28, 2015. The extent of the impact of adoption of the amendments has not yet been determined.

**Other standards**

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

In December 2014, the IASB issued amendments to IAS 1, “Presentation of Financial Statements” as part of its major initiative to improve presentation and disclosure in financial reports. The amendments are effective for annual periods beginning on or after December 28, 2015. Early adoption is permitted. The Company intends to adopt these amendments in its financial statements for the annual period beginning on December 28, 2015. The extent of the impact of adoption of the amendments has not yet been determined.

**Cara Operations Limited**

Notes to the Condensed Consolidated Interim Financial Statements

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(unaudited)

**5 Acquisitions**

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

**Re-acquired franchise locations**

In the normal course of business, the Company may acquire or re-acquire franchise restaurants and convert them into corporate restaurants. During the 13 weeks ended March 29, 2015, 3 franchised locations (April 1, 2014 – 4 franchised locations) were re-acquired by the Company. The determination of the identifiable net assets acquired at fair value, in connection with the re-acquired franchised locations, are summarized in the table below.

(in thousands of Canadian dollars)

<b>Consideration</b>	<b>During the 13 weeks ended March 29, 2015</b>	<b>During the 13 weeks ended April 1, 2014</b>
Cash	\$ 3,312	\$ 9,103
Accounts receivable	58	-
Extinguishment of net finance leases	436	541
Consideration to be paid	-	-
<b>Total Consideration</b>	<b>\$ 3,806</b>	<b>\$ 9,644</b>
<b>Net assets acquired</b>		
Property, plant and equipment	\$ 162	\$ 1,051
Brands and other assets	714	4,936
<b>Total Assets</b>	<b>876</b>	<b>5,987</b>
Goodwill	2,930	3,657
<b>Total</b>	<b>\$ 3,806</b>	<b>\$ 9,644</b>

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Notes to the Condensed Consolidated Interim Financial Statements

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(unaudited)

**6 Sales**

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

(in thousands of Canadian dollars)	<u>For the 13 weeks ended March 29, 2015</u>	<u>For the 13 weeks ended April 1, 2014</u>
Sales at corporate restuarants	\$ 53,146	\$ 44,718
Call centre service charge revenues	<u>2,638</u>	<u>2,461</u>
	<u>\$ 55,784</u>	<u>\$ 47,179</u>

**7 Franchise revenues**

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

(in thousands of Canadian dollars)	<u>For the 13 weeks ended March 29, 2015</u>	<u>For the 13 weeks ended April 1, 2014</u>
Royalty revenue	\$ 16,763	\$ 15,818
Franchise fees on new and renewal licenses	267	274
Income on finance leases	522	605
Other rental income	169	258
Conversion fees	<u>475</u>	<u>554</u>
	<u>\$ 18,196</u>	<u>\$ 17,509</u>

## Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

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(unaudited)

### 8 Selling, general and administrative expenses

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

(in thousands of Canadian dollars)	<u>For the 13 weeks ended March 29, 2015</u>	<u>For the 13 weeks ended April 1, 2014</u>
Corporate restaurant expenses	\$ 33,198	\$ 29,777
Franchise assistance and bad debt	1,847	2,924
Franchisor over contribution to advertising funds	2,199	200
Depreciation of property, plant and equipment	4,689	4,433
Amortization of other assets	1,009	299
Other	(2,395)	(443)
	<u>\$ 40,547</u>	<u>\$ 37,190</u>

### 9 Restructuring

#### Home office and brand reorganization

During the years ended December 31, 2013 and December 30, 2014, the Company approved a restructuring plan to consolidate the home office and brand operations of Cara and Prime, which resulted in the elimination of certain home office and brand operating positions. All expected costs, comprised primarily of severance costs and other benefits, have been recognized to date. During the 13 weeks ended March 29, 2015, the Company reversed \$0.3 million (April 1, 2014 - \$0.2 million) of restructuring costs representing changes in estimates in severance costs from previously recorded actions under various restructuring plans.

#### Restaurant operations

##### Casey's Restructuring

During the year ended December 30, 2014, the Company approved a single Roadhouse brand strategy which will phase out the Casey's concept over time. Certain locations have been identified as very likely to convert to a Kelsey's or Prime Pub restaurants. To provide incentive and support for these conversions, Cara has committed to funding 25% of the renovation costs, up to a total of \$0.1 million per location. Locations that are not expected to convert to a Cara restaurant will either close or operate as independent restaurants.

The total restructuring costs under this plan are estimated to be approximately \$1.6 million; comprised of approximately \$1.3 million related to the committed renovation costs described above, \$0.2 million of de-branding costs for locations expected to close, and \$0.1 million for employee severance costs. During the 13 weeks ended March 29, 2015, the Company recognized \$nil of restructuring costs resulting from this plan (April 1, 2014 - \$nil).

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Kelsey's Restructuring

During the year ended January 1, 2013, the Company approved a plan to close 16 Kelsey's restaurants all of which were closed by December 31, 2013. The total restructuring costs under this plan were estimated to be approximately \$3.8 million; comprised of approximately \$0.5 million related to employee termination benefits, and \$3.3 million to site closing and other costs including lease obligations. During the 13 weeks ended March 29, 2015, the Company recognized \$0.1 million (April 1, 2014 - \$nil) of these restructuring costs primarily relating to lease obligations. The Company is not expecting any further costs.

The following table provides a summary of the costs recognized and cash payments made, as well as the corresponding net liability as at March 29, 2015:

(in thousands of Canadian dollars)	For the 13 weeks ended March 29, 2015			For the 52 weeks ended December 30, 2014		For the 13 weeks ended April 1, 2014	
	Employee Termination Benefits	Site Closing Costs and Other	Total	Total	Total		
Net liability, beginning of period	\$ 9,761	\$ 577	\$ 10,338	\$ 13,655	\$ 13,655		
<b>Costs recognized</b>							
Home office and brand reorganization	\$ (264)	\$ -	\$ (264)	\$ 4,774	\$ 218		
Restaurant operations	-	59	59	1,799	-		
	<u>\$ (264)</u>	<u>\$ 59</u>	<u>\$ (205)</u>	<u>\$ 6,573</u>	<u>\$ 218</u>		
<b>Cash payments</b>							
Home office and brand reorganization	\$ 2,054	\$ -	\$ 2,054	\$ 8,389	\$ 2,321		
Restaurant operations	-	92	92	1,501	586		
	<u>\$ 2,054</u>	<u>\$ 92</u>	<u>\$ 2,146</u>	<u>\$ 9,890</u>	<u>\$ 2,907</u>		
<b>Net liability, end of period</b>	<u>\$ 7,443</u>	<u>\$ 544</u>	<u>\$ 7,987</u>	<u>\$ 10,338</u>	<u>\$ 10,966</u>		

Recorded in the consolidated balance sheets as follows:

Accounts payable and accrued liabilities	\$ 6,923	\$ -	\$ 6,923	\$ 8,541	\$ 6,083	
Other long-term liabilities (note 21)	520	-	520	1,220	3,806	
Provisions - current	-	346	346	317	741	
Provisions - long-term	-	198	198	260	336	
Net liability, end of period	<u>\$ 7,443</u>	<u>\$ 544</u>	<u>\$ 7,987</u>	<u>\$ 10,338</u>	<u>\$ 10,966</u>	

**Cara Operations Limited**

Notes to the Condensed Consolidated Interim Financial Statements

**For the 13 weeks ended March 29, 2015 and April 1, 2014**

(unaudited)

**10 Inventories**

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

Restaurant development in progress relates to the sale and construction of franchise locations. Cost comprises amounts paid to suppliers in the course of constructing restaurant locations. Cost of construction work-in-progress inventory is recorded at the lower of cost and fair value.

(in thousands of Canadian dollars)	<u>March 29, 2015</u>	<u>December 30, 2014</u>	<u>April 1, 2014</u>
Food and beverage supplies	\$ 2,919	\$ 3,098	\$ 2,426
Restaurant development in progress	290	1,125	1,140
	<u>\$ 3,209</u>	<u>\$ 4,223</u>	<u>\$ 3,566</u>

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

(in thousands of Canadian dollars)	<u>For the 13 weeks ended March 29, 2015</u>	<u>For the 13 weeks ended April 1, 2014</u>
Interest expense on long-term debt	\$ 3,352	\$ 3,517
Interest expense on preferred shares (note 19)	2,762	2,697
Financing costs	322	324
Interest expense - other	814	730
Accretion expense	902	1,447
Interest expense related to derivative	187	-
Interest income	<u>(28)</u>	<u>(36)</u>
Net interest expense and other financing charges	<u>\$ 8,311</u>	<u>\$ 8,679</u>

**Cara Operations Limited**

Notes to the Condensed Consolidated Interim Financial Statements

**For the 13 weeks ended March 29, 2015 and April 1, 2014**

(unaudited)

**12 Income taxes**

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

(in thousands of Canadian dollars)	<u>For the 13 weeks ended March 29, 2015</u>	<u>For the 13 weeks ended April 1, 2014</u>
Tax from total operations	\$ 2,229	\$ 1,710
Unrecognized income tax benefit	<u>(1,815)</u>	<u>(1,439)</u>
	414	271
Part VI.1 taxes on preferred share dividends	<u>1,105</u>	<u>1,078</u>
Total income tax expense	<u>\$ 1,519</u>	<u>\$ 1,349</u>

**13 Long-term receivables**

(in thousands of Canadian dollars)	<u>March 29, 2015</u>	<u>December 30, 2014</u>	<u>April 1, 2014</u>
Franchise receivable	\$ 45,129	\$ 48,835	\$ 65,074
Promissory notes	1,405	1,299	1,303
Franchise licence notes	<u>31</u>	<u>39</u>	<u>63</u>
	<u>\$ 46,565</u>	<u>\$ 50,173</u>	<u>\$ 66,440</u>

**Franchise receivable**

In prior years, the Company converted certain corporate restaurants to franchise and sold the restaurants to independent operators ("franchisees"). As part of these conversion agreements, certain franchisees entered into rental agreements to rent certain restaurant assets from the Company. Franchise receivables of \$41.7 million (December 30, 2014 - \$45.5 million; April 1, 2014 - \$61.8 million) relate primarily to the long-term obligation of the franchisees to pay the Company over the term of the rental agreement which is equal to the term of the license agreement or the term to the expected buyout date assuming that the franchisee is more likely than not to acquire the rented assets from the Company.

Long-term franchise receivables are reviewed for impairment when a triggering event has occurred. An impairment loss is recorded when the carrying amount of the long-term franchise receivable exceeds its estimated net realizable value. For the 13 weeks ended March 29, 2015, the Company recorded \$nil (April 1, 2014 - \$nil) of impairment losses on long-term franchise receivables.

**Cara Operations Limited**  
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**Long-term receivable maturities**

Long-term receivables have maturity dates ranging from 2016 to 2034.

**14 Property, plant and equipment**

	For the 13 weeks ended March 29, 2015						
(in thousands of Canadian dollars)	Land	Buildings	Equipment	Leasehold improvements	Assets under finance lease	Construction-in-progress	Total
<b>Cost</b>							
Balance, beginning of period	\$ 2,291	\$ 3,058	\$ 137,797	\$ 97,416	\$ 29,601	\$ 183	\$ 270,346
Additions		12	1,176	228	384	752	2,552
Additions from business acquisitions (note 4)	-	-	162	-	-	-	162
Disposals and adjustments	-	-	(1,171)	(1,686)	-	-	(2,857)
Transfer to/(from) construction-in-progress	-	-	390	142	-	(532)	-
Balance, end of period	<u>\$ 2,291</u>	<u>\$ 3,070</u>	<u>\$ 138,354</u>	<u>\$ 96,100</u>	<u>\$ 29,985</u>	<u>\$ 403</u>	<u>\$ 270,203</u>
<b>Accumulated depreciation and impairment losses</b>							
Balance, beginning of period	\$ -	\$ 2,355	\$ 105,193	\$ 64,608	\$ 11,593	\$ -	\$ 183,749
Depreciation expense	-	27	2,963	1,174	525	-	4,689
Disposals and adjustments	-	-	(1,096)	(1,748)	-	-	(2,844)
Balance, end of period	<u>\$ -</u>	<u>\$ 2,382</u>	<u>\$ 107,060</u>	<u>\$ 64,034</u>	<u>\$ 12,118</u>	<u>\$ -</u>	<u>\$ 185,594</u>
<b>Carrying amount as at:</b>							
March 29, 2015	<u>\$ 2,291</u>	<u>\$ 688</u>	<u>\$ 31,294</u>	<u>\$ 32,066</u>	<u>\$ 17,867</u>	<u>\$ 403</u>	<u>\$ 84,609</u>
December 30, 2014	\$ 2,291	\$ 703	\$ 32,604	\$ 32,808	\$ 18,008	\$ 183	\$ 86,597
April 1, 2014	\$ 1,591	\$ 684	\$ 28,321	\$ 27,314	\$ 13,740	\$ 4,154	\$ 75,804

**15 Brands and other assets**

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



**Cara Operations Limited**

Notes to the Condensed Consolidated Interim Financial Statements

**For the 13 weeks ended March 29, 2015 and April 1, 2014**

(unaudited)

(in thousands of Canadian dollars)	<u>Brands</u>	<u>Other assets</u>	<u>Total</u>
<b>Cost</b>			
Balance, beginning of period	\$ 140,894	\$ 28,099	\$ 168,993
Additions	-	17	17
Additions from business acquisitions (note 5)	-	714	714
Write off	-	(383)	(383)
Balance, end of period	<u>\$ 140,894</u>	<u>\$ 28,447</u>	<u>\$ 169,341</u>
<b>Accumulated amortization</b>			
Balance, beginning of period	\$ -	\$ 5,343	\$ 5,343
Amortization	-	1,152	1,152
Write off	-	(383)	(383)
Balance, end of period	<u>\$ -</u>	<u>\$ 6,112</u>	<u>\$ 6,112</u>
<b>Carrying amount as at:</b>			
March 29, 2015	<u>\$ 140,894</u>	<u>\$ 22,335</u>	<u>\$ 163,229</u>
December 30, 2014	\$ 140,894	\$ 22,756	\$ 163,650
April 1, 2014	<u>\$ 142,501</u>	<u>\$ 14,902</u>	<u>\$ 157,403</u>

**16 Goodwill**

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

(in thousands of Canadian dollars)	<u>March 29, 2015</u>	<u>December 30, 2014</u>	<u>April 1, 2014</u>
<b>Cost</b>			
Balance, beginning of period	\$ 43,051	\$ 18,059	\$ 18,059
Additions <sup>1</sup> (note 5)	<u>2,930</u>	<u>24,992</u>	<u>3,657</u>
<b>Balance, end of period</b>	<u>\$ 45,981</u>	<u>\$ 43,051</u>	<u>\$ 21,716</u>

<sup>1</sup> Goodwill additions as at December 30, 2014 comprised of \$21.0 million relating to The Landing Group which was acquired on December 18, 2014 and \$4.0 million for re-acquired franchise locations during 2014.

**Cara Operations Limited**

Notes to the Condensed Consolidated Interim Financial Statements

**For the 13 weeks ended March 29, 2015 and April 1, 2014**

(unaudited)

**17 Provisions**

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

(in thousands of Canadian dollars)	<b>Asset retirement obligations</b>	<b>Lease obligations for closed restaurants</b>	<b>Other</b>	<b>Total</b>
Balance, beginning of period	\$ 5,200	\$ 2,498	\$ 6,836	\$ 14,534
Additions	192	-	167	359
Accretion	86	-	-	86
Payments	-	(204)	(385)	(589)
Adjustments	(353)	416	(1,410)	(1,347)
<b>Balance, end of period as at</b>				
March 29, 2015	<u>\$ 5,125</u>	<u>\$ 2,710</u>	<u>\$ 5,208</u>	<u>\$ 13,043</u>
December 30, 2014	\$ 5,200	\$ 2,498	\$ 6,836	\$ 14,534
April 1, 2014	<u>\$ 4,397</u>	<u>\$ 2,435</u>	<u>\$ 4,053</u>	<u>\$ 10,885</u>

(in thousands of Canadian dollars)	<b>March 29, 2015</b>	<b>December 30, 2014</b>	<b>April 1, 2014</b>
Recorded in the consolidated balance sheets as follows:			
Provisions - current	\$ 5,158	\$ 6,904	\$ 3,573
Provisions - long-term	7,885	7,630	7,312
	<u>\$ 13,043</u>	<u>\$ 14,534</u>	<u>\$ 10,885</u>

**Cara Operations Limited**

Notes to the Condensed Consolidated Interim Financial Statements

**For the 13 weeks ended March 29, 2015 and April 1, 2014**

(unaudited)

**18 Long-term debt**

(in thousands of Canadian dollars)	<u>March 29, 2015</u>	<u>December 30, 2014</u>	<u>April 1, 2014</u>
Term credit facility	\$ 251,000	\$ 231,000	\$ 248,000
Subordinated unsecured debentures	25,617	25,582	24,383
Finance leases	22,452	22,430	18,309
Other	1,787	1,819	83
	<u>300,856</u>	<u>280,831</u>	<u>290,775</u>
Less: Financing costs	2,298	2,468	2,860
	<u>\$ 298,558</u>	<u>\$ 278,363</u>	<u>\$ 287,915</u>

Recorded in the consolidated balance sheets as follows:

Current portion of long-term debt	\$ 17,750	\$ 17,702	\$ 16,810
Long-term portion of long-term debt	280,808	260,661	271,105
	<u>\$ 298,558</u>	<u>\$ 278,363</u>	<u>\$ 287,915</u>

**Term credit facilities**

The term credit facility is comprised of a revolving term loan in the amount of \$195.0 million plus a \$5.0 million accordion feature as at March 29, 2015 and a \$100.0 million term credit, maturing on October 31, 2017. There is a \$15.0 million annual amortization on the term loan in addition to annual free cash flow sweeps dependent on Debt to EBITDA ratio thresholds. The interest rate applied on amounts drawn by the Company under its term credit facility is the effective bankers acceptance rate and/or prime rate plus a spread based on the Company's leverage ratio measured at the end of the previous fiscal quarter.

As of March 29, 2015, \$251.0 million (December 30, 2014 – \$231.0 million; April 1, 2014 – \$248.0 million) was drawn under the term credit facility with an interest rate of 4.3% (December 30, 2014 – 4.5%; April 1, 2014 – 4.5%), based on a weighted average of bankers acceptances and prime rate advances outstanding during the period.

The Company is required to pay a standby fee between 0.3% to 1.0% per annum, on the unused portion of the credit facility, for the term of its term credit facility. The standby fee rate is based on the Company's leverage ratio measured at the end of the previous fiscal quarter.

A \$750.0 million fixed and floating debenture in favour of the collateral agent on the lenders, on all present and future assets of the Company, has been pledged as collateral for the term credit facility. The term credit facility contains common restrictive and financial covenants, including maintenance of a leverage ratio and a fixed charge coverage ratio.

**Cara Operations Limited**

Notes to the Condensed Consolidated Interim Financial Statements

**For the 13 weeks ended March 29, 2015 and April 1, 2014**(unaudited)

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Subsequent to March 29, 2015, the Company repaid \$217.8 million and amended and extended the terms of its existing credit facility. See note 30.

**Interest rate derivative**

On March 31, 2014, the Company entered into an interest rate derivative to hedge the credit facilities. See note 27 for more details.

**Subordinated unsecured debentures**

On October 31, 2013, the Company issued 8,196,721 subordinated debentures and 8,196,721 warrants (see note 20) for an aggregate principal amount of \$25.0 million bearing interest at a rate of 9.0% per annum to be settled in cash or payment in kind on the last day of June and December in each year, commencing December 31, 2013. The subordinated unsecured debentures have a five year term with no principal repayments required by the Company. The Company, at its option, may redeem for cash, in whole or part, the subordinated unsecured debentures only after the term credit facility has been repaid or upon redemption of the associated warrants by the warrant holders (see note 20). The fair value of the subordinated unsecured debentures was determined to be \$24.3 million based on the present value of the contractual cash flows, discounted using a market interest rate for similar types of borrowing arrangements. Accretion of \$nil was recorded in interest costs in the 13 weeks ended March 29, 2015 (April 1, 2014 – \$0.1 million).

Subsequent to March 29, 2015, subordinated debentures were ultimately converted into multiple voting shares. See note 30.

**Other**

On December 18, 2014, the Company assumed \$1.8 million in debt obligations related to the acquisition of The Landing Group. The debt obligations bear interest at an average rate of 6.2% and are repayable in monthly installments maturing in 2018.

**Finance leases**

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

**Cara Operations Limited**

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(unaudited)

**19 Preferred shares**

The following table summarizes the preferred shares issued by the Company, including their associated carrying amounts. The carrying amount represents the accumulation of the associated fair values determined upon the particular issuance date plus accretion. The preferred shares are presented as a liability on the condensed consolidated interim balance sheets and are measured using the effective interest method.

(in thousands of Canadian dollars except for the number of shares)	<u>Class A preferred shares (number of shares)</u>	<u>Carrying Amount</u>	<u>Class B preferred shares (number of shares)</u>	<u>Carrying Amount</u>	<u>Total carrying amount of preferred shares outstanding</u>
Issue date	October 31, 2013		October 31, 2013		
Redemption date <sup>(1)</sup>	<u>October 31, 2018</u>		<u>October 31, 2020</u>		
Outstanding preferred shares, December 31, 2013	31,245,825	\$ 79,818	16,595,549	\$ 48,859	\$ 128,677
Accretion	-	3,663	-	299	3,962
Payment in kind dividend Issued - June 15, 2014	<u>929,665</u>	<u>2,371</u>	<u>822,954</u>	<u>2,427</u>	<u>4,798</u>
Outstanding preferred shares, December 30, 2014	32,175,490	\$ 85,852	17,418,503	\$ 51,585	\$ 137,437
Accretion	-	801	-	66	867
Outstanding preferred shares, March 29, 2015	<u>32,175,490</u>	<u>\$ 86,653</u>	<u>17,418,503</u>	<u>\$ 51,651</u>	<u>\$ 138,304</u>
Recorded in the consolidated balance sheets as at March 29, 2015 as follows:					
Preferred shares				\$	138,304
Less: Financing costs					<u>1,768</u>
				\$	<u>136,536</u>

<sup>(1)</sup> Should the term credit facility date be extended, the redemption date of the preferred shares shall automatically be extended to the date that is 12 months after the extension date of the term credit facility.

Subsequent to March 29, 2015, the Class A and Class B preferred shares were surrendered and converted into common shares in conjunction with a cashless warrant exercise. These common shares were then converted or exchanged into multiple voting shares. See note 30.

**Cara Operations Limited**

Notes to the Condensed Consolidated Interim Financial Statements

**For the 13 weeks ended March 29, 2015 and April 1, 2014**

(unaudited)

**20 Warrant certificates**

The following tables summarize the warrants issued by the Company, including their associated fair values.

	<b>Class A preferred share warrants (number of units)</b>	<b>Class B preferred share warrants (number of units)</b>	<b>Subordinated unsecured debenture warrants (number of units)</b>	<b>Total number of units outstanding</b>
Issue date	October 31, 2013	October 31, 2013	October 31, 2013	
Redemption date	October 31, 2018	October 31, 2020	October 31, 2018	
Outstanding warrants, December 31, 2013	<b>31,245,825</b>	<b>16,595,549</b>	<b>8,196,721</b>	<b>56,038,095</b>
Payment in kind dividend Issued - June 15, 2014	<b>929,665</b>	<b>822,954</b>	<b>367,875</b>	<b>2,120,494</b>
Outstanding warrants, December 30, 2014 and March 29, 2015	<b>32,175,490</b>	<b>17,418,503</b>	<b>8,564,596</b>	<b>58,158,589</b>

(in thousands of Canadian dollars)	<b>Class A preferred share warrants (Carrying Amount)</b>	<b>Class B preferred share warrants (Carrying Amount)</b>	<b>Subordinated unsecured debenture warrants (Carrying amount)</b>	<b>Total Carrying Amount of warrants outstanding</b>
Outstanding warrants, December 31, 2013	\$ 15,482	\$ 1,757	\$ 674	\$ 17,913
Payment in kind dividend Issued - June 15, 2014	<b>465</b>	<b>82</b>	<b>30</b>	<b>577</b>
Outstanding warrants, December 31, 2015 and March 29, 2015	<b>\$ 15,947</b>	<b>\$ 1,839</b>	<b>\$ 704</b>	<b>\$ 18,490</b>

Subsequent to March 29, 2015, the Class A and Class B preferred shares were surrendered and converted into common shares in conjunction with a cashless warrant exercise. These common shares were then converted or exchanged into multiple voting shares. See note 30.

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**21 Other long-term liabilities**

(in thousands of Canadian dollars)	<u>March 29, 2015</u>	<u>December 30, 2014</u>	<u>April 1, 2014</u>
Accrued pension and other benefit plans	\$ 22,665	\$ 22,735	\$ 21,330
Deferred rental income	18,006	19,622	27,093
Deferred income	12,517	13,116	15,206
Accrued rent expense	3,754	3,508	3,313
Restructuring (note 9)	520	1,220	3,806
Long-term incentive plans (note 24)	-	-	525
Other long-term liabilities	3,658	2,247	2,049
	<u>\$ 61,120</u>	<u>\$ 62,448</u>	<u>\$ 73,322</u>

Current portion of other long-term liabilities of \$4.6 million (December 30, 2014 - \$5.7 million; April 1, 2014 - \$8.4 million) is included in accounts payable and accrued liabilities.

**Accrued pension and other benefit plans**

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

For the 13 weeks ended March 29, 2015, the Company recorded expenses of \$0.3 million (April 1, 2014 - \$0.4 million) related to pension benefits. The Company has made all required payments as at March 29, 2015.

**Deferred rental income**

In prior years, the Company converted certain corporate restaurants to franchise and sold the restaurants to independent operators ("franchisees"). As part of these conversion agreements, certain franchisees entered into rental agreements to rent certain restaurant assets from the Company. The \$18.0 million (December 30, 2014 - \$19.6 million; April 1, 2014 - \$27.1 million) represents the unearned revenue associated with the rental agreements calculated as the present value of the minimum lease payments using an interest rate implicit in the rental agreement.

**Deferred income***Unearned franchise and conversion fee income*

At March 29, 2015, the Company had deferred \$7.3 million (December 30, 2014 - \$7.6 million; April 1, 2014 - \$8.8 million) of initial franchise fees and conversion fees received from franchisees that will be recognized over the remaining term of the respective franchise agreements.

**Cara Operations Limited**

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*Sale-leaseback transactions*

At March 29, 2015, the Company had deferred \$5.2 million (December 30, 2014 - \$5.5 million; April 1, 2014 - \$6.3 million) related to gains realized on sale-leaseback transactions.

**22 Earnings per share**

Basic earnings per share amounts are calculated by dividing the net earnings (loss) attributable to common shareholders of the Company by the weighted average number of shares issued during the period after giving effect, on a retrospective basis, a 2.79 to 1 share consolidation for shares outstanding as at March 29, 2015, that occurred as part of the Offering subsequent to March 29, 2015. See note 30.

Diluted earnings per share amounts are calculated by dividing the net earnings attributable to common shareholders of the Company by the weighted average number of shares issued during the period adjusted for the effects of potentially dilutive warrants and stock options after giving effect, on a retrospective basis, to a 2.79 to 1 share consolidation for shares outstanding as at March 29, 2015, that occurred as part of the Offering subsequent to March 29, 2015. See note 30.

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

	<u>For the 13 weeks ended March 29, 2015</u>			<u>For the 13 weeks ended April 1, 2014</u>		
	<u>Attributable to Common Shareholders</u>			<u>Attributable to Common Shareholders</u>		
	<u>Net earnings (loss)</u>	<u>Weighted average number of shares ('000)</u>	<u>EPS</u>	<u>Net earnings (loss)</u>	<u>Weighted average number of shares ('000)</u>	<u>EPS</u>
<b>Basic</b>						
Continuing Operations	\$ 6,306	18,089	\$ 0.349	\$ 3,493	18,089	\$ 0.193
Discontinued Operations	(3)	18,089	(0.000)	(18)	18,089	(0.001)
	<u>\$ 6,303</u>	<u>18,089</u>	<u>\$ 0.349</u>	<u>\$ 3,475</u>	<u>18,089</u>	<u>\$ 0.192</u>
<b>Diluted</b>						
Continuing Operations	\$ 6,306	36,411	\$ 0.173	\$ 3,493	18,933	\$ 0.184
Discontinued Operations	(3)	36,411	(0.000)	(18)	18,933	(0.001)
	<u>\$ 6,303</u>	<u>36,411</u>	<u>\$ 0.173</u>	<u>\$ 3,475</u>	<u>18,933</u>	<u>\$ 0.183</u>

The weighted average number of shares used in the calculation of basic and diluted earnings per share, after giving effect on a retrospective basis to the share consolidation for shares outstanding as at March 29, 2015, (see note 30) is summarized below:

	<u>March 29, 2015</u>	<u>April 1, 2014</u>
Common shares (note 23)	18,088,785	18,088,785
Effect of warrants issued	14,642,940	-
Effect of stock options issued	3,678,975	844,383
	<u>36,410,700</u>	<u>18,933,168</u>



## Cara Operations Limited

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(unaudited)

### 23 Common share capital

The Company's authorized share capital consists of an unlimited number of common shares and an unlimited number of non-voting common shares.

As at March 29, 2015, there were 50,467,709 voting common shares (December 30, 2014 – 50,467,709 shares) issued and outstanding.

Subsequent to March 29, 2015, the Company issued 10,005,000 subordinated voting shares and consolidated the outstanding common shares held by all the shareholders at a ratio of 2.79:1. See note 30.

### 24 Long-term incentive plans

Under the various stock option plans, Cara may grant options for up to 15.9 million of its common shares, a guideline the Company has set on the number of stock option grants.

Stock options outstanding as at March 29, 2015 have a term of up to eight years from the initial grant date. Each stock option is exercisable into one non-voting common share at the price specified in the terms of the option agreement. There are no accelerated vesting features upon an initial public offering under any of the plans described below.

During the 13 weeks ended March 29, 2015, the Company granted a total of nil (April 1, 2014 – 605,716) stock options with a weighted average exercise price of \$nil (April 1, 2014 - \$3.05) per common share under its existing stock option plans, which allows for settlement in shares or in the share appreciation value in cash at the option of the participant. Upon an initial public offering, the options may only be settled in shares of the Company.

The following table summarizes the options granted:

	March 29, 2015		December 30, 2014		April 1, 2014	
	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share
Outstanding options:						
Director stock option plan	240,000	\$ 0.01	240,000	\$ 0.01	180,000	\$ 0.01
CEO stock option plan	9,750,000	\$ 2.11	9,750,000	\$ 2.11	9,750,000	\$ 2.11
Employee stock option plan	3,254,198	\$ 3.05	3,254,198	\$ 3.05	1,280,716	\$ 3.05
	<u>13,244,198</u>		<u>13,244,198</u>		<u>11,210,716</u>	
Number of options exercisable	60,000	\$ 0.01	60,000	\$ 0.01	-	\$ -

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Subsequent to March 29, 2015, all stock options granted prior to the Offering were consolidated at a ratio of 2.79 to 1 to entitle holders of the options to purchase subordinated voting shares of the Company. See note 30.

The following table summarizes the options granted and weighted average exercise price per share subsequent to the Offering:

	<u>April 10, 2015</u>	
	<u>Options (number of shares)</u>	<u>Weighted average exercise price/share</u>
Outstanding options:		
Director stock option plan	86,022	\$ 0.01
CEO stock option plan	3,494,624	\$ 5.89
Employee stock option plan	1,166,379	\$ 8.51
	<u>4,747,024</u>	
Number of options exercisable	<u>21,505</u>	<u>\$ 0.01</u>

**Director stock option plan**

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

During the 13 weeks ended March 29, 2015 and April 1, 2014, no stock options were granted under the Director Plan.

For the 13 weeks ended March 29, 2015, the Company recognized stock-based compensation costs of \$0.1 million (April 1, 2014 - \$nil) related to the Director Plan Options with a corresponding increase to contributed surplus.

**CEO stock option plan**

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

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offering, the options can only be settled by an issuance of single voting common shares. The options expire after eight years.

During the 13 weeks ended March 29, 2015 and April 1, 2014, no stock options were granted under the CEO Plan.

For the 13 weeks ended March 29, 2015, the Company recognized stock-based compensation costs of \$1.1 million (April 1, 2014 - \$0.3 million) related to the CEO Plan with a corresponding increase to contributed surplus.

**Employee stock option plan**

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

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

During the 13 weeks ended March 29, 2015, the Company granted a total of nil (April 1, 2014 – 605,716) stock options with a weighted average exercise price of \$nil (April 1, 2014 - \$3.05) per common share under the Employee Plan.

For the 13 weeks ended March 29, 2015, the Company recognized stock-based compensation costs of \$0.5 million (April 1, 2014 - \$nil) related to the Employee Plan with a corresponding increase to contributed surplus.

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### 25 Cash flows

#### Net change in non-cash operating working capital components

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

(in thousands of Canadian dollars)	<u>13 weeks ended</u> <u>March 29, 2015</u>	<u>13 weeks ended</u> <u>April 1, 2014</u>
Accounts receivable	\$ 8,340	\$ 19,673
Inventories	1,014	(844)
Income taxes (recoverable) payable	(3,923)	770
Prepaid expenses and other assets	(1,216)	(1,208)
Accounts payable and accrued liabilities	(8,640)	3,420
Provisions	(1,746)	(121)
Gift card liability	(22,507)	(19,513)
Restructuring (note 9)	205	(218)
Income taxes paid	5,008	308
Change in interest payable	(4,035)	(4,894)
Net change in non-cash operating working capital	<u>\$ (27,500)</u>	<u>\$ (2,627)</u>

### 26 Commitments, contingencies and guarantees

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

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

The Company has outstanding letters of credit amounting to \$0.9 million (December 30, 2014 - \$0.9 million and April 1, 2014 - \$1.7 million) and other minimum guarantees primarily for various utility companies that provide services to corporate owned or franchised locations and support for certain franchisees' external financing used to fund their initial franchise fees, conversion fees and supplier arrangements, if applicable, from the Company. The probability of the letters of credit being drawn as a result of default by a franchisee is low.

The Company has an obligation for certain leases primarily related to franchisees. In the event of default by franchisees, the Company retains ultimate responsibility to the landlord for payment of amounts under these

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lease agreements. The Company has a number of options available to it to mitigate this liability and historically has not incurred any significant incremental liabilities pertaining to such leases.

The Company has financing lease obligations for land and buildings. The leases have an average remaining term of approximately 7.2 years (December 30, 2014 – 7.5 years).

## **27 Financial instruments and risk management**

In the ordinary course of business, the Company enters into derivative financial instrument agreements with banks and other financial institutions to manage its underlying risks associated with interest rates. The derivative financial instruments do not require the payment of premiums or cash margins prior to settlement. These derivative financial instruments have been disclosed in note 18.

### **Market risk**

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

#### *Interest rate risk*

The Company is exposed to interest rate risk which it manages through the use of an interest rate derivative. The Company's interest rate risk arises from the issuance of a long-term credit facility (note 18). The Company has managed fluctuations in its interest rate expense by entering into interest rate derivative contracts to fix the interest rate on \$150.0 million of long-term credit facility at 1.7% plus a spread, based on the Company's leverage ratio measured at the end of the previous fiscal quarter. The derivative matures on March 31, 2017, with a \$15.0 million reduction in the notional amount of the derivative on December 15th of each year commencing December 15, 2014. As at March 29, 2015, the notional value of the interest rate derivative was \$135.0 million and this financial instrument was a financial liability in the amount of \$1.6 million (December 30, 2014 – \$0.5 million), primarily due to a decrease in the forward interest rate curve.

Subsequent to March 29, 2015, the interest rate derivative was settled. See note 30.

#### *Commodity price risk*

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

### **Liquidity and capital availability risk**

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

Should the Company's financial performance and condition deteriorate, the Company's ability to obtain funding from external sources may be restricted. In addition, credit and capital markets are subject to inherent

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global risks that may negatively affect the Company's access and ability to fund its long-term debt as it matures. The Company mitigates these risks by maintaining appropriate availability under the credit facilities and varying maturity dates of long-term obligations and by actively monitoring market conditions.

Subsequent to March 29, 2015, the Company raised gross proceeds of \$230.0 million from the Offering and repaid outstanding debt under its existing credit facility with the proceeds. The Company's preferred shares and subordinated unsecured debentures were also converted into multiple voting shares. See note 30.

### Credit risk

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

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

The following is an aging of the Company's accounts receivable, net of the allowance, as at March 29, 2015, December 30, 2014 and April 1, 2014:

(in thousands of Canadian dollars)

	<b>March 29, 2015</b>			
	<b>Current</b>	<b>&gt; 30 days past due</b>	<b>&gt; 60 days past due</b>	<b>Total</b>
Accounts receivable	\$ 22,446	\$ 1,811	\$ 6,593	\$ 30,850
Less: allowance for doubtful accounts	-	-	6,404	6,404
Accounts receivable, net	<b>\$ 22,446</b>	<b>\$ 1,811</b>	<b>\$ 189</b>	<b>\$ 24,446</b>
Balances at December 30, 2014	\$ 31,045	\$ 1,926	\$ 137	\$ 33,108
Balances at April 1, 2014	\$ 19,609	\$ 1,520	\$ 1,610	\$ 22,739

There are no significant impaired receivables that have not been provided for in the allowance. As of March 29, 2015, the Company believes that the \$6.4 million (December 30, 2014 - \$6.8 million; April 1, 2014 - \$7.5 million) allowance sufficiently covers any credit risk related to the receivable balances past due. The remaining amounts past due were not classified as impaired as the past due status was reasonably expected to be remedied.

### Fair value of financial instruments

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

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

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

The following describes the fair value determinations of financial instruments:

### *Long-term debt*

Fair value (Level 2) is based on the Company's current incremental borrowing rate for similar types of borrowing arrangements. The carrying amount of the debt associated with the Company's current financing would approximate its fair value as at March 29, 2015.

### *Derivative financial instruments*

Fair value (Level 2) for derivative assets and liabilities are estimated using industry standard valuation models. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves and credit spreads.

### *Other financial instruments*

Other financial instruments of the Company consist of cash, accounts receivable, bank indebtedness and accounts payable and accrued liabilities. The carrying amount for these financial instruments approximates fair value due to the short term maturity of these instruments.

## **28 Related parties**

### **Shareholders**

The Company, through its voting common shares, is principally owned by Cara Holdings Limited (97%), with the remaining ownership interest in the Company (3%) held directly or indirectly by Cara's former President and Chief Executive Officer. No publicly available financial statements are produced by the Company's principal common shareholder. During the 13 weeks ended March 29, 2015 the Company declared dividends on common shares of \$3.0 million and paid \$11.0 million in dividends that were declared in fiscal 2014 on the common shares. During the 13 weeks ended April 1, 2014, no dividends were declared or paid.

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Subsidiaries of Fairfax Financial Holdings Limited (“Fairfax”) own non-voting preferred shares (note 19) and warrants (note 20) exercisable into voting common shares of the Company. As a result of transactions related to the issue of the preferred shares and warrants, and a Unanimous Shareholder Agreement between the Company’s common shareholders and preferred shareholders, the Company is jointly controlled by the common shareholders and preferred shareholders. During the 13 weeks ended March 29, 2015, the Company approved a payment of interest in the amount of \$3.3 million, which has been included in interest expense (note 11) and was paid subsequent to March 29, 2015.

Subsidiaries of Fairfax own subordinated debentures (note 18) and warrants (note 20) bearing interest at 9.0% per annum. During the 13 weeks ended March 29, 2015, the Company incurred interest expense of \$0.6 million (\$0.4 million for the 13 weeks ended April 1, 2014) which has been included in interest expense (note 11) and was paid subsequent to March 29, 2015.

Fairfax and the Company are parties to a Shared Services and Purchasing Agreement. Under this agreement, Fairfax is authorized to enter into negotiations on behalf of the Company (and Fairfax associated restaurants) to source shared services and purchasing arrangements for any aspect of Cara’s operations, including food and beverages, information technology, payment processing, marketing and advertising or other logistics. There were no transactions during the 13 weeks ended March 29, 2015 and April 1, 2014.

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

### **Insurance Provider**

Some of Cara’s insurance policies are held by a company that is a subsidiary of Fairfax. This company also holds preferred shares (see note 19) and warrants (see note 20) directly. The transaction is on market terms and conditions.

## **29 Segmented information**

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

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

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

Central operations includes call centre services which earn fees from off-premise phone, mobile and web orders processed for corporate and franchised restaurants and income generated from the lease of certain equipment to franchisees as well as the collection of new franchise and franchise renewal fees. Central operations also include corporate (non-restaurant) expenses which include head office people and non-people overhead expenses, finance and IT support, occupancy costs, and general and administrative support services



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offset by vendor purchase allowances. The Company has determined that the allocation of corporate (non-restaurant) revenues and expenses which include finance and IT support, occupancy costs, and general and administrative support services did not reflect how the Company manages the business and has not allocated these revenues and expenses to a specific segment.

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

**For the 13 weeks ended March 29, 2015**

	<u>Corporate</u>	<u>Franchise</u>	<u>Central</u>	<u>Total</u>
Sales	\$ 53,146	\$ -	\$ 2,638	\$ 55,784
Franchise revenues	-	16,763	958	17,721
Cost of inventories sold	(16,021)	-	-	(16,021)
Cost of labour	(18,161)	-	-	(18,161)
Other revenues (costs)	(15,037)	(1,847)	2,506	(14,378)
	<u>\$ 3,927</u>	<u>\$ 14,916</u>	<u>\$ 6,102</u>	<u>\$ 24,945</u>
Conversion revenues	-	-	475	475
Development revenues	-	-	1,686	1,686
Development expenses	-	-	(1,645)	(1,645)
Restructuring	-	-	205	205
Non-allocated selling, general and administrative expenses	-	-	(8,008)	(8,008)
Operating income	<u>\$ 3,927</u>	<u>\$ 14,916</u>	<u>\$ (1,185)</u>	<u>\$ 17,658</u>

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### For the 13 weeks ended April 1, 2014

	Corporate	Franchise	Central	Total
Sales	\$ 44,718	\$ -	\$ 2,461	\$ 47,179
Franchise revenues	-	15,818	1,137	16,955
Cost of inventories sold	(13,939)	-	-	(13,939)
Cost of labour	(16,719)	-	-	(16,719)
Other revenues (costs)	(13,058)	(2,924)	316	(15,666)
	\$ 1,002	\$ 12,894	\$ 3,914	\$ 17,810
Conversion revenues	-	-	554	554
Development revenues	-	-	36	36
Development expenses	-	-	(27)	(27)
Restructuring	-	-	(218)	(218)
Non-allocated selling, general and administrative expenses	-	-	(4,805)	(4,805)
Operating income	\$ <u>1,002</u>	\$ <u>12,894</u>	\$ <u>(546)</u>	\$ <u>13,350</u>

### 30 Subsequent Events

On March 31, 2015, the Company entered into an underwriting agreement, whereby the Company raised gross proceeds of \$230.0 million pursuant to an initial public offering through the issuance of 10,005,000 subordinated voting shares at a price of \$23.00 per share. Costs relating to the Offering, including underwriters' fees, were approximately \$13.5 million and they will be charged directly to shareholders' equity.

Immediately prior to the closing of the Offering, all of the outstanding Subordinated Debentures, Class A and Class B Preferred Shares were surrendered and converted into common shares in conjunction with a cashless warrant exercise. All outstanding common shares held immediately prior to closing under either Fairfax's beneficial ownership or Cara Holding Limited ownership were converted at a ratio of 2.79 to 1 into multiple voting shares, which are entitled to 25 votes per share on all matters. All other outstanding common shares held by all other shareholders, employees and directors were converted into subordinated voting shares entitled to one vote per share on all matters and consolidated at a ratio of 2.79 to 1. All stock options granted prior to the Offering were consolidated at a ratio of 2.79 to 1 to entitle holders of the options to purchase subordinated voting shares of the Company and the corresponding exercise prices were adjusted accordingly.

The Company paid down \$217.8 million of debt under its existing credit facility with the proceeds from the Offering and amended and extended its term credit facility. The amended term credit facility is comprised of a revolving credit facility in the amount of up to \$150.0 million and up to \$50.0 million of an accordion feature maturing on June 30, 2019. The interest rate applied on amounts drawn by the Company under its term credit facility is the effective bankers acceptance rate or prime rate plus a spread based on the Company's total funded net debt to EBITDA ratio, as defined in the agreement, measured using EBITDA for the four most recently completed fiscal quarters. The Company is required to pay a standby fee between 0.25% to 0.45% per

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annum, on the unused portion of the credit facility, for the term of its term credit facility. The standby fee rate is based on the Company's total funded net debt to EBITDA ratio.

In conjunction with the amended and extended term credit facility, the Company settled its \$150.0 million interest rate derivative on its existing credit facility (\$135.0 million outstanding at December 30, 2014) and recognized a loss of \$2.1 million related to the fair value adjustment on the derivative that was realized subsequent to March 29, 2015. The Company also wrote off unamortized deferred financing fees of \$1.9 million related to the existing credit facility.