CARA OPERATIONS LIMITED
Management's Discussion and Analysis
For the 13 weeks ended March 29, 2015

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 March 29, 2015 ("first quarter", "the quarter" or "the period"). This MD&A should be read in conjunction with the Company's Condensed Consolidated Interim Financial Statements and accompanying notes as at March 29, 2015, and with the Company's annual Consolidated Financial Statements for the 52 week period ended December 30, 2014. The consolidated results from operations for the 13 weeks ended March 29, 2015 are compared to the 13 weeks ended April 1, 2014. Cara's fiscal year ends on the Sunday closest to December 31st. As a result, the Company's fiscal year is usually 52 weeks in duration but includes a 53rd week every five to six years.

Some of the information contained in this MD&A contains forward-looking statements that involve risks and uncertainties. See "Forward-Looking Statements" and "Risk Factors" 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 Factors" and elsewhere in this MD&A.

This MD&A was prepared as at May 12, 2015. Additional information relating to the Company can be found on SEDAR at www.sedar.com.

Basis of Presentation

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

Highlights for the first quarter ended March 29, 2015:

- System Sales[(1)] grew $20.4 million or 5.0% to $430.1 million from the first quarter of 2014.
- Achieved Same Restaurant Sales ("SRS") Growth of 3.3%, representing 5 straight quarters of positive SRS Growth.
- Net earnings increased 87.9% to $6.2 million from $3.3 million in 2014, an increase of $2.9 million
- Operating EBITDA[(1)] increased 39.9% to $24.9 million compared to $17.8 million in the first quarter 2014.
- Operating EBITDA Margin on System Sales[(1)] increased to 5.8% compared to 4.3% in the first quarter 2014.

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(1) See "Non-IFRS Measures" on page 19 for definitions of System Sales, SRS Growth, Operating EBITDA, Operating EBITDA Margin and Operating EBITDA on System Sales. See "Reconciliation of net earnings from continuing operations to EBITDA" for a reconciliation of Operating EBITDA.

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 ("the 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.

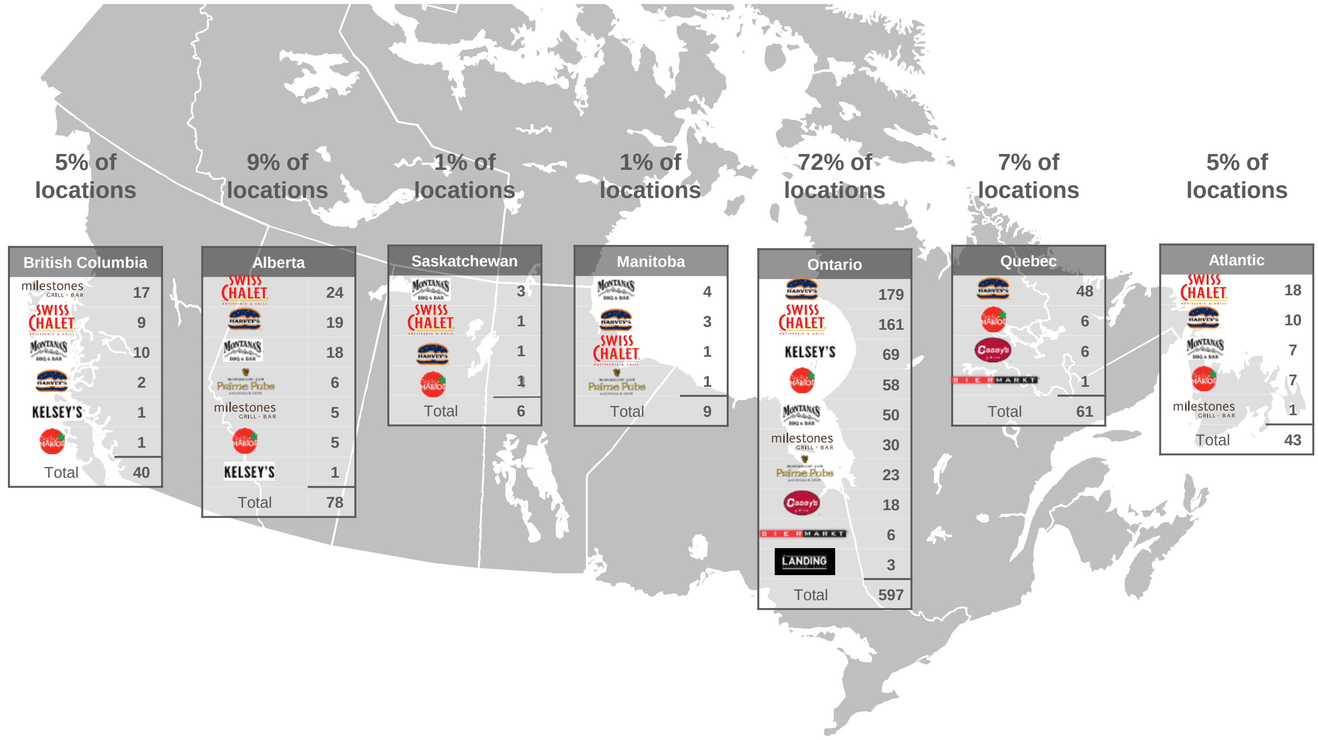
Immediately prior to the closing of the Offering, all of the outstanding Subordinated Debentures, Class A and Class B Preferred Shares were surrendered and converted into common shares in conjunction with a cashless warrant exercise. All outstanding common shares held immediately prior to closing under either Fairfax's beneficial ownership or Cara Holdings 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 were 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 an accordion feature for up to $50.0 million maturing on June 30, 2019. The interest rate applied on amounts drawn by the Company under its term credit facility is the effective bankers acceptance rate or prime rate plus a spread based on the Company's total funded net debt to 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 annum, on the unused portion of the revolving 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 will recognize 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.

Overview

Cara is a full-service restaurant company that franchises and operates iconic restaurant brands. As at March 29, 2015, Cara had 10 brands and 834 restaurants across Canada, 89% of which are operated by franchisees. Cara's restaurant network includes Harvey's, Swiss Chalet, Kelsey's, East Side Mario's, Montana's, Milestones, Prime Pubs, Casey's, Bier Markt, and Landing restaurants. Cara's iconic brands have established Cara as a nationally recognized franchisor of choice. Cara's restaurants are located across Canada with 72% of Cara's locations based in Ontario.



Unit count (unaudited)	As at March 29, 2015 Corporate	Franchise	Total	As at December 30, 2014 Corporate	Franchise	Total
Swiss Chalet	6	208	214	5	210	215
Harvey's	16	246	262	15	246	261
Montana's	11	81	92	12	79	91
East Side Mario's	3	75	78	4	76	80
Kelsey's	16	55	71	17	55	72
Casey's	1	23	24	1	24	25
Prime Pubs	4	26	30	4	26	30
Bier Markt	7	0	7	7	0	7
Milestones	25	28	53	23	30	53
Landing	3	0	3	3	0	3
Total restaurants	92	742	834	91	746	837
	11.0%	89.0%	100%	10.9%	89.1%	100%

Selected Financial Information

The following table summarizes the results of Cara's operations for the 13 weeks ended March 29, 2015 and April 1, 2014:

	First quarter ended	
($ millions unless otherwise stated)	**March 29, 2015**	**April 1, 2014**
	(unaudited)	(unaudited)
Sales	$55.8	$47.2
Franchise revenues	18.2	17.5
Development revenues	1.7	0.0
Total gross revenue from continuing operations	**$75.7**	**$64.7**
Cost of inventories sold	(16.0)	(13.9)
Selling, general and administrative expenses	(40.6)	(37.2)
Development expenses	(1.7)	(0.0)
Restructuring	0.2	(0.2)
Operating Income	**$17.6**	**$13.4**
Finance costs:		
Net interest expense and other financing charges	(8.3)	(8.7)
Loss on derivative	(1.6)	(0.0)
Earnings from continuing operations before income taxes	**$7.7**	**$4.7**
Income taxes	(1.5)	(1.3)
Net earnings from continuing operations	**$6.2**	**$3.3**
Total assets	$372.9	$354.3
Non-current financial liabilities	$486.3	$479.5
Earnings per share from continuing operations attributable to common shareholders (in dollars) (1)		
Basic	$0.349	$0.193
Diluted	$0.173	$0.184
Adjusted basic EPS(2)	$0.129	

(1) After giving effect on a retrospective basis the 2.79 to 1 share consolidation for common shares outstanding as at March 29, 2015, resulting from the Offering

(2) Defined as net earnings from continuing operations attributable to common shareholders divided by 48,939,155 multiple voting and subordinate common shares outstanding at May 12, 2015, representing shares outstanding post Offering

Dividends Declared (in dollars) (3)		
Common shares	$0.060	—
Cash Dividend on Class A Preferred Share Liabilities	$0.058	—
Cash Dividend on Class B Preferred Share Liabilities	$0.096	—

(3) Amounts based on shares outstanding prior to share consolidation resulting from the Offering

($ millions unless otherwise stated)	First quarter ended March 29, 2015	April 1, 2014
	(unaudited)	(unaudited)
Reconciliation of net earnings from continuing operations to EBITDA:		
Net earnings from continuing operations	$6.2	$3.3
Net interest expense and other financing charges	8.3	8.7
Loss on derivative	1.6	—
Income taxes	1.5	1.3
Depreciation of property, plant and equipment	4.7	4.4
Amortization of other assets	1.0	0.3
EBITDA	**$23.3**	**$18.0**
Reconciliation of EBITDA to Operating EBITDA:		
Losses on early buyout/cancellation of equipment rental contracts	1.1	—
Restructuring	(0.2)	0.2
Conversion fees	(0.5)	(0.6)
Net gain on disposal of property, plant and equipment	(0.6)	(0.2)
Stock based compensation	1.7	0.4
Change in onerous contract provision	—	(0.2)
Lease costs and tenant inducement amortization	0.1	0.2
Operating EBITDA	**$24.9**	**$17.8**

System Sales, SRS Growth, Unit Count and Operating EBITDA

The following table summarizes Cara's System Sales Growth, SRS Growth, number of restaurants, Operating EBITDA and Operating EBITDA Margin for the 13 weeks ended March 29, 2015 and April 1, 2014:

($ millions unless otherwise stated)[1]	First quarter ended March 29, 2015	April 1, 2014
	(unaudited)	(unaudited)
System Sales from continuing operations	$430.1	$409.7
Total System Sales Growth	5.0%	26.6%
SRS Growth	3.3%	2.4%[1]
Number of corporate restaurants (at period end)	92	82
Number of franchised restaurants (at period end)	742	756
Total number of restaurants (at period end)	**834**	**838**
Operating EBITDA	$24.9	$17.8
Operating EBITDA Margin	32.9%	27.5%
Operating EBITDA Margin on System Sales	5.8%	4.3%

(1) Results from four restaurants in the United States are included in System Sales totals but excluded from SRS Growth and number of restaurants.

See "Non-IFRS Measures" on page 19 for definitions of System Sales, SRS Growth across all brands, Operating EBITDA, Operating EBITDA Margin and Operating EBITDA Margin on System Sales.

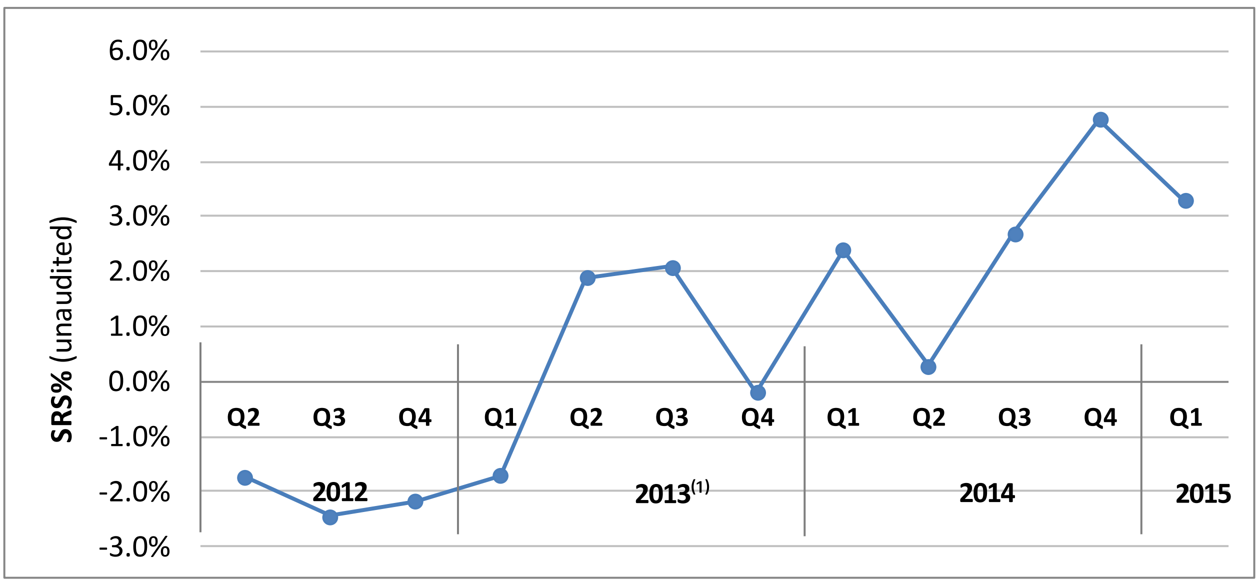
SRS Growth

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 and what portion 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 relative to the same period in the prior year. Cara's SRS Growth results exclude its United States operations which are comprised of four restaurants.

SRS Growth is primarily driven by changes in the number of guest transactions and changes in average transaction 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 in 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 five of Cara's 10 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 impacts sales and profitability.

The following chart summarizes Cara's quarterly SRS Growth from April 2, 2012 to March 29, 2015:



(1) Same restaurant sales results for fiscal 2013 inlcudes Prime from the Acquistion Date

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SRS Growth represents same restaurant sales growth for all franchised and corporate restaurants in Cara's network. See "Non-IFRS Measures" on page 19 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.

First Quarter of 2015 Compared to First Quarter of 2014

System Sales from continuing operations

System Sales from continuing operations were $430.1 million for the 13 weeks ended March 29, 2015 compared to $409.7 million for the 13 weeks ended April 1, 2014, representing an increase of $20.4 million or 5.0%. This increase was primarily the result of SRS Growth of 3.3%, new restaurant openings in 2014 and in the first quarter of 2015, and the addition of the Landing Group restaurants together generating higher sales as compared to restaurants closed during the period.

Total gross revenue from continuing operations

Total gross revenue from continuing operations represents sales from corporate restaurants, franchise revenues (including royalty fees net of agreed subsidies, new franchise fees, equipment rental income and corporate to franchise conversion fees), fees generated from Cara's off-premise call centre business, development revenue, and revenue related to the resale of chicken quota.

Total gross revenue from continuing operations was $75.7 million for the 13 weeks ended March 29, 2015 compared to $64.7 million for the 13 weeks ended April 1, 2014, representing an increase of $11.0 million or 17.0%. The increase in gross revenues from continuing operations was primarily the result of increased corporate restaurants from the addition of the Landing Group, new openings in 2014, restaurants re-acquired from franchisees, and SRS Growth of 3.3%.

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, lease costs and tenant inducement amortization, losses on early buyout / cancellation of equipment rental agreements and depreciation and amortization on other assets. These charges are offset by vendor purchase allowances.

Direct corporate restaurant labor costs and other direct corporate restaurant operating and overhead costs are impacted by the number of restaurants, 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. 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 inducement, and depreciation and amortization represent non-cash expenses generally related to prior year's conversion transactions.

SG&A expenses were $40.6 million for the 13 weeks ended March 29, 2015 compared to $37.2 million for the 13 weeks ended April 1, 2014, representing an increase of $3.4 million or 9.1%. The increase was related to an increase in the Company's contribution to marketing funds of $2.2 million in an effort to build sales, increased direct restaurant labour and other direct restaurant costs due to the impact of minimum wage increases and 10 additional corporate restaurants in the first quarter compared to the first quarter in 2014, offset by savings realized from a reduction in central costs from restructuring head-office staffing and other net overhead costs.

Net interest expense and other financing charges

Finance costs are derived from Cara's financing activities which include the Existing Credit Facility, Subordinated Debentures, and Class A and Class B Preferred Shares. Finance costs also include non-cash accretion expense related to the Subordinated Debentures, Class A and Class B Preferred Shares, mark-to-market adjustments on an interest rate derivative and amortization of financing fees. The Company's Subordinated Debentures, Class A Preferred Shares and Class B Preferred Shares also contain a payment-in-kind option which, at the discretion of the Company, can reduce cash interest paid.

Net interest expense and other financing charges were $8.3 million for the 13 weeks ended March 29, 2015 compared to $8.7 million for the 13 weeks ended April 1, 2014, representing a decrease of $0.4 million or 4.6%. Management expects the net interest expense to be significantly reduced in future periods as a result of the $217.8 million reduction to the existing credit facility subsequent to quarter end coupled with the reduction in interest rates from the amended credit terms. See "Subsequent Events" and "Debt and Preferred Shares".

(Provision for) recovery of income taxes

Cara's earnings are subject to both federal and provincial income taxes. Cara has income tax losses available to offset taxable earnings and at present does not pay significant cash income taxes on operational earnings but does have taxes payable in respect of dividend payments relating to its Class A and Class B Preferred Shares. According to Canadian income tax legislation, any dividends paid in respect of these preferred shares are subject to a special tax (Part VI.1 taxes) at a rate of 40% and are recorded as current tax expense. These taxes are eligible for a deduction from taxable income equal to 3.5 times the amount of the Part VI.1 taxes paid. For financial accounting purposes, these dividends are presented as finance costs.

The Company recorded an income tax expense of $1.5 million for the 13 weeks ended March 29, 2015 compared to $1.3 million for the 13 weeks ended April 1, 2014. The increase primarily relates to the tax on dividends paid in respect of the Class A and Class B Preferred Shares.

The Company has approximately $63.0 million in income tax losses available to offset future taxable earnings. These losses expire between the years 2018 and 2034. Deferred tax assets have only been recognized in respect of $19.0 million of losses. Deferred tax assets have not been recognized in respect of approximately $44.0 million of losses.

Net earnings

Net earnings were $6.2 million for the 13 weeks ended March 29, 2015 compared to $3.3 million for the 13 weeks ended April 1, 2014, representing an improvement of $2.9 million. The increase in net earnings was mainly attributed to improved restaurant performance, and decreases in central operating and overhead costs.

Operating EBITDA

Operating EBITDA was $24.9 million for the 13 weeks ended March 29, 2015 compared to $17.8 million for the 13 weeks ended April 1, 2014, representing an increase of $7.1 million or 39.9%. The increase was primarily the result of improved performance at Cara's corporate restaurants, increased net franchise royalties and improved central contribution from decreases in central costs continuing from 2014 restructuring of head-office staffing and other overhead costs.

See "Non-IFRS Measures" on page 19 for definition of Operating EBITDA and page 5 for a reconciliation of net earnings from continuing operations to Operating EBITDA.

Restaurant Count

The following table presents the changes in Cara's restaurant unit count:

	First quarter ending March 29, 2015			First quarter ending April 1, 2014		
Unit count (unaudited)	**Corporate**	**Franchise**	**Total**	**Corporate**	**Franchise**	**Total**
Beginning of period(1)	91	746	837	77	757	834
Acquisitions(2)	0	0	0	0	0	0
New openings	1	3	4	1	7	8
Closings	(1)	(6)	(7)	0	(4)	(4)
Corporate take-backs(3)	3	(3)	0	4	(4)	0
Restaurants re-franchised (4)	(2)	2	0	0	0	0
End of period	92	742	834	82	756	838

(1) Unit count excludes Prime locations located in the United States.
(2) 2015 beginning unit count includes 3 Landing Group restaurants as the Landing Group acquisition was in the fourth quarter of 2014.
(3) Corporate take-backs represent previously franchised restaurants acquired by the Company to operate corporately.
(4) Restaurants re-franchised represent corporate restaurants re-franchised to be operated by a franchisee.

Segment Performance

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 rental 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 comprised of head office people and non-people overhead expenses, IT costs, occupancy expenses, and general and administrative support costs offset by vendor purchase allowances.

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.

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

	For 13 weeks ended March 29, 2015				For 13 weeks ended April 1, 2014			
($ thousands unless otherwise stated)	**Corporate**	**Franchise**	**Central**	**Total**	**Corporate**	**Franchise**	**Central**	**Total**
System Sales from continuing operations (unaudited)	**$53,146**	**$376,991**	**$—**	**$430,137**	**$44,718**	**$364,980**	**$—**	**$409,698**
Corporate results								
Sales	$53,146	$—	$2,638	$55,784	$44,718	$—	$2,461	$47,179
Cost of inventories sold and cost of labour	(34,182)	—	—	(34,182)	(30,658)	—	—	(30,658)
Restaurant contribution before other costs	18,964	—	2,638	21,602	14,060	—	2,461	16,521
Restaurant contribution before other costs %	*35.7%*				*31.4%*			
Other operating costs	*(15,037)*	—	—	*(15,037)*	*(13,058)*	—	—	*(13,058)*
Total contribution	**3,927**	**—**	**2,638**	**6,565**	**1,002**	**—**	**2,461**	**3,463**
Franchise results								
Franchise royalty income	—	16,763	—	16,763	—	15,818	—	15,818
Franchise royalty income as a % of franchise sales		*4.4%*				*4.3%*		
New franchise fees and equipment rent	—	—	958	958	—	—	1,137	1,137
Franchise rent assistance and bad debt	—	(1,847)	—	(1,847)	—	(2,924)	—	(2,924)
Contribution from franchise restaurants	**—**	**14,916**	**958**	**15,874**	**—**	**12,894**	**1,137**	**14,031**
Central								
Net central contribution	—	—	**2,506**	**2,506**	—	—	316	316
Operating EBITDA	**$3,927**	**$14,916**	**$6,102**	**$24,945**	**$1,002**	**$12,894**	**$3,914**	**$17,810**
Contribution as a % of corporate sales	*7.4%*	—	—	—	*2.2%*	—	—	—
Contribution as a % of franchise sales	—	*4.0%*	—	—	—	*3.5%*	—	—
Contribution as a % of total System Sales	—	—	*1.4%*	*5.8%*	—	—	*1.0%*	*4.3%*

Corporate

Corporate segment restaurant count was 92 at March 29, 2015 compared to 82 at April 1, 2014, an increase of 10 locations. During the first quarter of 2015, the Company opened one new location, closed one location, took back three locations and re-franchised two locations for net one additional corporate restaurant.

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 $53.1 million for the 13 weeks ended March 29, 2015 compared to $44.7 million for the 13 weeks ended April 1, 2014, representing an increase of $8.4 million or 18.8%. The increase was primarily related to the increase in number of corporate restaurants. During fiscal 2014, Cara added 3 corporate restaurants from the Landing Group acquisition and had 10 net restaurant take-backs (from franchise to corporate).

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, minimum wages 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 labor was $34.2 million for the 13 weeks ended March 29, 2015 compared to $30.7 million for the 13 weeks ended April 1, 2014, representing an increase of $3.5 million or 11.4%. The increase was primarily due to the impact from the addition of Landing's 3 corporate restaurants and net 10 restaurant take-backs. The increase was offset by overall cost reductions relating to improved food and beverage cost control at the restaurants.

Contribution from corporate segment

Total contribution from corporate restaurants was $3.9 million for the 13 weeks ended March 29, 2015 compared to $1.0 million for the 13 weeks ended April 1, 2014, an improvement of $2.9 million. The increase is primarily driven by the improvement of food and labour management resulting in a 4.3 percentage point reduction in cost of inventory sold and cost of labour as a percent of sales. Total contribution from corporate restaurants as a percentage of corporate sales was 7.4% in the quarter compared to 2.2% in 2014, an increase of 5.2 percentage points.

Franchise

Franchise segment restaurant count was 742 at March 29, 2015 compared to 756 at April 1, 2015, a decrease of 14 locations. During the first quarter of 2015, the Company opened three franchised restaurants, closed 6 locations, took back three restaurants and re-franchised two franchised restaurants for a net reduction of 4 franchised locations.

Franchise segment System Sales were $377.0 million during the 13 weeks ended March 29, 2015 compared to $366.0 million for the 13 weeks ended April 1, 2014, an increase of $11.0 million or 3.0%. The increase was primarily attributed to the 3.3% total SRS Growth partially offset by restaurant closures.

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 historical 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, management believes the effective royalty recovery rate will gradually increase over time.

Franchise revenues were $16.8 million for the 13 weeks ended March 29, 2015 compared to $15.8 million for the 13 weeks ended April 1, 2014, an increase of $1.0 million or 6.3%. The increase is related to increased royalty income of $0.9 million as a result of the sales increase and an increase in net royalty revenue collected resulting from a reduction of locations receiving temporary royalty assistance.

Contribution from franchise segment

Total contribution from franchise restaurants was $14.9 million in the first quarter 2015 compared to $12.9 million in 2014, an increase of $2.0 million or 15.5%. The increase was related to increased royalty income as a result of the sales increase and a $1.1 million reduction in franchisee subsidies and bad debts. The effective net royalty rate for the 13 weeks ended March 29, 2015 was 4.0% compared to 3.5% for the 13 weeks ended April 1, 2014. As of March 29, 2015, 103 restaurants were paying Cara a royalty of less than 5.0% as previously agreed to as part of a conversion agreement. This is an improvement of 12 restaurants compared to 115 as at December 30, 2014. In addition, Cara agreed to temporarily assist certain other restaurants by collecting a royalty of less than 5.0%. As of March 29, 2015, a total of 86 restaurants were receiving temporary assistance, a decrease of 2 restaurants as compared to 88 as at December 30, 2014.

Central

Sales

Sales in the central segment consist of revenue from Cara's off-premise call centre business representing fees generated from delivery, call-ahead and web and mobile-based meal orders principally associated with Swiss Chalet customers. 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 (i.e. higher fees are received on phone orders compared to mobile-web orders).

Total central segment sales were $2.6 million for the 13 weeks ended March 29, 2015 compared to $2.5 million for the 13 weeks ended April 1, 2014, an increase of $0.1 million or 4.0%. The increase was attributed to higher off-premise fees as a result of increased off-premise Swiss Chalet sales.

New franchise fees 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.

Franchise fees and equipment rent were $1.0 million for the 13 weeks ended March 29, 2015 compared to $1.1 million for the 13 weeks ended April 1, 2014, a decrease of $0.1 million or 9.1%. The decrease was the result of buyouts and terminations of equipment rental agreements.

Contribution from central segment

Central segment contribution margin was $6.1 million (1.4% of total System Sales) for the 13 weeks ended March 29, 2015 compared to $3.9 million (1.0% of total System Sales) for the 13 weeks ended April 1, 2014, an increase of $2.2 million or 56.4%. The increase primarily resulted from a reduction in central costs from the 2014 restructuring of head-office staffing, other overhead cost reductions and recoveries, partially offset by additional contributions to the marketing funds over and above franchisee contributions to drive sales growth.

EBITDA and Operating EBITDA by Quarter

The following table provides reconciliations of EBITDA and Operating EBITDA:

($ millions unless otherwise stated)	Q1 – 2015 March 29, 2015	Q4 – 2014 Dec 30, 2014	Q3 – 2014 Sept 30, 2014	Q2 – 2014 July 1, 2014	Q1 – 2014 April 1, 2014
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reconciliation of net earnings from continuing operations to EBITDA:					
Net earnings from continuing operations	$6.2	$(4.5)	$2.2	$4.4	$3.3
Impairment of assets, net of reversals	—	4.9	—	—	—
Net interest expense and other financing charges	8.3	7.8	8.7	8.2	8.7
Loss on derivative	1.6	—	(0.1)	0.6	—
Income taxes	1.5	(0.3)	1.9	1.5	1.3
Depreciation of property, plant and equipment	4.7	4.5	4.3	4.2	4.4
Amortization of other assets	1.0	1.0	0.5	0.7	0.3
EBITDA	**$23.3**	**$13.4**	**$17.5**	**$19.6**	**$18.0**
Reconciliation of EBITDA to Operating EBITDA:					
Losses on early buyout/cancellation of equipment rental contracts	1.1	1.8	1.3	1.3	—
Restructuring	(0.2)	3.0	2.1	1.3	0.2
Conversion fees	(0.5)	(0.5)	(0.5)	(0.3)	(0.6)
Net (gain) / loss on disposal of property, plant and equipment	(0.6)	(0.3)	0.6	(0.3)	(0.2)
Stock based compensation	1.7	5.2	0.4	0.4	0.4
Change in onerous contract provision	—	(0.5)	0.1	(0.2)	(0.2)
Lease costs and tenant inducement amortization	0.1	—	0.2	0.2	0.2
Operating EBITDA	**$24.9**	**$22.1**	**$21.7**	**$22.0**	**$17.8**

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.

($ millions unless otherwise stated)	Q1 – 2015 March 29, 2015	Q4 – 2014 Dec 30, 2014	Q3 – 2014 Sept 30, 2014	Q2 – 2014 July 1, 2014	Q1 – 2014 April 1, 2014
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
System Sales from continuing operations	$430.1	$439.0	$428.4	$418.9	$409.7
Total System Sales Growth	5.0%	12.8%	29.5%	25.5%	26.6%
SRS Growth	3.3%	4.8%	2.7%	0.3%	2.4%
Number of restaurants (at period end)	834	837	834	835	838
Operating EBITDA	$24.9	$22.1	$21.7	$22.0	$17.8
Operating EBITDA Margin on Total System Sales	5.8%	5.0%	5.1%	5.3%	4.3%
Corporate restaurant sales	$53.1	$48.5	$52.3	$49.9	$44.7
Number of corporate restaurants	92	91	86	83	82
Contribution from Corporate segment	$3.9	$3.2	$3.8	$2.8	$1.0
Contribution as a % of corporate sales	7.4%	6.6%	7.3%	5.6%	2.2%
Franchise restaurant sales	$377.0	$389.5	$376.2	$369.0	$365.0
Number of franchised restaurants	742	746	748	752	756
Contribution from Franchise segment	$14.9	$15.3	$14.3	$12.9	$12.9
Contribution as a % of Franchise sales	4.0%	3.9%	3.8%	3.5%	3.5%
Contribution from Central segment	$6.1	$3.6	$3.6	$6.3	$3.9
Contribution as a % of total System Sales	1.4%	0.8%	0.8%	1.5%	1.0%
Total gross revenue from continuing operations	$75.7	$75.4	$72.3	$69.4	$64.7
Operating EBITDA Margin	32.9%	29.3%	30.0%	31.7%	27.5%
Net earnings	$6.2	$(4.5)	$2.2	$4.3	$3.3
Earnings per share from attributable to common shareholders of the Company (in dollars) (1)					
Basic EPS	$0.349	$(0.240)	$0.114	$0.240	$0.192
Diluted EPS	$0.173	$(0.134)	$0.075	$0.226	$0.184
Adjusted basic EPS	$0.127	n/a	n/a	n/a	n/a
Net earnings from continuing operations attributable to common shareholders of the Company	$6.3	$(4.4)	$2.1	$4.4	$3.5
Earnings per share from continuing operations attributable to common shareholders (in dollars) (1)					
Basic EPS	$0.349	$(0.246)	$0.114	$0.243	$0.193
Diluted EPS	$0.173	$(0.137)	$0.075	$0.229	$0.184
Adjusted basic EPS	$0.129	n/a	n/a	n/a	n/a

(1) Amounts per share give effect on a retrospective basis for the 2.79 to 1 share consolidation for common shares outstanding as at March 29, 2015, that took place as part of the Offering subsequent to quarter end.

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, 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 Factors". Cara's management reviews acquisition and investment opportunities in the normal course of its business and may, if suitable funding for any such acquisitions or investments have come from cash flow from operating activities and/or additional debt. 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.

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 net proceeds. The Company's preferred shares and subordinated unsecured debentures were also converted into multiple voting shares. See "Subsequent Events".

Working Capital

Cara had a working capital deficit of ($87.9) million at March 29, 2015 compared to ($115.9) million at December 30, 2014. 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. Cara's Ultimate Gift Card sales significantly improve the Company's liquidity 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 March 29, 2015 was $27.0 million compared to $49.5 million at December 30, 2014, a reduction of $22.5 million representing net redemptions in the quarter.

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. Management believes it will continue to operate in a working capital deficit position as the nature of its business is not expected to change.

Debt and Preferred Shares

Total indebtedness outstanding at March 29, 2015 was $298.6 million. The two main components of indebtedness of that date were the Existing Credit Facility of $251.0 million and the Subordinated Debentures having a principal amount of $25.6 million.

Cara's Existing Credit Facility is comprised of revolving credit in the amount of $195.0 million plus a $5.0 million accordion feature and $100.0 million term credit, all maturing on October 31, 2017.

On October 31, 2013, and as part of the Fairfax transaction, $25.0 million Subordinated Debentures (at par value) were issued at a market value of $24.3 million. The Subordinated Debentures have a five year term with no principal repayments required by the Company and pay interest at a rate of 9% per annum in cash or by payment-in-kind. The principal amount of the Subordinated Debentures outstanding has increased by $0.2 million from accretion and $1.1 million from payment-in-kind interest since inception.

The face value of Class A and Class B Preferred Shares outstanding at March 29, 2015 was $151.3 million. The Class A and Class B Preferred Shares were issued on October 31, 2013 in two tranches, Class A Preferred Shares and Class B Preferred Shares, as part of the Fairfax investment, and accounted for as a financial liability on the Company's Consolidated Financial Statements.

Subsequent to March 29, 2015, the Company amended and extended the terms of its Existing Credit Facility, repaid $217.8 million of its Existing Credit Facility and settled all of the outstanding Subordinated Debentures, Class A and Class B Preferred Shares. See "Subsequent Events" section.

Interest rate swap

Cara was party to an interest rate swap to hedge its exposure to interest rates on March 29, 2015. The swap has a $15.0 million reduction in the notional amount on December 15th of each year until maturity on March 31, 2017. The interest rate swap was settled subsequent to March 29, 2015. See "Subsequent Events" section.

Cash Flows

The following table presents Cara's cash flows for the 13 weeks ended March 29, 2015 as compared to the 13 weeks ended April 1, 2014:

(C$ millions unless otherwise stated)	Q1 – 2015 March 29, 2015	Q1 – 2014 April 1, 2014
	(unaudited)	(unaudited)
Cash flows from operating activities of continuing operations	$(11.8)	$11.8
Cash flows used in investing activities	(2.1)	(10.6)
Cash flows used in financing activities	10.8	(1.2)

Cash flows (used in) from operating activities of continuing operations

Cash flows from operating activities of continuing operations were negative ($11.8) million for the 13 weeks ended March 29, 2015 compared to $11.8 million for the 13 weeks ended April 1, 2014. The decrease was primarily the result of net change in non-cash operating working capital of ($27.5) million in 2015 compared to ($2.6) million in 2014, a decrease of $24.9 million. The decrease is primarily related to a smaller reduction in accounts receivable in 2014 of $11.4 million from gift card collections in December 2014, a $12.1 million decrease in accounts payable and accrued liabilities primarily related to 2014 bonus payments and other marketing costs paid, and $3.0 million decrease in gift card liability, offset by the improved Operating EBITDA as described above.

Cash flows used in investing activities of continuing operations

The following table presents Cara's capital expenditures for 13 weeks ended March 29, 2015 as compared to the 13 weeks ended April 1, 2014:

(C$ millions unless otherwise stated)	Q1 – 2015 March 29, 2015	Q1 – 2014 April 1, 2014
Business acquisitions, net of cash assumed:	(unaudited)	(unaudited)
Acquisitions	—	—
Buy-backs[1]	(3.3)	(9.1)
Total business acquisitions, net of cash assumed	**$(3.3)**	**$(9.1)**
Purchase of property, plant and equipment:		
Maintenance:		
Corporate restaurants	(0.8)	(0.6)
Central / IT expenditures / Other	(1.2)	(1.0)
Total maintenance	$(2.0)	$(1.6)
Growth initiatives:		
Major renovations	(0.0)	(0.0)
New builds	(0.2)	(1.2)
Total growth	$(0.2)	$(1.2)
Total purchase of property, plant and equipment	**$(2.2)**	**$(2.8)**
Proceeds on disposal of property, plant and equipment	**0.4**	—
Additions to other assets	—	—
Change in long-term receivables	**3.0**	**1.3**
Total cash flows used in investing activities	**$(2.1)**	**$(10.6)**

(1) 2015 buy-backs are comprised of 3 locations (2014 – 4 locations)

Cash flows used in investing activities were $2.1 million during the 13 weeks ended March 29, 2015 compared to $10.6 million during the 13 weeks ended April 1, 2014, a decrease of $8.5 million. The decrease is primarily the result of fewer buybacks of franchise locations.

Commitments for Capital Expenditures

The Company incurs on-going capital expenditures in relation to the operation of its corporate restaurants, 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 through its Existing Credit Facility.

Cash flows (used in) from financing activities

Cash flows from financing activities were $10.8 million for the 13 weeks ended March 29, 2015, primarily consisting of a net increase in its credit facility and bank indebtedness of $25.3 million, less change in finance leases of $0.4 million, less $3.1 million of cash interest expense, and less dividends paid of $11.0 million.

Cash flows used in financing activities were ($1.2) million for the 13 weeks ended April 1, 2014, primarily consisting of a net increase in its credit facility and bank indebtedness of $1.3 million, less change in finance leases of $0.5 million, and less $2.0 million of cash interest expense.

Off Balance Sheet Arrangements

Letters of credit

Cara has outstanding letters of credit amounting to $0.9 million as at March 29, 2015 (December 30, 2014 - $0.9 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 March 29, 2015, there were 50,467,709 voting common shares (December 30, 2014 – 50,467,709 shares) issued and outstanding. On May 12, 2015, after the Offering and corresponding preferred share and warrant conversions and 2.79 to 1 share consolidation, the Company had 48,939,155 multiple and subordinate voting common shares 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 12, 2015 is 4,744,335 after giving effect the 2.79 to 1 share consolidation.

Outlook

Management is pleased with the positive results in the first quarter. The continued System Sales increases, SRS Growth, and cost reductions have resulted in increases in Operating EBITDA and improved contribution margins in all segments. Despite progress in the first quarter, management remains cautious on the Canadian economy and its potential impact on restaurant sales stemming from challenges in commodity price sensitive markets and weakness in the Canadian dollar. With respect to 2015, Management provides the following comments:

- *System Sales and SRS Growth* — Management is satisfied with overall System Sales growth of $20.4 million and SRS Growth of 3.3% for the first quarter and continues to focus on building momentum and long-term sales growth through its various initiatives across all its brands. The Company expects to commence testing of the SCENE card in the second quarter in one of its brands and has entered into discussions with the Canadian Automobile Association ("CAA") for cross promotional programs that are expected to be tested and launched in the second half of the year.

- *Restaurant Count* — While net restaurant count decreased during the quarter, management is confident it will achieve 14 net new restaurants in 2015. New restaurant construction and related openings are generally slower during the winter months and increase during the third and fourth quarters.

- *Corporate restaurant profitability* — Corporate restaurant profitability improved during the quarter to 7.4% of corporate sales from 2.2% in the first quarter of 2014. We are happy with the increase in profitability which is primarily related to the Landing restaurant contribution in 2015 and the reduction in food and labour costs as a result of the improved management tools and disciplines, and improved vendor terms in Cara restaurants compared to 2014. Long term, the opportunity remains with adding more Bier Markts, Landing restaurants and select Milestones to change the mix of our current corporate restaurant make up.

- *Franchise segment* — Franchise contribution as a percentage of franchise sales improved during the quarter to 4.0% from 3.5% in the first quarter of 2014 reflecting less assistance provided to its franchise network. During the quarter, Cara reduced the number of restaurants receiving assistance by 14 restaurants to 189 restaurants from a total of 203 at December 30, 2014.

- *Central segment* — Going forward as the run rate for central expenses normalizes, the improvements in the central rate will be driven by growing sales faster than head office expenses and by expanding our off premise business.

- *Total Operating EBITDA* — The combined contributions from the Corporate, Franchise and Central segments resulted in Total Operating EBITDA margin of 5.8% on first quarter total System Sales. The Company will continue to work on all three segments to increase Total Operating EBITDA.

- *Reduction of finance costs* — The reduction of the Company's debt in the second quarter of 2015 as a result of the successful IPO will significantly reduce interest and finance costs in future quarters.

- *Improved net income and cash available* — The impact of the IPO will decrease total interest and finance costs, and reduce taxes related to dividends, all of which will improve net income, EPS and cash available for growth in future periods.

Overall, Management is satisfied with the positive results and improvements achieved in the first quarter and believes that the benefits from the IPO will provide more available cash and credit capacity to position the Company for growth.

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 Factors" for a description of the risks and uncertainties that impact the Company's business and that could cause actual results to vary.

Related Parties

Shareholders

The Company, through its voting common shares, is principally owned as at March 29, 2015 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.

Subsidiaries of Fairfax Financial Holdings Limited ("Fairfax") own non-voting preferred shares and warrants 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 and was paid subsequent to March 29, 2015.

Subsidiaries of Fairfax own subordinated debentures and warrants 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 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. Fairfax also holds preferred shares and warrants. The insurance transactions are on market terms and conditions.

Future Accounting Changes

New standards and amendments to existing standards have been issued and may be applicable to the company for its annual periods beginning on or after December 31, 2014. See note 3 of the Company’s condensed consolidated interim financial statements for the 13 weeks ended March 29, 2015 for a summary of new accounting standards adopted during 2015 and note 4 for a summary of future accounting standards not yet adopted.

Controls and Procedures

Cara’s first quarter ended prior to the date when it became a reporting issuer and has elected to use its exception and will not be filing CEO and CFO certifications in respect of its first quarter financial report.

Critical Accounting Judgments and Estimates

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

Management continually evaluates the estimates and assumptions it uses. These judgements and estimates are based on management’s historical experience, knowledge of current events and conditions and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and assumptions described in this section depend upon subjective or complex judgement that may be uncertain and changes in these estimates and assumptions could materially impact Cara’s financial statements. The following are the accounting policies that are subject to judgements and estimates.

Accounts receivable and long-term franchise receivables

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

Management determines the net realizable value of its accounts receivables and long-term franchise receivables by reviewing expected future cash flows. The process of determining the net realizable value requires management to make estimates regarding projected future cash flows.

Impairment of non-financial assets

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

In determining the net recoverable amount of a CGU, various estimates are employed. The Company determines the fair value less costs to sell a particular CGU using estimates such as projected future sales, earnings, capital investments and discount rates. Projected future sales and earnings are consistent with strategic plans provided to the Company’s Board. Discount rates are based on an estimate of the Company’s weighted average cost of capital taking into account external industry information reflecting the risk associated with the specific cash flows.

Leases

In classifying a lease as either financial or operating, management has to make certain assumptions in estimating the present value of future lease payments and the estimated useful lives of the related assets. These assumptions include the allocation of values between land and building, and discount rates.

Income and other taxes

The calculation of current and deferred income taxes requires management to make certain judgements regarding the tax rules in jurisdictions where the Company performs activities. Application of judgements is required regarding classification of transactions and in assessing probable outcomes of claimed deductions including expectations of future operating results, the timing and reversal of temporary differences, likelihood of utilizing deferred tax assets and possible audits of income tax and other tax filings to the applicable tax authorities.

Employee future benefits

Accounting for the costs of defined benefit pension plans is based on a number of assumptions including estimates of rates of compensation increase and retirement ages of plan members. The discount rate used to value the accrued benefit plan obligation is based on high quality corporate bonds in the same currency in which the benefits are expected to be paid and with terms to maturities that, on average, match the terms of the defined benefit obligations. Other key assumptions for pension obligations are based on actuarial determined data and current market conditions.

Gift cards

Management is required to make certain assumptions on the likelihood of gift card redemptions based on historical redemption patterns. The impact of these assumptions results in the recognition of income from gift card purchases that are expected to not be redeemed.

Provisions

Management reviews provisions at each balance sheet date utilizing judgments to determine the probability that an expense and outflow will result from the legal or constructive obligation and an estimate of the associated obligation. Due to the judgmental nature of these items, future settlements may differ from amounts recognized.

Stock-based compensation

The accounting for equity-settled stock-based compensation requires management to make an estimate of the fair value, including non-market conditions, of the stock options based on the enterprise value of the Company at the time of the particular option grant as well as estimates around forfeitures of vested options.

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", "Operating EBITDA", "Operating EBITDA Margin", and "Adjusted basic 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 received 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. 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 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 exclude its United States operations which are comprised of four restaurants.

"EBITDA" is defined as net earnings (loss) from continuing operations before: (i) net interest expense and other financing charges; (ii) loss (gain) on derivative; (iii) income taxes; (iv) depreciation of property, plant and equipment; (v) amortization of other assets; and (vi) impairment of assets, net of reversals.

"Operating EBITDA" is defined as net earnings (loss) from continuing operations before: (i) net interest expense and other financing charges; (ii) gain (loss) on derivative; (iii) income taxes; (iv) depreciation of property, plant and equipment; (v) amortization of other assets; (vi) impairment of assets, net of reversals; (vii) losses on early buyout / cancellation of equipment rental contracts; (viii) restructuring; (ix) conversion fees; (x) net (gain) / loss on disposal of property, plant and equipment; (xi) stock based compensation; (xii) change in onerous contract provision; and (xiii) lease costs and tenant inducement amortization.

"Operating EBITDA Margin" is defined as Operating EBITDA divided by total gross revenue from continuing operations.

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

"Adjusted basic EPS" is defined as net earnings from continuing operations attributable to common shareholders divided by 48,939,155 multiple voting and subordinate common shares outstanding at May 12, 2015, representing shares outstanding post Offering.

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 and Operating EBITDA Margin on System Sales (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 long form prospectus dated March 31, 2015. 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 substantially 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 have been in existence for longer than the Company and 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 prospectus available on SEDAR at www.sedar.com for a more comprehensive list.