

Cara Operations Limited

Condensed Consolidated Interim Financial Statements (unaudited)

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014

Cara Operations Limited

Condensed Consolidated Interim Statements of Earnings and Comprehensive Income

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014

(unaudited)

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

	For the 13 weeks ended		For the 39 weeks ended	
	September 27, 2015	September 30, 2014	September 27, 2015	September 30, 2014
Sales (note 6)	\$ 65,547	\$ 54,288	\$ 184,117	\$ 153,414
Franchise revenues (note 7)	18,134	17,986	54,400	52,891
Development revenues	2,044	29	3,811	112
Total gross revenue from continuing operations	\$ 85,725	\$ 72,303	\$ 242,328	\$ 206,417
Cost of inventories sold	(18,934)	(15,625)	(52,911)	(44,659)
Selling, general and administrative expenses (note 8)	(44,193)	(41,825)	(126,316)	(117,337)
Development expenses	(2,042)	(24)	(3,763)	(54)
Restructuring (note 9)	124	(2,056)	(107)	(3,571)
Operating income	20,680	12,773	\$ 59,231	\$ 40,796
Finance costs				
Net interest expense and other financing charges (note 11)	(988)	(8,714)	(11,288)	(25,609)
Gain/(loss) on derivative	-	97	(1,623)	(493)
Write-off of deferred financing fees	-	-	(1,800)	-
Earnings from continuing operations before income taxes	\$ 19,692	\$ 4,156	\$ 44,520	\$ 14,694
Income taxes (note 12)	(494)	(1,932)	(3,145)	(4,800)
Net earnings from continuing operations	19,198	2,224	\$ 41,375	\$ 9,894
Discontinued operations - net of income taxes	(2)	(8)	(8)	(39)
Net earnings and comprehensive income	\$ 19,196	\$ 2,216	\$ 41,367	\$ 9,855
Net earnings attributable to				
Shareholders of the Company	\$ 19,067	\$ 2,081	\$ 40,888	\$ 9,921
Non-controlling interest	129	135	479	(66)
	\$ 19,196	\$ 2,216	\$ 41,367	\$ 9,855
Net earnings per share attributable to the Common Shareholders of the Company (note 22) (in dollars)				
Basic earnings per share	\$ 0.388	\$ 0.115	\$ 1.091	\$ 0.549
Diluted earnings per share	\$ 0.360	\$ 0.077	\$ 0.887	\$ 0.455
Basic earnings per share from continuing operations	\$ 0.388	\$ 0.115	\$ 1.091	\$ 0.551
Diluted earnings per share from continuing operations	\$ 0.360	\$ 0.077	\$ 0.887	\$ 0.457

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

Cara Operations Limited
Condensed Consolidated Interim Statements of Total Equity
For the 39 weeks ended September 27, 2015 and September 30, 2014
(unaudited)

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

	Equity Attributable to the Shareholders of the Company								
	Number of shares (in thousands)	Common share capital	Multiple voting shares	Subordinate voting shares	Warrant certificates	Contributed surplus	Deficit	Non-controlling interest	Total equity
Balance at December 30, 2014	50,467	\$ 29,285	\$ -	\$ -	\$ 18,490	\$ 7,204	\$ (308,040)	\$ 15,020	\$ (238,041)
Net earnings and comprehensive income	-	-	-	-	-	-	40,888	479	41,367
Buyout of non-controlling interests (note 5)	-	-	-	-	-	-	-	(15,749)	(15,749)
Consideration paid in excess of non-controlling interest resulting from buyouts (note 5)	-	-	-	-	-	-	(5,958)	-	(5,958)
Share consolidation (note 23)	(32,378)	-	-	-	-	-	-	-	-
Share conversion (note 23)	-	(29,285)	28,320	965	-	-	-	-	-
Issuance of common stock (note 23)	31,060	-	180,478	223,679	(18,490)	-	-	-	385,667
Dividends	-	-	-	-	-	-	(7,556)	-	(7,556)
Shares issued under dividend reinvestment plan (note 23)	6	-	-	190	-	-	-	-	190
Stock-based compensation (note 24)	-	-	-	-	-	5,103	-	-	5,103
	(1,312)	(29,285)	208,798	224,834	(18,490)	5,103	27,374	(15,270)	403,064
Balance at September 27, 2015	49,155	\$ -	\$ 208,798	\$ 224,834	\$ -	\$ 12,307	\$ (280,666)	\$ (250)	\$ 165,023

	Equity Attributable to the Shareholders of the Company								
	Number of shares (in thousands)	Common share capital	Multiple voting shares	Subordinate voting shares	Warrant certificates	Contributed surplus	Deficit	Non-controlling interest	Total equity
Balance at December 31, 2013	50,467	\$ 29,285	-	\$ -	17,913	\$ 852	\$ (300,640)	\$ 245	\$ (252,345)
Net earnings (loss) and comprehensive income	-	-	-	-	-	-	9,921	(66)	9,855
Investment from non-controlling interest	-	-	-	-	-	-	-	50	50
Distribution to non-controlling interest	-	-	-	-	-	-	-	(22)	(22)
Issuance of warrant certificates	-	-	-	-	577	-	-	-	577
	-	-	-	-	577	-	9,921	(38)	10,460
Balance at September 30, 2014	50,467	\$ 29,285	-	\$ -	18,490	\$ 852	\$ (290,719)	\$ 207	\$ (241,885)

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

Cara Operations Limited

Condensed Consolidated Interim Balance Sheets

As at September 27, 2015, December 30, 2014 and September 30, 2014

(in thousands of Canadian dollars)

	As at September 27, 2015 <small>(unaudited)</small>	As at December 30, 2014	As at September 30, 2014 <small>(unaudited)</small>
Assets			
Current Assets			
Cash	\$ 3,184	\$ 3,808	\$ 2,559
Accounts receivable (note 27)	28,454	33,108	23,921
Inventories (note 10)	4,123	4,223	4,861
Current taxes receivable	187	-	-
Prepaid expenses and other assets	2,663	2,556	3,261
Total Current Assets	\$ 38,611	\$ 43,695	\$ 34,602
Long-term receivables (note 13)	37,668	50,173	56,987
Property, plant and equipment (note 14)	85,114	86,597	80,117
Brands and other assets (note 15)	163,217	163,650	156,670
Goodwill (note 16)	47,530	43,051	21,716
Deferred tax asset	-	671	634
Total Assets	\$ 372,140	\$ 387,837	\$ 350,726
Liabilities			
Current Liabilities			
Bank indebtedness	\$ -	\$ -	\$ 7,588
Accounts payable and accrued liabilities	64,523	81,352	71,500
Provisions (note 17)	5,153	6,904	3,940
Gift card liability	20,713	49,461	17,907
Income taxes payable	-	3,991	2,863
Current portion of long-term debt (note 18)	2,206	17,702	16,872
Discontinued operations	154	184	353
Total Current Liabilities	\$ 92,749	\$ 159,594	\$ 121,023
Long-term debt (note 18)	52,622	260,661	262,664
Preferred shares (note 19)	-	135,545	134,554
Long-term provisions (note 17)	7,310	7,630	7,378
Other long-term liabilities (note 21)	53,269	62,448	66,992
Deferred tax liability	1,167	-	-
Total Liabilities	\$ 207,117	\$ 625,878	\$ 592,611
Shareholders' Equity			
Share capital (note 23)	\$ 433,632	\$ 29,285	\$ 29,285
Warrant certificates (note 20)	-	18,490	18,490
Contributed surplus	12,307	7,204	852
Deficit	(280,666)	(308,040)	(290,719)
Total Shareholders' Equity	\$ 165,273	\$ (253,061)	\$ (242,092)
Non-controlling interest	(250)	15,020	207
Total Equity	\$ 165,023	\$ (238,041)	\$ (241,885)
Total Liabilities and Equity	\$ 372,140	\$ 387,837	\$ 350,726

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 Interim Statements of Cash Flows

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014

(unaudited)

(in thousands of Canadian dollars)

	For the 13 weeks ended		For the 39 weeks ended	
	September 27, 2015	September 30, 2014	September 27, 2015	September 30, 2014
Cash from (used in)				
Operating Activities				
Net earnings from continuing operations	\$ 19,198	\$ 2,224	\$ 41,375	\$ 9,894
Restructuring (note 9)	(124)	2,056	107	3,571
Depreciation of property, plant and equipment (note 14)	4,898	4,279	14,319	12,935
Amortization of other assets	1,071	398	3,037	1,460
Lease costs and tenant inducement amortization	199	258	484	499
Net (gain) loss on disposal of property, plant and equipment	(599)	634	(908)	111
Losses on early buyout/cancellation of equipment rental contracts	1,434	1,259	2,603	2,603
Impairment of assets, net of reversals	-	-	-	-
Net interest expense and other financing charges (note 11)	988	8,714	11,288	25,609
Write-off of deferred financing fees	-	-	1,800	-
Loss (gain) on derivative	-	(97)	1,623	493
Stock based compensation (note 24)	1,951	382	5,103	1,112
Income taxes paid	(317)	(401)	(5,565)	(774)
Change in onerous contract provision	(180)	117	(425)	(289)
Other non-cash items	(144)	(1,228)	(2,553)	1,225
Net change in non-cash operating working capital (note 25)	(4,891)	1,005	(33,911)	(14,964)
Cash flows from operating activities of continuing operations	23,484	19,600	38,377	43,485
Cash flows used in operating activities of discontinued operations	(12)	(18)	(38)	(94)
Cash flows from operating activities	23,472	19,582	38,339	43,391
Investing Activities				
Business acquisitions (note 5)	(3,063)	(1,145)	(6,375)	(10,621)
Buyout of non-controlling interests (note 5)	-	-	(11,861)	-
Purchase of property, plant and equipment	(6,432)	(6,586)	(12,888)	(15,785)
Proceeds on disposal of property, plant and equipment (note 14)	60	296	260	348
Proceeds on early buyout of equipment rental contracts	2,003	695	2,455	1,550
Additions to other assets (note 15)	-	(13)	(96)	(87)
Change in long-term receivables	752	974	2,391	3,660
Cash flows used in investing activities	(6,680)	(5,779)	(26,114)	(20,935)
Financing Activities				
Change in bank indebtedness	(2,224)	(1,603)	-	662
Issuance of long-term credit facility (note 18)	-	6,000	361,811	62,000
Repayment of long-term credit facility (note 18)	(7,000)	(15,000)	(558,811)	(76,000)
Issuance of subordinate voting shares, net of transaction costs (note 23)	-	-	216,557	-
Change in finance leases (note 18)	(554)	1,569	(1,473)	1,731
Interest paid	(489)	(3,261)	(10,748)	(9,811)
Dividends paid on common shares (note 28)	-	-	(14,044)	-
Dividends paid on subordinate and multiple voting shares (note 23)	(4,322)	-	(4,322)	-
Other	(1,651)	(15)	(1,819)	(55)
Cash flows used in financing activities	(16,240)	(12,310)	(12,849)	(21,473)
Change in cash during the period	552	1,493	(624)	983
Cash - Beginning of period	2,632	1,066	3,808	1,576
Cash - End of period	\$ 3,184	\$ 2,559	\$ 3,184	\$ 2,559

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 and 39 weeks ended September 27, 2015 and September 30, 2014

(unaudited)

1 Nature and description of the reporting entity

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

On April 10, 2015, the Company completed an initial public offering (the "Offering"). The Company's subordinate voting shares are listed on the Toronto Stock Exchange under the stock symbol "CAO". As part of the Offering, the Company issued multiple voting shares to Fairfax Financial Holdings Limited and its affiliates ("Fairfax") and the Phelan family through Cara Holdings Limited and its affiliates ("Cara Holdings", and together with Fairfax, the "Principal Shareholders"), the Principal Shareholders hold 76.3% of the total issued and outstanding shares and have 98.8% of the voting control attached to all the shares.

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

2 Basis of Presentation

Statement of compliance

The unaudited condensed consolidated interim financial statements ("interim financial statements") have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). The interim financial statements should be read in conjunction with the Company's 2014 audited annual consolidated financial statements and accompanying notes.

The interim financial statements were authorized for issue by the Board of Directors ("Board") on November 11, 2015.

Functional and presentation currency

The 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.

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014

(unaudited)

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

In preparing these interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation 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

Beginning on January 1, 2015, the Company adopted the amendments to IAS 19 Employee Benefits retrospectively. The amendments to IAS 19 required contributions from employees or third parties that are linked to service to be attributed to periods of service as a negative benefit. The amendments to IAS 19 provide simplified accounting in certain situations. If the amount of contribution is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service costs in the period in which service is rendered, instead of allocating the contributions to the period's service. The adoption of the amendments to IAS 19 did not have a material impact on the Company's interim financial statements.

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 interim financial statements.

All other accounting policies applied by the Company in these 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

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014

(unaudited)

28, 2015. Earlier application is permitted. For the Company, the extent of the impact of adoption of the standard has not yet been determined.

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 replaces the detailed guidance on revenue recognition requirements that currently exists under IFRS. IFRS 15 specifies the accounting treatment for all revenue arising from contracts with customers, unless the contracts are within the scope of other IFRSs. The standard also provides a model for the measurement and recognition of gains and losses on the sale of certain non-financial assets that are not an output of the Company's ordinary activities. Additional disclosure is required under the standard, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods, and key judgments and estimates. In July 2015, the effective date for IFRS 15 was deferred to apply to annual periods beginning on or after January 1, 2018; early 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 the initial period of adoption and restatements to the comparative periods are not required. The Company is required to disclose the impact by financial line item as a result of the adoption of the new standard. The Company intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning January 1, 2018. For the Company, 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

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014

(unaudited)

provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model. The mandatory effective date of IFRS 9 (2014) is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. For the Company, 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. For the Company, 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 the 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. For the Company, 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. For the Company, 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

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014

(unaudited)

5 Acquisitions and Buyouts

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

Buyouts of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders; therefore, no goodwill is recognized as a result of such transactions. Any purchase amount in excess of the carrying value of non-controlling interest is recorded directly to deficit.

The Landing Group

On December 18, 2014 (the “Acquisition Date”), the Company completed the acquisition of 55% of the issued and outstanding commons shares of 2446502 Ontario Inc. (“The Landing Group”) for a purchase price of \$18.3 million, which was settled in cash. The transaction was accounted for as a business combination, with the Company controlling The Landing Group and consolidating 100% of their operations and recording the non-controlling interest at fair value as at the Acquisition Date.

On June 26, 2015, the Company bought the remaining 45% interest in The Landing Group for a purchase price of \$21.2 million, which was settled for a combination of \$14.1 million, of which \$11.9 million was paid in cash and \$2.2 million held back in accounts payable, and \$7.1 million in subordinate voting shares. As a result of the buyout, the difference between the purchase price and the non-controlling interest of \$5.8 million was recognized directly to deficit.

The Landing Group comprises of three upscale casual restaurants in Southern Ontario.

Bier Markt and Prime Pub partnerships

The Company held partnership shares in four Bier Markt locations and one Prime Pub location. The Company had a 95% partnership share in three Bier Markt locations and one Prime Pub location and a 93% partnership share in the fourth Bier Markt location. On March 1, 2015, the remaining partnership interest in these locations was bought for a purchase price of \$0.5 million which was settled in cash. As a result of the buyout, the difference of the purchase price and the non-controlling interest of \$0.1 million was recognized directly to deficit.

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014

(unaudited)

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 13 and 39 weeks ended September 27, 2015, there were 5 and 8 re-acquired locations (September 30, 2014 – 3 and 8), respectively. 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)

	For the 13 weeks ended		For the 39 weeks ended	
	September 27, 2015	September 30, 2014	September 27, 2015	September 30, 2014
Consideration				
Cash	\$ 3,063	\$ 1,145	\$ 6,375	\$ 10,621
Accounts receivable	91	-	218	-
Extinguishment of net finance leases	882	30	1,342	571
Total Consideration	\$ 4,036	\$ 1,175	\$ 7,935	\$ 11,192
Net assets acquired				
Property, plant and equipment	\$ 289	\$ 963	\$ 465	\$ 2,088
Inventory	-	(18)	-	18
Brands and other assets	2,198	230	2,991	5,429
Total Assets	2,487	1,175	3,456	7,535
Goodwill	1,549	-	4,479	3,657
Total	\$ 4,036	\$ 1,175	\$ 7,935	\$ 11,192

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)	For the 13 weeks ended		For the 39 weeks ended	
	September 27, 2015	September 30, 2014	September 27, 2015	September 30, 2014
Sales at corporate restuarants	\$ 63,431	\$ 52,280	\$ 177,169	\$ 146,920
Call centre service charge revenues	2,116	2,008	6,948	6,494
	\$ 65,547	\$ 54,288	\$ 184,117	\$ 153,414

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014

(unaudited)

7 Franchise revenues

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

(in thousands of Canadian dollars)	For the 13 weeks ended		For the 39 weeks ended	
	September 27, 2015	September 30, 2014	September 27, 2015	September 30, 2014
Royalty revenue	\$ 16,960	\$ 16,565	\$ 50,525	\$ 48,478
Franchise fees on new and renewal licenses	67	149	446	495
Income on finance leases	540	438	1,681	1,618
Other rental income	105	378	389	989
Conversion fees	462	456	1,359	1,311
	<u>\$ 18,134</u>	<u>\$ 17,986</u>	<u>\$ 54,400</u>	<u>\$ 52,891</u>

8 Selling, general and administrative expenses

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

(in thousands of Canadian dollars)	For the 13 weeks ended		For the 39 weeks ended	
	September 27, 2015	September 30, 2014	September 27, 2015	September 30, 2014
Corporate restaurant expenses	\$ 36,524	\$ 32,832	\$ 104,306	\$ 94,612
Franchise assistance and bad debts	2,344	2,303	6,253	8,472
Franchisor over contribution to advertising funds	1,072	199	3,179	600
Depreciation of property, plant and equipment	4,898	4,279	14,319	12,935
Amortization of other assets	1,071	825	3,037	1,460
Other	(1,716)	1,387	(4,778)	(742)
	<u>\$ 44,193</u>	<u>\$ 41,825</u>	<u>\$ 126,316</u>	<u>\$ 117,337</u>

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014

(unaudited)

9 Restructuring

Home office and brand reorganization

In conjunction with the Landing buyout on June 26, 2015 (see note 5), the Company approved the restructuring of certain home office and brand operations positions to consolidate the Landing Group with Cara's existing infrastructure. The total costs are estimated to be approximately \$0.5 million comprised primarily of severance and other benefits. During the 13 and 39 weeks ended September 27, 2015, \$nil and \$0.5 million, respectively, of restructuring costs resulting from this plan were recognized (13 and 39 weeks ended September 30, 2014 – \$nil). All expected costs have been recognized to date.

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 September 27, 2015, the Company recognized \$nil (September 30, 2014 - \$2.1 million) of restructuring costs resulting from this plan. During the 39 weeks ended September 27, 2015, the Company reversed \$0.3 million (September 30, 2014 - recognized \$3.4 million) 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. All expected costs have been recognized in 2014.

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 September 27, 2015, the Company reversed \$0.1 million (September 30, 2014 – recognized \$nil million). During the 39 weeks ended September 27, 2015, the Company reversed \$0.1 million (September 30, 2014 - \$0.2 million) of these restructuring costs primarily relating to lease obligations. The Company is not expecting any further costs to be incurred.

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014

(unaudited)

The following table provides a summary of the costs recognized and cash payments made, as well as the corresponding net liability as at September 27, 2015:

	For the 13 weeks ended		For the 39 weeks ended	
	September 27, 2015	September 30, 2014	September 27, 2015	September 30, 2014
Net liability, beginning of period	\$ 6,828	\$ 9,593	\$ 10,338	\$ 13,655
Cost recognized				
Employee termination benefits	\$ (3)	\$ 2,061	\$ 233	\$ 3,410
Site closing costs and other	\$ (121)	\$ (5)	\$ (126)	\$ 161
Total	(124)	2,056	107	3,571
Cash payments				
Employee termination benefits	\$ 1,419	\$ 1,924	\$ 4,987	\$ 6,388
Site closing costs and other	\$ 67	\$ 168	\$ 240	\$ 1,281
Total	1,486	2,092	5,227	7,669
Net liability, end of period				
September 27, 2015	\$ <u>5,218</u>	\$ <u>9,557</u>	\$ <u>5,218</u>	\$ <u>9,557</u>

Recorded in the consolidated balance sheets as follows:

	Employee Termination Benefits	Site Closing Costs and Other	Total
Accounts payable and accrued liabilities	\$ 4,833	\$ -	\$ 4,833
Other long-term liabilities (note 21)	174	-	174
Provisions - current	-	145	145
Provisions - long-term	-	66	66
Net liability, end of period as at September 27, 2015	\$ <u>5,007</u>	\$ <u>211</u>	\$ <u>5,218</u>
December 30, 2014	\$ 9,761	\$ 577	\$ 10,338
September 30, 2014	\$ 8,793	\$ 764	\$ 9,557

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 27, 2015 and September 30, 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>September 27, 2015</u>	<u>December 30, 2014</u>	<u>September 30, 2014</u>
Food and beverage supplies	\$ 3,274	\$ 3,098	\$ 2,483
Restaurant development in progress	849	1,125	2,378
	<u>\$ 4,123</u>	<u>\$ 4,223</u>	<u>\$ 4,861</u>

11 Net interest expense and other financing charges

(in thousands of Canadian dollars)	<u>For the 13 weeks ended</u>		<u>For the 39 weeks ended</u>	
	<u>September 27, 2015</u>	<u>September 30, 2014</u>	<u>September 27, 2015</u>	<u>September 30, 2014</u>
Interest expense on long-term debt	\$ 297	\$ 4,069	\$ 4,411	\$ 11,321
Interest expense on preferred shares (note 19)	-	2,792	3,130	8,155
Interest on finance leases	422	449	1,354	1,211
Other	231	45	788	514
Financing costs	63	321	457	959
Accretion expense	-	913	1,034	3,231
Interest expense related to derivative	-	153	192	308
Interest income	(25)	(28)	(78)	(90)
Net interest expense and other financing charges	<u>\$ 988</u>	<u>\$ 8,714</u>	<u>\$ 11,288</u>	<u>\$ 25,609</u>

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014

(unaudited)

12 Income taxes

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

(in thousands of Canadian dollars)	For the 13 weeks ended		For the 39 weeks ended	
	September 27, 2015	September 30, 2014	September 27, 2015	September 30, 2014
Tax from total operations	\$ 5,846	\$ 1,097	\$ 13,033	\$ 3,864
Unrecognized income tax benefit	(5,352)	(294)	(11,140)	(2,337)
	494	803	1,893	1,527
Part VI.1 taxes on preferred share dividends	-	1,129	1,252	3,273
Total income tax expense	\$ 494	\$ 1,932	\$ 3,145	\$ 4,800

13 Long-term receivables

(in thousands of Canadian dollars)	September 27, 2015	December 30, 2014	September 30, 2014
Franchise receivable	\$ 36,248	\$ 48,835	\$ 55,484
Promissory notes	1,403	1,299	1,454
Franchise licence notes	17	39	49
	\$ 37,668	\$ 50,173	\$ 56,987

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 \$32.5 million (December 30, 2014 - \$45.5 million; September 30, 2014 - \$52.2 million) relate primarily to the long-term obligation of the franchisees to pay the Company over the term of the rental agreement which is equal to the term of the license agreement or the term to the expected buyout date assuming that the franchisee is more likely than not to acquire the rented assets from the Company.

Long-term franchise receivables are reviewed for impairment when a triggering event has occurred. An impairment loss is recorded when the carrying amount of the long-term franchise receivable exceeds its estimated net realizable value. For the 13 and 39 weeks ended September 27, 2015, the Company recorded \$nil (13 and 39 weeks ended September 30, 2014 - \$nil) of impairment losses on long-term franchise receivables.

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014

(unaudited)

Long-term receivable maturities

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

14 Property, plant and equipment

(in thousands of Canadian dollars)	<u>Land</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Leasehold improvements</u>	<u>Assets under finance lease</u>	<u>Construction- in-progress</u>	<u>Total</u>
Cost							
Balance, beginning of period							
December 30, 2014	\$ 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 5)	-	-	162	-	-	-	162
Disposals	-	-	(1,171)	(1,686)	-	-	(2,857)
Transfer to/(from)							
construction-in-progress	-	-	390	142	-	(532)	-
Balance end of period,							
March 29, 2015	\$ 2,291	\$ 3,070	\$ 138,354	\$ 96,100	\$ 29,985	\$ 403	\$ 270,203
Additions		4	971	332	-	2,981	4,288
Additions from business							
acquisitions (note 5)	-	-	14	-	-	-	14
Disposals	-	(8)	(1,598)	(2,272)	-	-	(3,878)
Transfer to/(from)							
construction-in-progress	-	-	2,145	16	-	(2,161)	-
Balance end of period,							
June 28, 2015	\$ 2,291	\$ 3,066	\$ 139,886	\$ 94,176	\$ 29,985	\$ 1,223	\$ 270,627
Additions	-	5	537	389	-	5,501	6,432
Additions from business							
acquisitions (note 5)	-	-	289	-	-	-	289
Disposals	-	(4)	(1,129)	(1,059)	-	-	(2,192)
Transfer to/(from)							
construction-in-progress	-	-	1,880	511	-	(2,391)	-
Balance end of period,							
September 27, 2015	\$ 2,291	\$ 3,067	\$ 141,463	\$ 94,017	\$ 29,985	\$ 4,333	\$ 275,156

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014

(unaudited)

(in thousands of Canadian dollars)	Land	Buildings	Equipment	Leasehold improvements	Assets under finance lease	Construction-in-progress	Total
Accumulated depreciation and impairment losses							
Balance, beginning of period							
December 30, 2014	\$ -	\$ 2,355	\$ 105,193	\$ 64,608	\$ 11,593	\$ -	\$ 183,749
Depreciation expense	-	27	2,963	1,174	525	-	4,689
Disposals	-	-	(1,096)	(1,748)	-	-	(2,844)
Balance end of period,							
March 29, 2015	-	2,382	107,060	64,034	12,118	-	185,594
Depreciation expense	-	25	3,026	1,149	532	-	4,732
Disposals	-	(8)	(1,514)	(1,551)	-	-	(3,073)
Balance end of period,							
June 28, 2015	\$ -	\$ 2,399	\$ 108,572	\$ 63,632	\$ 12,650	\$ -	\$ 187,253
Depreciation expense	-	27	3,091	1,248	532	-	4,898
Disposals	-	-	(1,129)	(980)	-	-	(2,109)
Balance end of period,							
September 27, 2015	\$ -	\$ 2,426	\$ 110,534	\$ 63,900	\$ 13,182	\$ -	\$ 190,042

(in thousands of Canadian dollars)	Land	Buildings	Equipment	Leasehold improvements	Assets under finance lease	Construction-in-progress	Total
Carrying amount as at:							
September 27, 2015	\$ 2,291	\$ 641	\$ 30,929	\$ 30,117	\$ 16,803	\$ 4,333	\$ 85,114
December 30, 2014	\$ 2,291	\$ 703	\$ 32,604	\$ 32,808	\$ 18,008	\$ 183	\$ 86,597
September 30, 2014	\$ 2,291	\$ 728	\$ 30,130	\$ 29,382	\$ 16,009	\$ 1,577	\$ 80,117

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. Unamortized franchise rights are expensed when locations are re-franchised.

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014

(unaudited)

(in thousands of Canadian dollars)	<u>Brands</u>	<u>Other assets</u>	<u>Total</u>
Cost			
Balance, beginning of period December 30, 2014	\$ 140,894	\$ 28,099	\$ 168,993
Additions	-	17	17
Additions from business acquisitions (note 5)	-	714	714
Disposal	-	(383)	(383)
Balance end of period, March 29, 2015	\$ 140,894	\$ 28,447	\$ 169,341
Additions	-	55	55
Additions from business acquisitions (note 5)	-	79	79
Transfer from Brands to Other assets	(171)	171	-
Balance, end of period June 28, 2015	\$ 140,723	\$ 28,752	\$ 169,475
Additions from business acquisitions (note 5)	-	2,198	2,198
Disposal	-	(1,436)	(1,436)
Balance, end of period September 27, 2015	\$ 140,723	\$ 29,514	\$ 170,237
Accumulated amortization			
Balance, beginning of period December 30, 2014	\$ -	\$ 5,343	\$ 5,343
Amortization	-	1,152	1,152
Disposal	-	(383)	(383)
Balance end of period, March 29, 2015	\$ -	\$ 6,112	\$ 6,112
Amortization	-	1,099	1,099
Balance end of period, June 28, 2015	\$ -	\$ 7,211	\$ 7,211
Amortization	-	1,245	1,245
Disposal	-	(1,436)	(1,436)
Balance end of period, September 27, 2015	\$ -	\$ 7,020	\$ 7,020
Carrying amount as at:			
September 27, 2015	\$ 140,723	\$ 22,494	\$ 163,217
December 30, 2014	\$ 140,894	\$ 22,756	\$ 163,650
September 30, 2014	\$ 142,501	\$ 14,169	\$ 156,670

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014

(unaudited)

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>September 27, 2015</u>	<u>December 30, 2014</u>	<u>September 30, 2014</u>
Cost			
Balance, beginning of period	\$ 43,051	\$ 18,059	\$ 18,059
Additions ¹ (note 5)	<u>4,479</u>	<u>24,992</u>	<u>3,657</u>
Balance, end of period	<u>\$ 47,530</u>	<u>\$ 43,051</u>	<u>\$ 21,716</u>

¹ 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 and 39 weeks ended September 27, 2015 and September 30, 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)	Asset retirement obligations	Lease obligations for closed restaurants	Other	Total
Balance, beginning of period				
December 30, 2014	\$ 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)
Balance end of period,				
March 29, 2015	5,125	2,710	5,208	13,043
Additions	-	-	231	231
Accretion	81	-	-	81
Payments	-	(305)	(217)	(522)
Adjustments	-	3	(300)	(297)
Balance, end of period as at				
June 28, 2015	\$ 5,206	\$ 2,408	\$ 4,922	\$ 12,536
Additions	180	-	162	342
Accretion	83	-	-	83
Payments	(3)	(452)	(262)	(717)
Adjustments	-	409	(190)	219
Balance, end of period as at				
September 27, 2015	\$ 5,466	\$ 2,365	\$ 4,632	\$ 12,463
December 30, 2014	\$ 5,200	\$ 2,498	\$ 6,836	\$ 14,534
September 30, 2014	\$ 4,935	\$ 2,417	\$ 3,966	\$ 11,318

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014

(unaudited)

(in thousands of Canadian dollars)	<u>September 27, 2015</u>	<u>December 30, 2014</u>	<u>September 30, 2014</u>
Recorded in the consolidated balance sheets as follows:			
Provisions - current	\$ 5,153	\$ 6,904	\$ 3,940
Provisions - long-term	7,310	7,630	7,378
	<u>\$ 12,463</u>	<u>\$ 14,534</u>	<u>\$ 11,318</u>

18 Long-term debt

(in thousands of Canadian dollars)	<u>September 27, 2015</u>	<u>December 30, 2014</u>	<u>September 30, 2014</u>
Revolving term credit facility	\$ 34,000	\$ 231,000	\$ 236,000
Subordinated unsecured debentures	-	25,582	25,546
Finance leases	21,340	22,430	20,509
Other	-	1,819	6
	<u>55,340</u>	<u>280,831</u>	<u>282,061</u>
Less: Financing costs	<u>512</u>	<u>2,468</u>	<u>2,525</u>
	<u>\$ 54,828</u>	<u>\$ 278,363</u>	<u>\$ 279,536</u>

Recorded in the consolidated balance sheets as follows:

Current portion of long-term debt	\$ 2,206	\$ 17,702	\$ 16,872
Long-term portion of long-term debt	<u>52,622</u>	<u>260,661</u>	<u>262,664</u>
	<u>\$ 54,828</u>	<u>\$ 278,363</u>	<u>\$ 279,536</u>

Term credit facilities

On April 10, 2015, the Company repaid \$217.8 million with proceeds from the Offering and amended and extended the terms of its existing 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 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 Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") ratio, as defined in the agreement, measured using EBITDA for the four most recently completed fiscal quarters.

In conjunction with the amended and extended term credit facility, the Company settled its \$150.0 million interest rate derivative on the previous credit facility and recognized a loss of \$1.6 million related to the fair value adjustment on the derivative. The Company also wrote off unamortized deferred financing fees of \$1.8 million related to the previous credit facility.

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014(unaudited)

As at September 27, 2015, \$34.0 million was drawn under the amended and extended term credit facility with an effective interest rate of 4.5% for the first three quarters of the year, and includes the amortization of deferred financing fees. The Company's current effective interest rate as at September 27, 2015 is approximately 2.6% representing bankers acceptance rate of 1.0% plus 1.25% and the amortization of deferred financing fees of 0.35%.

As at December 30, 2014, \$231.0 million (September 30, 2014 – \$236.0 million) was drawn under the previous term credit facility with an effective interest rate of 4.5% (September 30, 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 0.25% to 0.45% 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 total funded net debt to EBITDA ratio. As of September 27, 2015, the fee was 0.25%.

Subordinated unsecured debentures

On April 10, 2015, the subordinated debentures were surrendered and converted into common shares in conjunction with a cashless warrant exercise. These common shares were then converted into multiple voting shares. See note 23 for further detail.

Finance leases

Included in finance leases are obligations that bear interest at an average rate of 7.3% (December 30, 2014 – 7.4%; September 30, 2014 – 7.6%).

Other

On December 18, 2014, the Company assumed \$1.8 million in debt obligations related to the acquisition of The Landing Group bearing interest at an average rate of 6.2%. The debt was repaid in full in August 2015 from the Company's revolving credit facility.

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014

(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 interim balance sheets and are measured using the effective interest method.

(in thousands of Canadian dollars except for the number of shares)	Class A preferred shares (number of shares)	Carrying Amount	Class B preferred shares (number of shares)	Carrying Amount	Total carrying amount of preferred shares outstanding
Issue date	October 31, 2013		October 31, 2013		
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	929,665	2,371	822,954	2,427	4,798
Outstanding preferred shares, December 30, 2014	32,175,490	\$ 85,852	17,418,503	\$ 51,585	\$ 137,437 ⁽¹⁾
Accretion	-	801	-	66	867
Outstanding preferred shares, March 29, 2015	32,175,490	\$ 86,653	17,418,503	\$ 51,651	\$ 138,304
Accretion		107		9	116
Preferred shares converted into multiple voting shares on April 10, 2015	(32,175,490)	(86,760)	(17,418,503)	(51,660)	(138,420)
Balance as of September 27, 2015	-	\$ -	-	\$ -	-

⁽¹⁾ Recorded on the consolidated balance sheets net of \$1.9 million of financing costs

On April 10, 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 into multiple voting shares. See note 23 for further detail.

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014

(unaudited)

20 Warrant certificates

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

	Class A preferred share warrants (number of units)	Class B preferred share warrants (number of units)	Subordinated unsecured debenture warrants (number of units)	Total number of units outstanding	Total Carrying Amount of warrants outstanding
Issue date	October 31, 2013	October 31, 2013	October 31, 2013		
Outstanding warrants, December 31, 2013	31,245,825	16,595,549	8,196,721	56,038,095	\$ 17,913
Payment in kind dividend Issued - June 15, 2014	<u>929,665</u>	<u>822,954</u>	<u>367,875</u>	<u>2,120,494</u>	<u>577</u>
Outstanding warrants, December 30, 2014 and March 29, 2015	32,175,490	17,418,503	8,564,596	58,158,589	\$ 18,490
Warrants converted into multiple voting shares on April 10, 2015	<u>(32,175,490)</u>	<u>(17,418,503)</u>	<u>(8,564,596)</u>	<u>(58,158,589)</u>	<u>(18,490)</u>
Balance as of September 27, 2015	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ -</u>

On April 10, 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 into multiple voting shares. See note 23 for further detail.

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014

(unaudited)

21 Other liabilities

(in thousands of Canadian dollars)	September 27, 2015	December 30, 2014	September 30, 2014
Accrued pension and other benefit plans	\$ 22,147	\$ 22,735	\$ 21,286
Deferred rental income	15,504	21,666	25,000
Deferred income	13,457	16,490	17,653
Accrued rent expense	3,801	3,508	3,475
Restructuring (note 9)	174	1,220	2,258
Long-term incentive plans	99	-	1,155
Other liabilities	1,798	2,491	2,903
	<u>\$ 56,980</u>	<u>\$ 68,110</u>	<u>\$ 73,730</u>

(in thousands of Canadian dollars)	September 27, 2015	December 30, 2014	September 30, 2014
Recorded in the consolidated balance sheets as follows:			
Accounts payable and accrued liabilities	\$ 3,711	\$ 5,662	\$ 5,738
Other long-term liabilities	53,269	62,448	66,992
	<u>\$ 56,980</u>	<u>\$ 68,110</u>	<u>\$ 72,730</u>

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 and 39 weeks ended September 27, 2015, the Company recorded expenses of \$0.1 million and \$0.6 million, respectively, (for the 13 and 39 weeks ended September 30, 2014 - \$0.4 million and \$1.1 million, respectively) related to pension benefits. The Company has made all required payments as at September 27, 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 \$15.5 million (December 30, 2014 - \$21.7 million; September 30, 2014 - \$25.0 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.

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014

(unaudited)

Deferred income

Unearned franchise and conversion fee income

At September 27, 2015, the Company had deferred \$7.8 million (December 30, 2014 - \$8.7 million; September 30, 2014 - \$9.2 million) of initial franchise fees and conversion fees received from franchisees that will be recognized over the remaining term of the respective franchise agreements.

Sale-leaseback transactions

At September 27, 2015, the Company had deferred \$5.4 million (December 30, 2014 - \$6.6 million; September 30, 2014 - \$6.9 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 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, to the 2.79 to 1 share consolidation for shares outstanding as at April 10, 2015, that occurred as part of the Offering on April 10, 2015.

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 April 10, 2015, that occurred as part of the Offering on April 10, 2015.

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

	<u>For the 13 weeks ended September 27, 2015</u>			<u>For the 13 weeks ended September 30, 2014</u>		
	<u>Attributable to Shareholders</u>			<u>Attributable to 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>
Basic						
Continuing Operations	\$ 19,069	49,150	\$ 0.388	\$ 2,089	18,089	\$ 0.115
Discontinued Operations	(2)	49,150	(0.000)	(8)	18,089	(0.000)
	<u>\$ 19,067</u>	<u>49,150</u>	<u>\$ 0.388</u>	<u>\$ 2,081</u>	<u>18,089</u>	<u>\$ 0.115</u>
Diluted						
Continuing Operations	\$ 19,069	52,900	\$ 0.360	\$ 2,089	27,287	\$ 0.077
Discontinued Operations	(2)	52,900	(0.000)	(8)	27,287	(0.000)
	<u>\$ 19,067</u>	<u>52,900</u>	<u>\$ 0.360</u>	<u>\$ 2,081</u>	<u>27,287</u>	<u>\$ 0.077</u>

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014

(unaudited)

	For the 39 weeks ended September 27, 2015			For the 39 weeks ended September 30, 2014		
	Attributable to Shareholders			Attributable to Shareholders		
	Net earnings (loss)	Weighted average number of shares ('000)	EPS	Net earnings (loss)	Weighted average number of shares ('000)	EPS
Basic						
Continuing Operations	\$ 40,896	37,485	\$ 1.091	9,960	18,089	\$ 0.551
Discontinued Operations	(8)	37,485	(0.000)	(39)	18,089	(0.002)
	\$ 40,888	37,485	\$ 1.091	9,921	18,089	\$ 0.549
Diluted						
Continuing Operations	\$ 40,896	46,088	\$ 0.887	9,960	21,815	\$ 0.457
Discontinued Operations	(8)	46,088	(0.000)	(39)	21,815	(0.002)
	\$ 40,888	46,088	\$ 0.887	9,921	21,815	\$ 0.455

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 April 10, 2015, is summarized below:

	For the 13 weeks ended		For the 39 weeks ended	
	September 27, 2015	September 30, 2014	September 27, 2015	September 30, 2014
Share capital (note 23)	49,149,522	18,088,785	37,485,068	18,088,785
Effect of warrants issued	-	7,019,177	5,470,989	2,339,726
Effect of stock options issued	3,750,846	2,178,950	3,132,329	1,386,079
	52,900,368	27,286,912	46,088,385	21,814,590

23 Share capital

Prior to the Offering, the Company's authorized share capital consisted of an unlimited number of common shares and an unlimited number of non-voting common shares. There were 50,467,709 voting common shares (December 30, 2014 – 50,467,709) issued and outstanding.

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 voting common shares in conjunction with a cashless warrant exercise. All outstanding voting common shares held immediately prior to closing of the Offering under either Fairfax's beneficial ownership or Cara Holding's ownership were converted at a ratio of 2.79 to 1 into Multiple Voting Shares. All other outstanding common shares held by all other shareholders were converted into Subordinate Voting Shares ("Subordinate Voting Shares") entitled to one vote per share on all matters and consolidated at a ratio of 2.79 to 1.

Upon the completion of the Offering, the Company's authorized share capital consists of an unlimited number of two classes of issued and outstanding shares: Subordinate Voting Shares and Multiple Voting Shares ("Multiple Voting Shares"), and together with the Subordinate Voting Shares the "Shares"). The Multiple Voting Shares are held by the Principal Shareholders, either directly or indirectly. Multiple Voting Shares may only be issued to the Principal Shareholders. The Subordinate Voting Shares and the Multiple Voting Shares

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014

(unaudited)

are substantially identical with the exception of the voting, pre-emptive and conversion rights attached to the Multiple Voting Shares. Each Subordinate Voting Share is entitled to one vote and each Multiple Voting Share is entitled to 25 votes on all matters. The Multiple Voting Shares are convertible into Subordinate Voting Shares on a one-for-one basis at any time at the option of the holders thereof and automatically in certain other circumstances. The holders of Subordinate Voting Shares benefit from “coattail” provisions that give them certain rights in the event of a take-over bid for the Multiple Voting Shares.

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

On April 10, 2015 the Company converted certain common voting shares previously held by shareholders into 1,537,871 Subordinate Voting Shares and issued 10,005,000 Subordinate Voting Shares for a total of 11,542,871. As part of the Offering, the Principal Shareholders received 37,396,284 Multiple Voting Shares. See note 28 for further detail.

On June 26, 2015 the Company issued an additional 209,526 Subordinate Voting Shares as part of the Landing buyout. See note 5 for further detail.

On August 11, 2015, the Company’s Board of Directors declared the 2015 second quarter dividend of \$0.0917 on its outstanding Subordinate Voting Shares and Multiple Voting Shares payable on September 15, 2015 to shareholders of record as of August 31, 2015.

For the 13 and 39 weeks ended September 27, 2015, the Company paid dividends on Subordinate Voting Shares and Multiple Voting Shares totaling \$4.5 million, of which \$4.3 million was cash settled and \$0.2 million was settled through the issue of 5,880 Subordinate Voting Shares through the Company’s Dividend Reinvestment Plan (“DRIP”) which enables shareholders to acquire additional Subordinate Voting Shares from Cara by reinvesting all of their cash dividends. During the 13 and 39 weeks ended September 27, 2015, the Company declared \$nil and \$3.0 million, respectively, in dividends on common shares to Cara Holdings. During the same periods, the Company paid \$nil and \$14.0 million, respectively, in dividends to Cara Holdings, of which \$11.0 million were declared in previous periods. No dividends on common shares were declared or paid in the 13 and 39 weeks ended September 30, 2014.

As at September 27, 2015, there were 37,396,284 Multiple Voting Shares and 11,758,276 Subordinate Voting Shares issued and outstanding. There were no preference shares issued and outstanding as at September 27, 2015.

24 Long-term incentive plans

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

Stock options outstanding as at September 27, 2015 have a term of up to eight years from the initial grant date. Each stock option is exercisable into one Subordinate Voting Share at the price specified in the terms of the

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014

(unaudited)

option agreement. There were no accelerated vesting features upon an initial public offering under any of the plans described below.

On April 10, 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 Subordinate Voting Shares of the Company.

The following table summarizes the options granted post share consolidation:

	For the 13 and 39 weeks ended September 27, 2015							
	Director stock option plan		CEO stock option plan		Employee stock option plan		Total	
	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share
Outstanding options, December 30, 2014	86,021	0.01	3,494,624	5.89	1,166,379	8.51	4,747,024	\$ 6.43
Granted	-	-	-	-	40,000	34.10	40,000	\$ 34.10
Forfeited	-	-	-	-	(122,882)	8.51	(122,882)	\$ 8.51
Outstanding options, end of period	86,021	0.01	3,494,624	5.89	1,083,497	9.45	4,664,142	\$ 6.61
Options exercisable, end of period	21,505	0.01	-	-	-	-	21,505	\$ 0.01

	For the 13 and 39 weeks ended September 30, 2014 ⁽¹⁾							
	Director stock option plan		CEO stock option plan		Employee stock option plan		Total	
	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share	Options (number of shares)	Weighted average exercise price/share
Outstanding options, December 31, 2013	64,516	0.01	3,494,624	5.89	241,935	8.51	3,801,075	\$ 5.95
Granted	-	-	-	-	432,157	8.51	432,157	\$ 8.51
Outstanding options, end of period	64,516	0.01	3,494,624	5.89	674,092	8.51	4,233,232	\$ 6.21
Options exercisable, end of period	-	-	-	-	-	-	-	-

⁽¹⁾ This table reflects the options and exercise price after the 2.79 to 1 share consolidation which took effect on April 10, 2015 prior to the Offering.

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014

(unaudited)

Director stock option plan

The Director Stock Option Plan (“Director Plan”) is for non-employee board members. Options granted under this plan entitle Directors to purchase 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. The settlement of the option can only be into the common share equity of the Company.

On April 10, 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 Subordinate Voting Shares of the Company. Under this plan, the Directors now have 86,021 options at an exercise price of \$0.01.

During the 13 and 39 weeks ended September 27, 2015 and September 30, 2014, no stock options were granted under the Director Plan.

For the 13 and 39 weeks ended September 27, 2015, the Company recognized stock-based compensation costs of \$0.1 and \$0.2 million, respectively, (for the 13 and 39 weeks ended September 30, 2014 - \$nil and \$0.1 million, respectively) related to the Director Plan Options with a corresponding increase to contributed surplus.

Certain non-employee board members receive Deferred Share Units (“DSU”) as compensation for their participation on the board. These DSUs are settled for cash when members cease to participate on the board of directors. For the 13 and 39 weeks ended September 27, 2015, the Company recognized an expense of \$0.1 million (for the 13 and 39 weeks ended September 30, 2014 - \$nil) and a liability recorded as part of Other Long-Term Liabilities in the amount of \$0.1 million as at September 27, 2015.

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). Vested options will not be exercisable until the earlier of an initial public offering of the Company and the fifth anniversary of the grant date. The options expire after eight years.

On April 10, 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 Subordinate Voting Shares of the Company. Under this plan, the CEO now has 1,075,269 options at an exercise price of \$0.01 and 2,419,355 options at an exercise price of \$8.51 for a total of 3,494,624 options at a weighted average exercise price of \$5.89.

During the 13 and 39 weeks ended September 27, 2015 and September 30, 2014, no stock options were granted under the CEO Plan.

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014(unaudited)

For the 13 and 39 weeks ended September 27, 2015, the Company recognized stock-based compensation costs of \$2.2 million and \$3.5 million, respectively (13 and 39 weeks ended September 30, 2014 - \$0.3 million and \$0.9 million, respectively) 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 (October 31, 2016). Vested options can be exercised upon the earlier of an initial public offering of the Company and the fifth anniversary of the grant date.

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.

On April 10, 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 Subordinate Voting Shares of the Company. Under this plan, the CFO now has 268,377 options at an exercise price of \$8.51 and the Company’s management team now has 815,115 at an exercise price of \$8.51.

During the 13 ended September 27, 2015, the Company did not grant any stock options (13 weeks ended September 30, 2014 – 215,054 stock options granted with a weighted average exercise price of \$8.51). During the 39 weeks ended September 27, 2015, 40,000 stock options with a weighted average exercise price of \$34.10 (39 weeks ending September 30, 2014 – 432,157 stock options granted with a weighted average exercise price of \$8.51) per Subordinate Voting Share under its existing stock option plans, which only allows for settlement in shares.

During the 13 and 39 weeks ended September 27, 2015, 26,874 stock options and 122,882 stock options with an exercise price of \$8.51 were forfeited (September 30, 2014 – nil).

For the 13 and 39 weeks ended September 27, 2015, the Company reversed stock-based compensation costs of \$0.3 million and recognized costs of \$1.4 million, respectively (13 and 39 weeks ended September 30, 2014 - \$nil) related to the Employee Plan with a corresponding increase to contributed surplus.

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014

(unaudited)

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)	For the 13 weeks ended		For the 39 weeks ended	
	September 27, 2015	September 30, 2014	September 27, 2015	September 30, 2014
Accounts receivable	\$ (3,943)	\$ 2,642	\$ 3,709	\$ 18,491
Inventories	755	(1,644)	100	(2,139)
Income taxes (recoverable) payable	(781)	1,129	(4,178)	2,499
Prepaid expenses and other assets	(887)	(857)	(107)	(1,266)
Accounts payable and accrued liabilities	3,494	8,576	(7,682)	6,840
Provisions	49	407	(1,751)	246
Gift card liability	(3,822)	(3,372)	(28,748)	(25,162)
Restructuring (note 9)	124	(2,056)	(107)	(3,571)
Income taxes paid	557	401	5,565	774
Change in interest payable	(437)	(4,221)	(712)	(11,676)
Net change in non-cash operating working capital	\$ (4,891)	\$ 1,005	\$ (33,911)	\$ (14,964)

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 interim financial statements.

The Company has outstanding letters of credit amounting to \$0.9 million (December 30, 2014 - \$0.9 million and September 30, 2014 - \$1.6 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, and as a result, no financial liability has been recorded.

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

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014

(unaudited)

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 years (December 30, 2014 – 7.5 years).

27 Financial instruments and risk management

Market risk

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

Interest rate risk

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

Commodity price risk

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

Liquidity and capital availability risk

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

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

Credit risk

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

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

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014

(unaudited)

The following is an aging of the Company's accounts receivable, net of the allowance, as at September 27, 2015, December 30, 2014 and September 30, 2014:

(in thousands of Canadian dollars)

	September 27, 2015			
	Current	> 30 days past due	> 60 days past due	Total
Accounts receivable	\$ 25,151	\$ 2,970	\$ 7,069	\$ 35,190
Less: allowance for doubtful accounts	-	-	6,736	6,736
Accounts receivable, net	\$ 25,151	\$ 2,970	\$ 333	\$ 28,454
Balances at December 30, 2014	\$ 31,045	\$ 1,926	\$ 137	\$ 33,108
Balances at September 30, 2014	\$ 21,170	\$ 830	\$ 1,921	\$ 23,921

There are no significant impaired receivables that have not been provided for in the allowance. As of September 27, 2015, the Company believes that the \$6.7 million (December 30, 2014 - \$6.8 million; September 30, 2014 - \$8.1 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 collected.

Fair value of financial instruments

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

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

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

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014

(unaudited)

The following describes the fair value determinations of financial instruments:

Long-term debt

Fair value (Level 2) is based on the Company's current incremental borrowing rate for similar types of borrowing arrangements. The carrying amount of the debt associated with the Company's current financing would approximate its fair value as at September 27, 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. As at September 27, 2015, there were no derivatives.

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

Prior to the Offering, Cara Holdings held 96.7% of the voting common shares. As part of the Offering, these voting common shares were converted to Multiple Voting Shares. Subsequent to the Offering, Cara Holdings holds 35.6% of the total issued and outstanding shares, representing 46.2% voting control.

On April 10, 2015, as part of the Offering, subsidiaries of Fairfax converted non-voting preferred shares in conjunction with a cashless warrant exercise into Multiple Voting Shares of the Company. As a result of the conversion and subsequent purchases of Subordinate Voting Shares, Fairfax holds 40.7% of the total issued and outstanding shares, representing 52.6% voting control.

Fairfax and Cara Holdings together hold 76.3% of the total issued and outstanding shares and have 98.8% of the voting control attached to all the shares.

Prior to the Offering, and during the 13 and 39 weeks ended September 27, 2015, the Company declared \$nil and \$3.0 million in dividends on common shares to Cara Holdings, respectively. During the same periods, the Company paid \$nil million and \$14.0 million, respectively, in dividends to Cara Holdings which were declared in previous periods. No dividends on common shares were declared or paid in the 13 and 39 weeks ended September 30, 2014.

Prior to the Offering, subsidiaries of Fairfax owned subordinated debentures and warrants bearing interest at 9.0% per annum. During the 13 weeks ended September 27, 2015, the Company incurred interest of \$nil

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014(unaudited)

(September 30, 2014 - \$0.6 million) and \$0.6 million for 39 weeks ended September 27, 2015 (September 30, 2014 - \$1.7 million) which has been included in interest expense. Additionally, subsidiaries of Fairfax owned Class A and Class B preferred shares. For the 13 and 39 weeks ended September 27, 2015, the Company approved a payment of interest on the preferred shares in the amount of \$nil and \$2.9 million, respectively, (for the 13 and 39 weeks ended September 30, 2014 - \$2.9 million and \$8.1 million, respectively), which has been included in interest expense.

During the 13 weeks ended September 27, 2015, the Company declared a dividend of \$0.0917 per share of Subordinate and Multiple Voting Shares of which Fairfax and Cara Holdings received \$1.8 million and \$1.6 million, respectively.

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 and 39 weeks ended September 27, 2015 and September 30, 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. The transaction is on market terms and conditions.

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014

(unaudited)

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-personnel overhead expenses, finance and IT support, occupancy costs, and general and administrative support services offset by vendor purchase allowances. The Company has determined that the allocation of corporate (non-restaurant) revenues and expenses which include finance and IT support, occupancy costs, and general and administrative support services 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.

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014

(unaudited)

For the 13 weeks ended September 27, 2015

	<u>Corporate</u>	<u>Franchise</u>	<u>Central</u>	<u>Total</u>
Sales	\$ 63,431	\$ -	\$ 2,116	\$ 65,547
Franchise revenues	-	16,960	712	17,672
Cost of inventories sold and cost of labour	(40,096)	-	-	(40,096)
Other revenues (costs)	(15,462)	(2,344)	3,551	(14,255)
	<u>\$ 7,873</u>	<u>\$ 14,616</u>	<u>\$ 6,379</u>	<u>\$ 28,868</u>
Conversion revenues	-	-	462	462
Development revenues	-	-	2,044	2,044
Development expenses	-	-	(2,042)	(2,042)
Restructuring	-	-	124	124
Non-allocated selling, general and administrative expenses	-	-	(8,776)	(8,776)
Operating income	<u>\$ 7,873</u>	<u>\$ 14,616</u>	<u>\$ (1,809)</u>	<u>\$ 20,680</u>

For the 13 weeks ended September 30, 2014

	<u>Corporate</u>	<u>Franchise</u>	<u>Central</u>	<u>Total</u>
Sales	\$ 52,280	\$ -	\$ 2,008	\$ 54,288
Franchise revenues	-	16,565	966	17,531
Cost of inventories sold and cost of labour	(34,821)	-	-	(34,821)
Other revenues (costs)	(13,636)	(2,303)	625	(15,314)
	<u>\$ 3,823</u>	<u>\$ 14,262</u>	<u>\$ 3,599</u>	<u>\$ 21,684</u>
Conversion revenues	-	-	456	456
Development revenues	-	-	29	29
Development expenses	-	-	(24)	(24)
Restructuring	-	-	(2,056)	(2,056)
Non-allocated selling, general and administrative expenses	-	-	(7,316)	(7,316)
Operating income	<u>\$ 3,823</u>	<u>\$ 14,262</u>	<u>\$ (5,312)</u>	<u>\$ 12,773</u>

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014

(unaudited)

For the 39 weeks ended September 27, 2015	Corporate	Franchise	Central	Total
Sales	\$ 177,169	\$ -	\$ 6,948	\$ 184,117
Franchise revenues	-	50,525	2,516	53,041
Cost of inventories sold and cost of labour	(111,732)	-	-	(111,732)
Other revenues (costs)	(45,485)	(6,253)	8,499	(43,239)
	<u>\$ 19,952</u>	<u>\$ 44,272</u>	<u>\$ 17,963</u>	<u>\$ 82,187</u>
Conversion revenues	-	-	1,359	1,359
Development revenues	-	-	3,811	3,811
Development expenses	-	-	(3,763)	(3,763)
Restructuring	-	-	(107)	(107)
Non-allocated selling, general and administrative expenses	-	-	(24,256)	(24,256)
Operating income	<u>\$ 19,952</u>	<u>\$ 44,272</u>	<u>\$ (4,993)</u>	<u>\$ 59,231</u>

For the 39 weeks ended September 30, 2014	Corporate	Franchise	Central	Total
Sales	\$ 146,920	\$ -	\$ 6,494	\$ 153,414
Franchise revenues	-	48,478	3,103	51,581
Cost of inventories sold and cost of labour	(98,870)	-	-	(98,870)
Other revenues (costs)	(40,401)	(8,472)	4,218	(44,655)
	<u>\$ 7,649</u>	<u>\$ 40,006</u>	<u>\$ 13,815</u>	<u>\$ 61,470</u>
Conversion revenues	-	-	1,311	1,311
Development revenues	-	-	112	112
Development expenses	-	-	(54)	(54)
Restructuring	-	-	(3,571)	(3,571)
Non-allocated selling, general and administrative expenses	-	-	(18,472)	(18,472)
Operating income	<u>\$ 7,649</u>	<u>\$ 40,006</u>	<u>\$ (6,859)</u>	<u>\$ 40,796</u>

Cara Operations Limited

Notes to the Condensed Consolidated Interim Financial Statements

For the 13 and 39 weeks ended September 27, 2015 and September 30, 2014(unaudited)

30 Subsequent events

On October 31, 2015, the Company completed the acquisition of 100% interest in New York Fries from 122164 Canada Ltd for approximately \$40.6 million funded by Cara's existing credit facility. New York Fries consists of approximately 120 locations in Canada and another 36 abroad.

On November 11, 2015, the Company's Board of Directors declared a dividend of \$0.102 per share of subordinate and multiple voting common stock. Payment of the dividend will be made on December 15, 2015 to shareholders of record at the close of business on November 30, 2015.