CARA OPERATIONS LIMITED
Management's Discussion and Analysis
For the 13 and 26 weeks ended June 25, 2017

The following Management's Discussion and Analysis ("MD&A") for Cara Operations Limited ("Cara" or the "Company") provides information concerning the Company's financial condition and results of operations for the 13 and 26 weeks ended June 25, 2017 ("second quarter", "Q2", "the quarter" or "the period"). This MD&A should be read in conjunction with the Company's unaudited Condensed Consolidated Interim Financial Statements ("interim financial statements") and accompanying notes as at June 25, 2017, and with the Company's annual Consolidated Financial Statements for the 52 week period ended December 25, 2016. The consolidated results from operations for the 13 and 26 weeks ended June 25, 2017 are compared to the 13 and 26 weeks ended June 26, 2016. Cara's fiscal year ends on the last Sunday in December. As a result, the Company's fiscal year is usually 52 weeks in duration but includes a 53rd week every five to six years. The Company's fiscal 2017 will end on December 31, 2017 and will be a 53 week year.

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

This MD&A was prepared as at July 31, 2017. Additional information relating to the Company can be found on SEDAR at www.sedar.com.

Basis of Presentation

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

Second Quarter and Year to Date Highlights:

- System Sales[(1)] grew $210.5 million to $660.8 million for the 13 weeks ended June 25, 2017 as compared to 2016, representing an increase of 46.7%. For the 26 weeks ended June 25, 2017, System Sales[(1)] grew $419.4 million to $1,319.9 million compared to the same period in 2016, representing an increase of 46.6%. The increase in System Sales is primarily related to the addition of St-Hubert in September 2016, Original Joe's in November 2016 and the addition of 42 new restaurants that opened in 2016, partially offset by restaurant closures.

- Same Restaurant Sales ("SRS") Growth[(1)] for the quarter was a decrease of 0.3% compared to the same 13 weeks in 2016. SRS during the quarter was negatively impacted by 0.6% with Easter occurring in the second quarter of 2017 as compared to the first quarter in 2016. Excluding the impact of Easter, SRS for the second quarter was positive 0.3%. SRS for the 26 weeks ended June 25, 2017 was a decrease of 0.5% compared to the same period in 2016. SRS excludes the impact from the Original Joe's transaction that was completed on November 28, 2016 and the Burger's Priest investment that was completed on June 1, 2017, and both will be excluded from 2017 SRS reporting.

- Operating EBITDA[(1)] increased to $41.6 million for the 13 weeks ended June 25, 2017 compared to $32.8 million in 2016, an improvement of $8.8 million or 26.8% for the quarter. Year to date, Operating EBITDA was $84.5 million compared to $60.3 million in 2016, an improvement of $24.2 million or 40.1%. The increases have been driven by an increase in contribution dollars in each of the Company's operating segments, being Corporate restaurants, Franchise restaurants and Central, from the addition of St-Hubert in September 2016 (including food processing and distribution which is part of Central operations), and Original Joe's in November 2016.

- Operating EBITDA Margin on System Sales[(1)] was 6.3% for the second quarter in 2017 compared to 7.3% in the same quarter in 2016. Year to date, Operating EBITDA Margin on System Sales was 6.4% compared to 6.7% in 2016. The second quarter decrease was driven by: (i) the addition of Original Joe's that currently operates below our 7%-8% target; (ii) weaker performance in certain Cara corporate restaurants as a result of poor weather impacting our patio season; (iii) negative SRS, and, (iv) second quarter timing differences, in particular, 10 corporate restaurant temporary closures for renovation and seasonally low grocery sales that will correct in the second half of 2017 as the sales for food processing and distribution is lowest in the second quarter. If we normalize second quarter Operating EBITDA[(1)] for timing differences, Operating EBITDA Margin on System Sales[(1)] was 7.1%, within our long-term target range.

- Earnings before income taxes was $21.6 million for the 13 weeks ended June 25, 2017 compared to $24.9 million in 2016, a decrease of $3.3 million or 13.3% for the quarter. The decrease in the quarter is related to an increase in interest and financing costs and increased depreciation expense (both related to the St-Hubert and Original Joe's 2016 transactions), non-cash impairment provisions, and restructuring expenses recognized during the quarter related to the Original Joe's integration and exiting certain leases corresponding to unprofitable corporate sites.

- Year to date, Earnings before income taxes was $49.1 million compared to $45.0 million, an improvement of $4.1 million or 9.1%. The increase was mainly attributed to increased contribution dollars from corporate and franchised restaurants from the additions of St-Hubert and Original Joe's corporate and franchise restaurants, improved contribution from the central segment driven by the addition of St-Hubert's food processing and distribution business, and overall cost reductions, offset by increased interest expense and depreciation expense (both related to the St-Hubert and Original Joe's 2016 transactions), and second quarter impairment provisions and restructuring charges.

- Management continues to focus on both short-term and long-term strategies to improve SRS through restaurant renovations, greater emphasis on menu innovation, enhanced guest experiences, expanded off-premise sales through new and improved e-commerce applications that will be expanded to most brands over the next 2 years, and brand specific digital-social media marketing. Some specific developments include:

    - In Q1 and Q2 the Company completed the renovation of 29 corporate and franchised restaurants. Restaurant renovations rejuvenate sales long-term and positively contributes to SRS. The Company expects to complete 43 renovations in the second half of the year. Management has reduced the number of planned renovations for the year to focus on completing renovations with higher sales impact.

    - The Company has completed improvements to its websites and mobile applications to simplify and enhance order functionality to improve online sales. In Q3 and Q4, the Company will be launching new online applications (APPs) for East Side Mario's, Swiss Chalet and Montana's that will provide new and improved options for customers for take-out and delivery sales.

    - In Q1 and Q2 Cara expanded its on-line aggregator relationships (including Uber-Eats) to over 350 restaurants to enable customers to place delivery and pick-up orders through the channel and application of their choice; the Company will continue to roll out this initiative across its corporate and franchised restaurants and expects to be active in at least 470 restaurants by August 2017 and 600 by the end of Q4.

    - The Company continues to build on existing partnerships with key media partners including Facebook and Google and has also built new partnerships and integrations with strategic digital media partners including the Weather Network, TeamSnap and Waze where their subscribers overlap with Cara customers. This is part of the continued goal of enhancing customer specific marketing and marketing effectiveness.

    - In Q3 and Q4 the Company will be focused on growing active user databases across brands and leveraging a new CRM tool and database management systems to market directly to customers and to effectively maximize life time value of these guests.

    - In Q3 the Company will also be using the data gathered from these data analytics tools to identify and provide specific feedback to individual restaurants that have an opportunity to enhance guest experience.

    - In Q3 the Company is on track to launch a new local store marketing portal that will provide more effective local store marketing tools to help our franchisees and restaurants better connect with guests in their communities.

- In Q3 and Q4 Cara will be enhancing its partnership with Scene to more effectively leverage the 8 million plus Scene member database and customer data to drive new and repeat purchases from Scene members.

- On June 1, 2017, the Company completed the investment in New & Old Kings and Priests Restaurants Inc. (operating as "Burger's Priest") for cash consideration of $14.7 million. Burger's Priest owns and operates 14 fast casual restaurants in Ontario and Alberta generating System Sales of approximately $18.7 million and $2.2 million in EBITDA. The Company has a 79.4% ownership interest in the joint venture with the remaining 20.6% owned by a third party who has an earn-out agreement that can grow their ownership interest to 50% if certain earnings targets are met. This strategic partnership represents a growth opportunity for Cara in the fast-casual market. Our Burger's Priest partner has significant experience and expertise developing and managing fast casual concepts and will operate and grow Burger's Priest as a standalone business separate from Cara, but they will leverage Cara's support and central services where it makes sense.

(1) See "Non-IFRS Measures" on page 28 for definitions of System Sales, SRS Growth, Operating EBITDA, Operating EBITDA Margin, and Operating EBITDA Margin on System Sales. See "Reconciliation of Net Earnings to EBITDA" and "Reconciliation of Net Earnings to Adjusted Net Earnings" for a reconciliation of Operating EBITDA and Adjusted Net Earnings.

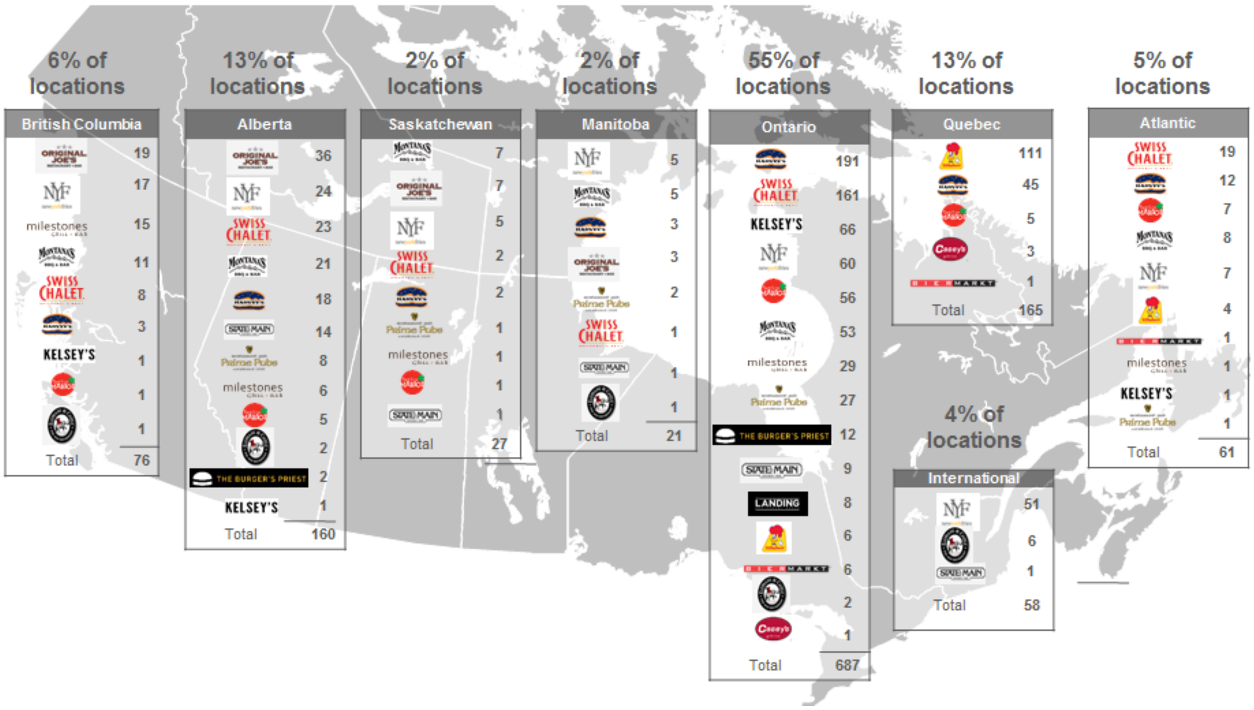
Subsequent event

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

Subsequent to June 25, 2017, 133,796 shares were purchased for cancellation under the normal course issuer bid ("NCIB") for its Subordinate Voting Shares that was announced on June 16, 2017.

Overview

Cara is a full-service restaurant company that franchises and operates iconic restaurant brands. As at June 25, 2017, Cara had 16 brands and 1,255 restaurants, 83% of which are operated by franchisees. Cara's restaurant network includes Harvey's, Swiss Chalet, Kelsey's, East Side Mario's, Montana's, Milestones, Prime Pubs, Casey's, Bier Markt, Landing, New York Fries, St-Hubert, Original Joe's, State & Main, Elephant & Castle and Burger's Priest restaurants. Cara's iconic brands have established Cara as a nationally recognized franchisor of choice. Cara's restaurants are located across Canada with 55% of Cara's locations based in Ontario.



Unit count (unaudited)	As at June 25, 2017 Corporate	Franchise	Joint Venture	Total	As at December 25, 2016 Corporate	Franchise	Joint Venture	Total
Swiss Chalet ………………	8	206	0	214	9	206	0	215
Harvey's ……………………	12	262	0	274	13	258	0	271
Montana's ………………	8	97	0	105	13	90	0	103
East Side Mario's (1)………	2	73	0	75	2	76	0	78
Kelsey's…………………	12	57	0	69	13	57	0	70
Casey's…………………	0	4	0	4	0	5	0	5
Prime Pubs………………	5	34	0	39	5	32	0	37
Bier Markt………………	8	0	0	8	8	0	0	8
Milestones………………	28	24	0	52	29	25	0	54
Landing…………………	8	0	0	8	7	0	0	7
New York Fries …………	17	152	0	169	17	150	0	167
St-Hubert………………	12	109	0	121	13	110	0	123
Original Joe's………………	20	17	28	65	20	17	28	65
State & Main………………	14	4	8	26	12	4	8	24
Elephant & Castle…………	10	2	0	12	10	0	0	10
Burger's Priest…………	0	0	14	14	0	0	0	0
Total restaurants…………	164	1,041	50	1,255	171	1,030	36	1,237
	13%	83%	4%	100%	14%	83%	3%	100%

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

Selected Financial Information

The following table summarizes the results of Cara's operations for the 13 and 26 weeks ended June 25, 2017 and June 26, 2016:

(C$ millions unless otherwise stated)	For the 13 weeks ended June 25, 2017	For the 13 weeks ended June 26, 2016	For the 26 weeks ended June 25, 2017	For the 26 weeks ended June 26, 2016
System Sales [2][3] (unaudited)	**$ 660.8**	**$ 450.3**	**$ 1,319.9**	**$ 900.5**
Sales	$ 152.0	$ 70.6	$ 309.0	$ 136.2
Franchise revenues	26.3	18.4	52.1	37.0
Total gross revenue [1]	**$ 178.4**	**$ 89.0**	**$ 361.1**	**$ 173.2**
Cost of inventories sold	(67.8)	(20.1)	(138.2)	(38.9)
Selling, general and administrative expenses	(81.5)	(43.5)	(161.9)	(88.3)
Impairment of assets, net of reversals	(2.4)	-	(3.6)	-
Restructuring and other	(2.7)	0.3	(2.7)	0.5
Operating income [1]	**$ 23.9**	**$ 25.7**	**$ 54.6**	**$ 46.4**
Net interest expense and other financing charges	(2.7)	(0.8)	(5.8)	(1.4)
Share of loss from investment in associates and joint ventures	0.4	-	0.3	-
Earnings before income taxes [1]	**$ 21.6**	**$ 24.9**	**$ 49.1**	**$ 45.0**
Income taxes - current	(0.4)	(0.3)	(3.5)	(0.3)
Income taxes - deferred	(3.8)	(6.5)	15.7	(12.3)
Net earnings [1]	**$ 17.4**	**$ 18.1**	**$ 61.3**	**$ 32.4**
Adjusted Net Earnings [2]	**$ 26.4**	**$ 25.5**	**$ 52.1**	**$ 46.6**
Total assets	$ 1,320.8	$ 697.3	$ 1,320.8	$ 697.3
Non-current financial liabilities	$ 573.7	$ 124.4	$ 573.7	$ 124.4
Earnings per share attributable to common shareholders (in dollars)				
Basic EPS	$ 0.29	$ 0.37	$ 1.02	$ 0.66
Diluted EPS	$ 0.28	$ 0.34	$ 0.99	$ 0.61
Adjusted Basic EPS[2]	$ 0.44	$ 0.52	$ 0.87	$ 0.95
Adjusted Diluted EPS[2]	$ 0.42	$ 0.48	$ 0.84	$ 0.89

(1) Figures may not total due to rounding.
(2) See "Non-IFRS Measures" on page 28 for definitions of System Sales, Adjusted Net Earnings, Adjusted Basic EPS and Adjusted Diluted EPS. See page 6 for a reconciliation of Net Earnings to Adjusted Net Earnings.
(3) Results from East Side Mario restaurants in the United States are excluded from System Sales totals. See "Non-IFRS Measures" on page 28 for definition of System Sales.

(C$ millions unless otherwise stated)	For the 13 weeks ended June 25, 2017	For the 13 weeks ended June 26, 2016	For the 26 weeks ended June 25, 2017	For the 26 weeks ended June 26, 2016
Dividends Declared (in dollars per share) [(1)]				
Subordinate Voting Shares, Multiple Voting Shares and Subscription Receipts	$ 0.20	$ 0.10	$ 0.20	$ 0.20
Reconciliation of net earnings to Adjusted Net Earnings [(2)]				
Net earnings	$ 17.4	$ 18.1	$ 61.3	$ 32.4
Deferred income taxes	3.8	6.5	(15.7)	12.2
Restructuring and other	2.7	-	2.7	-
Transaction costs	0.1	0.9	0.2	2.0
Impairment charges	2.4	-	3.6	-
Adjusted Net Earnings [(1)(2)]	**$ 26.4**	**$ 25.5**	**$ 52.1**	**$ 46.6**
Reconciliation of net earnings to EBITDA [(2)]				
Net earnings	$ 17.4	$ 18.1	$ 61.3	$ 32.4
Net interest expense and other financing charges	2.7	0.8	5.8	1.4
Income taxes	4.2	6.8	(12.2)	12.6
Depreciation of property, plant and equipment	10.8	5.5	20.8	10.4
Amortization of other assets	1.6	0.7	3.1	1.9
EBITDA[(2)]	**$ 36.7**	**$ 31.9**	**$ 78.9**	**$ 58.7**
Reconciliation of EBITDA [(2)] **to Operating EBITDA** [(2)]**:**				
Losses on early buyout/cancellation of equipment rental contracts	0.1	-	0.1	-
Restructuring and other	2.7	(0.3)	2.7	(0.5)
Transaction costs	0.1	0.9	0.2	2.0
Conversion fees	(0.3)	(0.4)	(0.5)	(0.8)
Net gain on disposal of property, plant and equipment	(1.1)	(0.2)	(1.6)	(1.1)
Impairment of assets	2.4	-	3.6	-
Stock based compensation	0.8	1.1	1.3	2.2
Change in onerous contract provision	(0.2)	(0.2)	(0.5)	(0.3)
Proportionate share equity of joint venture results	0.4	-	0.3	-
Operating EBITDA [(1)(2)]	**$ 41.6**	**$ 32.8**	**$ 84.5**	**$ 60.3**
% change	26.8%	15.5%	40.1%	13.1%

[(1)] Figures may not total due to rounding.
[(2)] See "Non-IFRS Measures" on page 28 for definitions of Adjusted Net Earnings, EBITDA and Operating EBITDA.

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

	For the 13 weeks ended		For the 26 weeks ended	
(C$ millions unless otherwise stated)	**June 25, 2017**	**June 26, 2016**	**June 25, 2017**	**June 26, 2016**
System Sales [1][3] (unaudited)	$ 660.8	$ 450.3	$ 1,319.9	$ 900.5
System Sales Growth [1][3] (unaudited)	46.7%	3.0%	46.6%	4.0%
SRS Growth [2][3] (unaudited)	(0.3%)	(2.0%)	(0.5%)	(0.7%)
Number of corporate restaurants (at period end)	164	119	164	119
Number of joint venture restaurants (at period end)	50	-	50	-
Number of franchised restaurants (at period end)	1,041	884	1,041	884
Total number of restaurants [1] (at period end)	**1,255**	**1,003**	**1,255**	**1,003**
Total gross revenue	$ 178.4	$ 89.0	$ 361.1	$ 173.2
Selling, general and administrative expenses ("SG&A")	$ 81.5	$ 43.5	$ 161.9	$ 88.3
SG&A as a percentage of gross revenue	45.7%	48.9%	44.8%	51.0%
Operating EBITDA [3]	$ 41.6	$ 32.8	$ 84.5	$ 60.3
Operating EBITDA Margin [3]	23.3%	36.9%	23.4%	34.8%
Operating EBITDA on System Sales [3]	6.3%	7.3%	6.4%	6.7%

(1) Results from East Side Mario restaurants in the United States are excluded in the System Sales totals and number of restaurants. See "Non-IFRS Measures" on page 28 for definition of System Sales.
(2) Results from New York Fries located outside of Canada, East Side Mario restaurants in the United States, Casey's restaurants, Original Joe's, and Burger's Priest restaurants are excluded from SRS Growth. See "Non-IFRS Measures" on page 28 for definition of SRS Growth.
(3) See "Non-IFRS Measures" on page 28 for definitions of System Sales, System Sales Growth, SRS Growth, Operating EBITDA, Operating EBITDA Margin, and Operating EBITDA on System Sales.

Factors Affecting Our Results of Operations

SRS Growth

SRS Growth is a metric used in the restaurant industry to compare sales earned in established locations over a certain period of time, such as a fiscal quarter, for the current period and the same period in the previous year. SRS Growth helps explain what portion of sales growth can be attributed to growth in established locations separate from the portion that can be attributed to the opening of net new restaurants. Cara calculates SRS Growth as the percentage increase or decrease in sales of restaurants open for at least 24 complete months. Cara's SRS Growth results exclude Original Joe's as the transaction was completed on November 28, 2016; Burger's Priest as the transaction was completed on June 1, 2017; Casey's restaurants as the Company is in the process of winding down its operations; and sales from international operations from 51 New York Fries and 3 East Side Mario's.

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

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

SRS for the 13 weeks ended June 25, 2017 was a decrease of 0.3% and was a decrease of 0.5% for the 26 weeks ended June 25, 2017. SRS during the second quarter was negatively impacted by 0.6% with Easter occurring in the second quarter of 2017 as compared to the first quarter in 2016. Excluding the impact of Easter, SRS for the second quarter was positive 0.3%. SRS excludes the impact from the Original Joe's transaction that was completed on November 28, 2016 and Burger's Priest that was completed on June 1, 2017 and both will be excluded from 2017 SRS reporting. As Cara is a multi-branded company, not all brands will have strong results at the same time which can result in overall variable sales and SRS results.

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

See "Non-IFRS Measures" on page 28 for a description of how Cara calculates SRS growth. SRS Growth for individual brands may be higher or lower than SRS Growth for all restaurants combined, and in some cases, SRS Growth, for individual brands, may be negative.

Competition

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

New Restaurant Openings

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

Financial results

System Sales

System Sales for 13 and 26 weeks ended June 25, 2017 were $660.8 million and $1,319.9 million compared to $450.3 million and $900.5 million for the 13 and 26 weeks ended June 26, 2016, representing an increase of $210.5 million or 46.7% for the quarter and $419.4 million or 46.6% year-to-date. This increase was primarily the result of new restaurants opened in 2016, the September 2016 addition of St-Hubert including its food processing and distribution sales, and the addition of Original Joe's in November 2016, which together generated higher sales offsetting restaurant closures and the SRS change during the quarter.

Total gross revenue

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

Total gross revenue was $178.4 million and $361.1 million for 13 and 26 weeks ended June 25, 2017 compared to $89.0 and $173.2 million in 2016, representing an increase of $89.4 million or 100.4% for the quarter and $187.9 million or 108.5% year-to-date. The increase in gross revenues was primarily the result of new restaurant openings in 2016 and 2017, the addition of food processing and distribution revenues from the St-Hubert acquisition in September 2016, and the addition of Original Joe's in November 2016.

Selling, general and administrative expenses

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

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

SG&A expenses for 13 and 26 weeks ended June 25, 2017 were $81.5 million and $161.9 million compared to $43.5 million and $88.3 million in 2016, representing an increase of $38.0 million or 87.4% for the quarter and $73.6 million or 83.4% year to date. The increase is primarily related to the addition of the St-Hubert food processing and distribution, increased direct restaurant labour and other direct restaurant costs from the increase in number of corporate restaurants. These increases were offset by variable wage savings at corporate restaurants and other overhead cost reductions. For the 13 weeks ended June 25, 2017, SG&A expenses as a percentage of gross revenue decreased from 48.9% in 2016 to 45.7% in 2017, a decrease of 3.2 percentage points. Year to date, SG&A expenses as a percentage of gross revenue decreased from 51.0% in 2016 to 44.8% in 2017, a decrease of 6.2 percentage points.

Net interest expense and other financing charges

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

Net interest expense and other financing charges were $2.7 million and $5.8 million for the 13 and 26 weeks ended June 25, 2017 compared to $0.8 million and $1.4 million in 2016, an increase of $1.9 million and $4.4 million, respectively. The increase is due to the additional borrowings made for the St-Hubert and Original Joe's transactions.

Earnings before income taxes

Earnings before income taxes were $21.6 million and $49.1 million for 13 and 26 weeks ended June 25, 2017 compared to $24.9 million and $45.0 million in 2016, representing a decrease of $3.3 million or 13.3% for the quarter and an improvement of $4.1 million or 9.1% year to date.

The second quarter decrease in Earnings before income taxes was related to an higher interest and financing costs of $1.9 million related to additional debt from the St-Hubert, Original Joe's and Burger's Priest transactions; increases in depreciation; a $2.4 million non-cash impairment provision, and a $2.7 million restructuring charge recorded in the second quarter for expected Boston office staff severance and closure costs to consolidate the Original Joe's business; expected lease exit costs related to three onerous leases. These costs were partially offset by higher contribution dollars from additional corporate and franchise restaurants from the St-Hubert and Original Joe's transactions, improved contribution dollars from the central segment driven by the addition of St-Hubert's food processing and distribution business and overall cost reductions.

The year to date increase was mainly attributed to additional corporate and franchise restaurants from the St-Hubert and Original Joe's transactions, improved contribution from the central segment driven by the addition of St-Hubert's food processing and distribution business and overall cost reductions, offset by an increase in interest and financing costs of $4.3 million; increases in depreciation; a $3.6 million non-cash impairment provision, and a $2.7 million restructuring charge as described above.

Income taxes

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

The Company recorded a current income tax expense of $0.4 million and $3.5 million for the 13 and 26 weeks ended June 25, 2017, compared to $0.3 million and $0.3 million in 2016, representing an income tax expense increase of $0.1 million for the quarter and $3.2 million year to date. The current income tax expense is primarily related to St-Hubert earnings resulting in taxes payable that are not sheltered by Cara's tax losses.

The Company recorded a net deferred income tax expense of $3.8 million and recovery of $15.7 million for the 13 and 26 weeks ended June 25, 2017, compared to an expense of $6.5 million and $12.3 million in 2016, respectively, representing a deferred income tax expense change of $2.7 million for the quarter and $28.0 million year to date. The change is due to the Company recognizing in the first quarter a deferred tax asset of $24.4 million in respect of additional non-capital losses available to offset future income tax payable on operating profits.

Net earnings

Net earnings were $17.4 million and $61.3 million for the 13 and 26 weeks ended June 25, 2017 compared to $18.1 million and $32.4 million in 2016, representing a decrease of $0.7 million or 3.9% for the quarter and an increase of $28.9 million or 89.2% year to date.

The decrease in the second quarter was related to higher interest and financing charges of $1.9 million, higher depreciation, a non-cash impairment provision of $2.4 million, and restructuring costs of $2.7 million, partially offset by increased contribution dollars from additional corporate and franchise restaurants from the 2016 St-Hubert and Original Joe's transactions, improved contribution dollars from the central segment driven by the addition of St-Hubert food processing and distribution business and overall cost reductions.

Year to date, the increase is primarily related to the $28.0 million change in deferred income taxes described above, additional corporate and franchise restaurants from the 2016 St-Hubert and Original Joe's transactions, improved contribution from the central segment driven by the addition of St-Hubert food processing and distribution business and overall cost reductions, partially offset by increased interest and financing charges of $4.3 million, higher depreciation, a non-cash impairment provision of $3.6 million, and restructuring costs of $2.7 million.

Adjusted net earnings

Adjusted net earnings were $26.4 million and $52.1 million for the 13 and 26 weeks ended June 25, 2017 compared to $25.5 million and $46.6 million in 2016, representing an increase of $0.9 million or 3.5% for the quarter and an increase of $5.5 million or 11.8% year to date. The increases for the quarter and year to date are related to the increased contribution dollars from additional corporate and franchise restaurants related to the 2016 St-Hubert and Original Joe's transactions, improved contribution from the central segment driven by the addition of St-Hubert food processing and distribution business and overall cost reductions, partially offset by weaker performance in certain Cara corporate restaurants as a result of poor weather impacting our patio season, negative SRS, 10 corporate restaurant temporary closures for renovation, increased interest and financing charges, and higher depreciation.

Adjusted EPS

Adjusted EPS for the 13 and 26 weeks ended June 25, 2017 was $0.44 and $0.87, compared to $0.52 and $0.95 in 2016, respectively. Adjusted diluted EPS was $0.42 in the quarter compared to $0.48 in 2016, and $0.84 year to date compared to $0.89 in 2016. The decreases in the second quarter and year to date are primarily related to changes in Adjusted net earnings and the increased number of subordinate voting shares outstanding as a result of the 2016 subscription receipt offering to support the St-Hubert transaction. If we reflect the second quarter timing differences, in particular, 10 corporate restaurant temporary closures for renovation and seasonally low grocery sales that will correct in the second half of 2017, the second quarter Adjusted EPS was $0.52, comparable to 2016, and Adjusted diluted EPS was $0.50, an improvement compared to $0.48 in the second quarter of 2016.

Restaurant Count

Cara's restaurant network consists of company-owned corporate locations and franchised locations. As at the end of June 25, 2017, there were 1,255 restaurants.

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

	For the 26 week period ended						
	June 25, 2017				June 26, 2016		
Unit count (unaudited)	**Corporate**	**Franchised**	**Joint Venture**	**Total**	**Corporate**	**Franchised**	**Total**
Beginning of period[1]	171	1,030	36	**1,237**	119	891	1,010
Acquisitions [2]	-	-	14	**14**	-	.	-
New openings	4	21	-	**25**	3	12	15
Closures	(4)	(16)	-	**(20)**	(5)	(7)	(12)
Casey's closures	-	(1)	-	**(1)**	-	(10)	(10)
Corporate buy backs [3]	2	(2)	-	-	4	(4)	-
Restaurants re-franchised [4]	(9)	9	-	-	(2)	2	-
End of period	164	1,041	50	**1,255**	119	884	1,003

[1] Unit count excludes East Side Marios restaurants located in the United States.

[2] Investment in Burger's Priest made on June 1, 2017.

[3] Corporate buy backs represent previously franchised restaurants acquired by the Company to operate corporately.

[4] Restaurants re-franchised represent corporate restaurants re-franchised to be operated by a franchisee.

Segment Performance

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

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

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

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

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

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

Operating EBITDA

Operating EBITDA was $41.6 million and $84.5 million for the 13 and 26 weeks ended June 25, 2017 compared to $32.8 million and $60.3 million in 2016, representing an increase of $8.8 million or 26.8% for the quarter and $24.2 million or 40.1% year to date. The year to date increases were driven by increased contribution dollars in all of the Company's operating segments, being corporate restaurants, franchise restaurants, and central operations, the addition of St-Hubert in September 2016 resulting in a new segment for food processing and distribution, and the addition of Original Joe's in November 2016.

Contribution dollar increases from the Corporate restaurant segment for the 13 and 26 weeks ended June 25 ,2017 were primarily driven by additional sales from the addition of 13 St-Hubert corporate restaurants in September 2016, the addition of 42 Original Joe's corporate restaurants and 36 joint venture restaurants in November 2016, partially offset by the impact from 10 temporary closures of 7 Milestones restaurants under renovation, 2 Landing restaurants under renovation, and a Bier Markt restaurant closed for expansion and renovation. Overall contribution dollars from the Franchise segment has increased from the addition of St-Hubert and Original Joe's, but was offset by increased temporary franchise assistance to western Canada restaurants. The Food Processing and Distribution segment contribution is the result of the September 2016 St-Hubert acquisition. However, second quarter Food Processing and Distribution sales are the lowest of all 4 quarters resulting in lower contribution than other quarters. Central segment improvements are primarily a result of central costs growing slower than System Sales and related vendor rebates.

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

(C$ thousands unless otherwise stated)	For the 13 week period ended June 25, 2017 Corporate	Franchised	Central	Total	June 26, 2016 Corporate	Franchised	Central	Total
System Sales (unaudited)……………	**$ 103,447**	**$ 504,738**	**$ 52,607**	**$ 660,792**	**$ 68,432**	**$ 381,902**	**$ -**	**$ 450,334**
Corporate Results								
Sales…………………………………	$ 103,447	$ -	$ 2,873	$ 106,320	$ 68,432	$ -	$ 2,164	$ 70,596
Cost of inventories sold and cost of labour…………	(65,795)	-	-	(65,795)	(41,511)	-	-	(41,511)
Restaurant contribution before other costs………………………..	37,652	-	2,873	40,525	26,921		2,164	29,085
Restaurant contribution before other costs %……………………	36.4%				39.3%			
Other operating costs……………..	(27,225)	-	-	(27,225)	(18,011)	-	-	(18,011)
Total Contribution…………………	**10,427**	**-**	**2,873**	**13,300**	**8,910**	**-**	**2,164**	**11,074**
Franchise Results								
Franchise royalty income…………	-	22,447	-	22,447	-	17,291	-	17,291
Franchise royalty income as a % of franchise sales……………….	-	4.4%	-	-	-	4.5%	-	-
New franchise fees, rent revenue and equipment rent…………	-	-	3,355	3,355	-	-	689	689
Franchise rent assistance and bad debt…………………………..	-	(2,585)	-	(2,585)	-	(1,913)	-	(1,913)
Contribution from franchise restaurants………………………	**-**	**19,862**	**3,355**	**23,217**	**-**	**15,378**	**689**	**16,067**
Food processing and distribution								
Net food processing and distribution contribution ………	**-**	**-**	**585**	**585**	**-**	**-**	**-**	**-**
Central								
Net central contribution…………	**-**	**-**	**4,488**	**4,488**	**-**	**-**	**5,665**	**5,665**
Operating EBITDA [(1)]………………	**$ 10,427**	**$ 19,862**	**$ 11,301**	**$ 41,590**	**$ 8,910**	**$ 15,378**	**$ 8,518**	**$ 32,806**
Contribution as a % of corporate sales………………………………	10.1%	-	-	-	13.0%	-	-	-
Contribution as a % of franchise sales ………………………………	-	3.9%	-	-	-	4.0%	-	-
Contribution as a % of total System sales……………………….	-	-	1.7%	6.3%	-	-	1.9%	7.3%

(C$ thousands unless otherwise stated)	For the 26 week period ended June 25, 2017 Corporate	Franchised	Central	Total	June 26, 2016 Corporate	Franchised	Central	Total
System Sales (unaudited)……………	**$ 202,127**	**$ 1,005,548**	**$ 112,235**	**$ 1,319,910**	**$ 131,637**	**$ 768,901**	**$ -**	**$ 900,538**
Corporate Results								
Sales…………………………………	$ 202,127	$ -	$ 5,971	$ 208,098	$ 131,637	$ -	$ 4,538	$ 136,175
Cost of inventories sold and cost of labour…………	(128,133)	-	-	(128,133)	(82,081)	-	-	(82,081)
Restaurant contribution before other costs………………………..	73,994	-	5,971	79,965	49,556		4,538	54,094
Restaurant contribution before other costs %……………………	36.6%				37.6%			
Other operating costs……………..	(55,577)	-	-	(55,577)	(35,554)	-	-	(35,554)
Total Contribution…………………...	**18,417**	**-**	**5,971**	**24,388**	**14,002**	**-**	**4,538**	**18,540**
Franchise Results								
Franchise royalty income…………..	-	44,629	-	44,629	-	34,868	-	34,868
Franchise royalty income as a % of franchise sales…………………	-	4.4%	-	-	-	4.5%	-	-
New franchise fees, rent revenue and equipment rent…………..	-	-	6,358	6,358	-	-	1,349	1,349
Franchise rent assistance and bad debt…………………………….	-	(4,324)	-	(4,324)	-	(3,774)	-	(3,774)
Contribution from franchise restaurants………………………….	**-**	**40,305**	**6,358**	**46,663**	**-**	**31,094**	**1,349**	**32,443**
Food processing and distribution								
Net food processing and distribution contribution ……….	**-**	**-**	**5,286**	**5,286**	**-**	**-**	**-**	**-**
Central								
Net central contribution…………..	**-**	**-**	**8,152**	**8,152**	**-**	**-**	**9,360**	**9,360**
Operating EBITDA [(1)]………………..	**$ 18,417**	**$ 40,305**	**$ 25,767**	**$ 84,489**	**$ 14,002**	**$ 31,094**	**$ 15,247**	**$ 60,343**
Contribution as a % of corporate sales……………………………….	9.1%	-	-	-	10.6%	-	-	-
Contribution as a % of franchise sales ………………………………..	-	4.0%	-	-	-	4.0%	-	-
Contribution as a % of total System sales……………………….	-	-	2.0%	6.4%	-	-	1.7%	6.7%

(1) See “Non-IFRS Measures” on page 28 for definitions of Operating EBITDA and page 6 for a reconciliation of Net Earnings to Operating EBITDA.

Corporate

As at June 25, 2017, the corporate segment restaurant count consisted of 164 restaurants compared to 119 at June 26, 2016, an increase of 45 locations. The increase is related to 55 restaurants acquired in 2016 related to the addition of St-Hubert and Original Joe's, 8 new restaurant openings, 8 corporate buybacks, offset by 6 closures, excluding the impact of 1 Casey's closure, and 19 restaurants re-franchised during 2016 and 2017. The corporate restaurant segment includes the proportionate results from 36 joint venture restaurants from the Original Joe's transaction.

Sales

Sales represent food and beverage sales from Cara's corporate restaurants. Corporate restaurant sales are impacted by SRS Growth and the change in number of corporate restaurants. Sales were $103.4 million and $202.1 million for the 13 and 26 weeks ended June 25, 2017 compared to $68.4 million and $131.6 million in 2016, an increase of $35.0 million or 51.2% for the quarter and $70.5 million or 53.6% year-to-date. The increase was primarily related to the increase in number of corporate restaurants from the addition St-Hubert and Original Joe's, the addition of 4 new corporate restaurants in 2017, partially offset by 10 temporary restaurant closures for the renovation of 7 Milestones restaurants, 2 Landing restaurants and a Bier Markt restaurant, 9 corporate restaurants sold to franchisees, and the SRS decrease.

Cost of inventories sold and cost of labour

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

Cost of inventories sold and cost of labour combined was $65.8 million and $128.1 million for the 13 and 26 weeks ended June 25, 2017 compared to $41.5 million and $82.1 million in 2016, an increase of $24.3 million or 58.6% for the quarter and $46.0 million or 56.0% year-to-date. The increase was primarily due to the addition of 45 corporate restaurants, primarily from the St-Hubert and Original Joe's transactions. Cost of inventories sold and cost of labour as a percentage of sales have increased from 60.7% to 63.6% for the 13 weeks ended June 25, 2017, an increase of 2.9 percentage points primarily due to St-Hubert and Original Joe's that operate at higher rates than Cara, the temporary closures related to the 10 renovations, weaker performance in certain Cara corporate restaurants as a result of poor weather impacting our patio season, and negative SRS. For the 26 weeks ended June 25, 2017, cost of inventories sold and cost of labour as a percentage of sales have increased from 62.4% to 63.4%, an increase of 1.0 percentage points. With the addition of St-Hubert and Original Joe's, which operate at slightly higher cost of inventories sold and higher cost of labour than other Cara brands, there are opportunities for improvement as these brands benefit from the total Company's purchasing power and labour management tools.

Contribution from Corporate segment

Total contribution from corporate restaurants was $10.4 million and $18.4 million for the 13 and 26 weeks ended June 25, 2017 compared to $8.9 million and $14.0 million in 2016, an increase of $1.5 million for the quarter and $4.4 million year to date. The increases are primarily driven by the increase in number of corporate restaurants, including the addition of St-Hubert and Original Joe's, partially offset by lower contribution from the 10 restaurants temporarily closed for renovation during the period, weaker performance in certain Cara corporate restaurants as a result of poor weather impacting our patio season, and negative SRS. The renovation impact from these 10 restaurants was a $1.9 million reduction to Operating EBITDA contribution compared to the same 13 week period in the second quarter 2016.

For the 13 and 26 weeks ended June 25, 2017, total contribution from corporate restaurants as a percentage of corporate sales was 10.1% and 9.1% compared to 13.0% and 10.6% for the 13 and 26 weeks ended June 26, 2016. The reductions were primarily from lower percentage contribution rates from the St-Hubert corporate restaurants that operate at lower contribution levels than other Cara brand corporate restaurants, lower contribution from the 10 restaurants temporarily closed for renovation representing approximately 1.7% for the quarter, and poor weather impacting our patio season that negatively impacted many restaurants.

Franchise

As at June 25, 2017, the franchise restaurant segment consisted of 1,041 restaurants compared to 884 at June 26, 2016, an increase of 157 locations. The increase is related to 44 new restaurant openings in 2016 and 2017, the addition of 131 restaurants from the St-Hubert and the Original Joe's transactions, 19 restaurants re-franchised, partially offset by 25 closures, excluding the impact of 4 Casey's closures, and 8 corporate buybacks. The franchise segment includes the proportionate share of royalties earned from the joint venture restaurants from the Original Joe's transaction.

Franchise segment System Sales were $504.7 million and $1,005.5 million during the 13 and 26 weeks ended June 25, 2017 compared to $381.9 million and $768.9 million in 2016, an increase of $122.8 million or 32.2% for the quarter and $236.6 million or 30.8% year to date. The increase was primarily attributed to the new restaurant openings in 2016 and 2017, sales of 9 corporate restaurants to franchisees, the addition of St-Hubert and Original Joe's, partially offset by the SRS decrease and restaurant closures.

Franchise revenues

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

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

Franchise revenues were $22.4 million and $44.6 million for the 13 and 26 weeks ended June 25, 2017 compared to $17.3 million and $34.9 million in 2016, an increase of $5.1 million or 29.5% for the quarter and $9.7 million or 27.8% year-to-date. The increase was primarily attributed to the addition of St-Hubert and Original Joe's.

Contribution from franchise segment

Total contribution from franchise restaurants was $19.9 million and $40.3 million for the 13 and 26 weeks ended June 25, 2017 compared to $15.4 million and $31.1 million in 2016, an increase of $4.5 million or 29.2% for the quarter and $9.2 million or 29.6% year-to-date. The increase was related to increased royalty income as a result of the franchise sales increase and the addition of St-Hubert and Original Joe's, net of the SRS decrease.

The effective net royalty rate for the 13 weeks ended June 25, 2017 was 3.9% compared to 4.0% for the 13 weeks in 2016. The decrease in effective net royalty rate was largely related to increases in bad debt provisions in relation to supporting franchisees primarily in western Canadian locations. For the 26 weeks ended June 25, 2017, the effective net royalty rate was 4.0% compared to 4.0% in 2016. Cara's standard royalty rate is 5.0%. There are brands acquired since 2014 which charge different standard royalty rates, in particular St-Hubert which charges 4% as its standard royalty.

As at June 25, 2017, a total of 142 restaurants were paying Cara a royalty below the standard rate as compared to 148 restaurants at December 25, 2016. 89 out of the 142 restaurants paying below the standard royalty are related to previously agreed upon conversion agreements, an improvement of 2 restaurants compared to 91 as at December 25, 2016. 53 out of the 142 restaurants paying less than the standard royalty were related to temporary assistance provided to certain other restaurants, a decrease of 4 restaurants compared to 57 as at December 25, 2016.

Central

Sales

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

Total central segment sales were $2.9 million and $6.0 million for the 13 and 26 weeks ended June 25, 2017 compared to $2.2 million and $4.5 million in 2016, representing an increase of $0.7 million, or 31.8% for the quarter and $1.5 million, or 33.3% year to date. Sales increased from East Side Mario's which started offering off-premise in the first quarter of 2016 and the addition of St-Hubert call centre fees.

New franchise fees, rent revenue and equipment rent

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

Franchise fees, rent revenue and equipment rent from franchisees were $3.4 million and $6.4 million for the 13 and 26 weeks ended June 25, 2017 compared to $0.7 million and $1.3 million in 2016, an increase of $2.7 million or 385.7% for the quarter and $5.1 million or 392.3% year to date. The net increase is related to the addition of St-Hubert property rent revenue offset by decreases in equipment rent due to buyouts and terminations of equipment rental agreements.

Food processing and distribution

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

Contribution from food processing and distribution

Contribution from food processing and distribution for the 13 and 26 weeks ended June 25, 2017 was $0.6 million and $5.3 million compared to $nil for the same 13 and 26 week periods in 2016. Food processing and distribution sales are typically highest in the fourth quarter, followed by the third quarter, then the first quarter, with the second quarter being lowest. During the quarters with higher sales, food processing and distribution contribution rate is also higher as fixed overhead costs are covered by higher gross margins.

Contribution from central segment

Central segment contribution, including food processing and distribution, for the 13 and 26 weeks ended June 25, 2017 was $11.3 million and $25.8 million compared to $8.5 million and $15.2 million in 2016, representing an increase of $2.8 million or 32.9% for the quarter and $10.6 million or 69.7% year to date. Total central segment contribution as a percentage of total System Sales for the 13 and 26 weeks ended June 25, 2017 was 1.7% and 2.0% compared to 1.9% and 1.7% in 2016, a decrease of 200 basis points for the quarter and an improvement of 300 basis points year to date. The decrease in Q2 is primarily related to lower contribution from the St-Hubert food processing and distribution during the quarter from seasonally low second quarter sales. Year to date, the increase is related to System Sales increasing faster than central overhead costs resulting in overhead costs decreasing as a percentage of System Sales and from the additional first quarter contribution from St-Hubert's food processing and distribution business.

Selected Quarterly Information

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

(C$ millions unless otherwise stated) (1)	Q2 – 2017 Jun 25, 2017 (unaudited)	Q1 – 2017 Mar 26, 2017 (unaudited)	Q4 – 2016 Dec 25, 2016 (unaudited)	Q3 – 2016 Sept 25, 2016 (unaudited)	Q2 – 2016 June 26, 2016 (unaudited)	Q1 – 2016 Mar 27, 2016 (unaudited)	Q4 – 2015 Dec 27, 2015 (unaudited)	Q3 – 2015 Sept 27, 2015 (unaudited)
System Sales (1)	$ 660.8	$ 659.1	$ 641.1	$ 500.1	$ 450.3	$ 450.2	$ 461.1	$ 438.6
Total System Sales Growth	46.7%	46.4%	39.0%	14.0%	3.0%	4.9%	5.5%	2.6%
SRS Growth (1)	(0.3%)	(0.6%)	(2.8%)	(2.3%)	(2.0%)	0.5%	1.2%	1.9%
Number of restaurants (at period end)	1,255	1,238	1,237	1,127	1,003	997	1,010	828
Operating EBITDA (1)	**$ 41.6**	**$ 42.9**	**$ 46.7**	**$ 36.9**	**$ 32.8**	**$ 27.5**	**$ 29.6**	**$ 28.9**
Operating EBITDA Margin on System Sales (1)	**6.3%**	**6.5%**	**7.3%**	**7.4%**	**7.3%**	**6.1%**	**6.4%**	**6.6%**
Corporate restaurant sales	$ 103.4	$ 98.7	$ 82.1	$ 74.7	$ 68.4	$ 63.2	$ 60.6	$ 63.4
Number of corporate and JV restaurants	200	204	207	136	119	118	119	96
Contribution from Corporate segment	$ 10.4	$ 8.0	$ 6.8	$ 9.1	$ 8.9	$ 5.1	$ 6.1	$ 7.5
Contribution as a % of corporate sales	10.1%	8.1%	8.3%	12.1%	13.0%	8.1%	10.0%	11.9%
Franchise restaurant sales	$ 504.7	$ 500.8	$ 492.5	$ 407.7	$ 381.9	$ 387.0	$ 400.5	$ 376.3
Number of franchised restaurants	1,041	1,034	1,030	991	884	879	891	732
Contribution from Franchise segment	$ 19.9	$ 20.4	$ 20.1	$ 16.0	$ 15.4	$ 15.7	$ 16.1	$ 14.6
Contribution as a % of Franchise sales	3.9%	4.1%	4.1%	3.9%	4.0%	4.1%	4.0%	3.9%
Contribution from food processing and distribution	$ 0.6	$ 4.7	$ 5.9	$ 2.7	$ -	$ -	$ -	$ -
Contribution from Central segment	$ 11.3	$ 14.5	$ 19.8	$ 9.1	$ 8.5	$ 6.7	$ 7.4	$ 6.7
Contribution as a % of total System Sales	1.7%	2.2%	3.1%	1.8%	1.9%	1.5%	1.6%	1.5%
Total gross revenue	$ 178.4	$ 182.7	$ 175.6	$ 114.5	$ 89.0	$ 84.2	$ 84.0	$ 85.7
Operating EBITDA Margin (1)	23.3%	23.5%	26.6%	32.2%	36.9%	32.7%	35.2%	33.7%
Earnings before income taxes	**$ 21.6**	**$ 27.5**	**$ 30.3**	**$ 20.7**	**$ 24.9**	**$ 20.1**	**$ 21.7**	**$ 19.7**
Net earnings	$ 17.4	$ 43.8	$ 19.7	$ 14.9	$ 18.1	$ 14.3	$ 58.3	$ 19.2
Adjusted Net Earnings (1)	**$ 26.4**	**$ 25.6**	**$ 25.9**	**$ 24.3**	**$ 25.5**	**$ 21.1**	**$ 20.7**	**$ 20.2**
Net earnings operations attributable to common shareholders of the Company	$ 17.4	$ 44.0	$ 19.7	$ 14.8	$ 18.1	$ 14.5	$ 58.3	$ 19.1
EPS attributable to common shareholders of the Company (in dollars)								
Basic EPS	$ 0.29	$ 0.73	$ 0.33	$ 0.29	$ 0.37	$ 0.29	$ 1.19	$ 0.39
Diluted EPS	$ 0.28	$ 0.71	$ 0.32	$ 0.27	$ 0.34	$ 0.27	$ 1.11	$ 0.36
Adjusted Basic EPS (1)	**$ 0.44**	**$ 0.43**	**$ 0.44**	**$ 0.47**	**$ 0.52**	**$ 0.43**	**$ 0.42**	**$ 0.41**
Adjusted Diluted EPS (1)	**$ 0.42**	**$ 0.41**	**$ 0.42**	**$ 0.43**	**$ 0.48**	**$ 0.40**	**$ 0.39**	**$ 0.38**

(1) See "Non-IFRS Measures" on page 28 for definitions of System Sales, System Sales Growth, SRS Growth, Operating EBITDA, Operating EBITDA Margin, Operating EBITDA on System Sales, Adjusted Net Earnings, Adjusted Basic EPS, and Adjusted Diluted EPS.

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

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

Seasonal factors and the timing of holidays cause the Company's revenue to fluctuate from quarter to quarter. Revenue per restaurant is typically lower in the first quarter when consumer spending generally is lower following the holiday season. Adverse weather conditions may also affect customer traffic during the first quarter. The Company has outdoor patio seating at some of its restaurants, and the effects of adverse weather may impact the use of these areas and may negatively impact the Company's revenue. Food processing and distribution sales are typically highest in the fourth quarter, followed by the third quarter, then the first quarter, with the second quarter being lowest. During the quarters with higher sales, food processing and distribution contribution rate is also higher as fixed overhead costs are covered by higher gross margin.

Operating EBITDA has improved significantly from $32.8 million in the second quarter of 2016 to $41.6 million in the second quarter of 2017. Operating EBITDA has improved each quarter (year over year) as a result of growth in all three of the Company's historical segments, the addition of new restaurants, and from the acquisitions of New York Fries, St-Hubert, and Original Joe's. The significant increase in the fourth quarter of 2016, and the first and the second quarters of 2017 is primarily driven by having the full quarter impact of St-Hubert results.

Operating EBITDA Margin on System Sales(1) was 6.3% for the second quarter compared to 7.3% in the same quarter in 2016. Year to date, Operating EBITDA Margin on System Sales was 6.4% compared to 6.7% in 2016. The second quarter decrease was driven by: (i) the addition of Original Joe's that currently operates below our 7%-8% target; (ii) weaker performance in certain Cara corporate restaurants as a result of poor weather impacting our patio season; and, (iii) some second quarter timing differences, in particular, 10 corporate restaurant renovations and seasonally low grocery sales that will both correct in the second half of 2017. If we normalize second quarter EBITDA for timing differences, Operating EBITDA Margin on System Sales was 7.1%, within our long-term target range.

Contribution dollars from the corporate restaurant segment has increased (year over year) each quarter as a result of the addition of corporate restaurants. Contribution as a percentage of sales from the corporate restaurant segment is impacted by seasonality where the sales are lower in the first quarter and highest during the fourth quarter, thus contribution as a percentage of sales is typically lower in the first quarter as a result of lower sales in the period. In the second quarter, contribution rate was less than last year due to lower percentage contribution from the St-Hubert corporate restaurants that operate at lower contribution levels, negative SRS, and 10 temporary restaurant closures for renovation in the second quarter resulting in reduced overall corporate contribution rate.

The franchise restaurant segment second quarter contribution fell slightly to 3.9% from 4.0% last year. The decrease in the second quarter of 2017 was largely related to increases in bad debt provisions in relation to supporting franchisees primarily in western Canadian locations and by the lower royalty rates charged by new brands acquired (e.g. St-Hubert's standard royalty rate is 4.0%).

Quarterly contribution from central has improved each quarter (year over year). Contribution in the second quarter was $11.3 million compared to $8.5 million in 2016, an increase of $2.8 million or 32.9%. The increases are a result of the head office cost reductions, the growth of the Company's off premise business and the addition of the St-Hubert property rental and food processing and distribution business. Overall contribution as a percentage of sales has decreased due to lower contribution from the food processing and distribution during the second quarter as a result of seasonally lower sales during the period. Management expects food processing and distribution contribution to improve as sales to grocers increase in Q3 and Q4 to seasonal levels plus new sales of Cara branded products.

Total gross revenue has increased significantly each quarter (year over year). Gross revenue was $178.4 million in the second quarter as compared to $89.0 million in 2016. The increase is related to the addition of corporate restaurants from the St-Hubert acquisition and Original Joe's transaction, and the addition of the St-Hubert food processing and distribution business in the third quarter of 2016.

Quarterly earnings before income taxes were $21.6 million as compared to $24.9 million in 2016. The increases in contribution dollars from all segments was offset by the impairment and restructuring charges in the second quarter, and increases in financing costs and depreciation expenses both related to the 2016 St-Hubert and Original Joe's transactions.

Liquidity and Capital Resources

Cara's principal uses of funds are for operating expenses, capital expenditures, finance costs, debt service and dividends. Management believes that cash generated from operations, together with amounts available under its credit facility (refer to page 24), will be sufficient to meet its future operating expenses, capital expenditures, future debt service costs and discretionary dividends. However, Cara's ability to fund future debt service costs, operating expenses, capital expenditures and dividends will depend on its future operating performance which will be affected by general economic, financial and other factors including factors beyond its control. See "Risk and Uncertainties" (refer to page 32). Cara's management reviews acquisition and investment opportunities in the normal course of its business and, if suitable opportunities arise, may make selected acquisitions and investments to implement Cara's business strategy. Historically, the funding for any such acquisitions or investments have come from cash flow from operating activities, additional debt, or the issue of equity. Similarly, from time to time, Cara's management reviews opportunities to dispose of non-core assets and may, if suitable opportunities arise, sell certain non-core assets.

Working Capital

A working capital deficit is typical of restaurant operations, where the majority of sales are for cash and there are rapid turnover of inventories. In general, the turnover of accounts receivable and inventories is faster than accounts payable, resulting in negative working capital. Sales of Cara's Ultimate Gift Card significantly improve the Company's liquidity in the fourth quarter as cash is received within one to two weeks from time of sale. Gift card sales are highest in November and December followed by high redemptions in the January to March period. Cara's gift card liability at June 25, 2017 was $32.4 million compared to $62.9 million at December 25, 2016, a decrease of $30.5 million due higher redemptions in the first and second quarters.

At June 25, 2017, Cara had a working capital deficit of $23.7 million compared to $23.7 million at December 25, 2016. Decreases in cash and accounts payable were offset by a decrease in gift card liability. (i) The decrease in cash of $11.3 million primarily related to repayments under the credit facility; (ii) reduction in accounts receivable of $19.6 million primarily due to the collection of amounts related to the gift card sales during the December holiday period; (iii) decrease in gift card liability of $30.5 million related to higher gift card redemptions following the holiday period. Other changes in working capital include an increase in inventories of $2.0 million; increase in assets held for sale of $1.7 million; increase in prepaid expenses and other asset of $2.2 million; increase in accounts payable and accrued liabilities of $2.9 million, increase in current provisions of $2.2 million; and a net increase in income taxes payable of $0.2 million primarily related to St-Hubert.

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

Cash Flows

The following table presents Cara's cash flows for the 13 and 26 weeks ended June 25, 2017 compared to the 13 and 26 weeks ended June 26, 2016:

	For the 13 week period ended		For the 26 week period ended	
(C$ millions unless otherwise stated)	**June 25, 2017**	**June 26, 2016**	**June 25, 2017**	**June 26, 2016**
Cash flows from operating activities ……………………………………………	$ 31.2	$ 29.4	$ 59.7	$ 29.1
Cash flows used in investing activities………………………………………	$ (31.5)	$ (11.5)	$ (39.1)	$ (14.6)
Cash flows from (used in) financing activities………………………………	$ 1.8	$ (16.8)	$ (31.9)	$ (29.7)
Change in cash during the period [(1)]…………………………………………	$ 1.6	$ 1.1	$ (11.3)	$ (15.2)

[(1)] Figures may not total due to rounding.

Cash flows from operating activities of continuing operations

Cash flows from (used in) operating activities were $31.2 million and $59.7 million for the 13 and 26 weeks ended June 25, 2017 compared to $29.4 million and $29.1 million for the 13 and 26 weeks ended June 26, 2016, an improvement of $1.8 million and $30.6 million, respectively. The increase was primarily the result of improved earnings, reductions in accounts receivable, increases in accounts payable, partially offset by decreases in gift card liability related to higher redemptions following the Q4 2016 holiday period.

Cash flows used in investing activities of continuing operations

The following table presents Cara's capital expenditures for the 13 and 26 weeks ended June 25, 2017 as compared to the 13 and 26 weeks ended June 26, 2016:

(C$ millions unless otherwise stated)	For the 13 weeks ended June 25, 2017	For the 13 weeks ended June 26, 2016	For the 26 weeks ended June 25, 2017	For the 26 weeks ended June 26, 2016
Purchase of property, plant and equipment:				
Maintenance:				
Corporate restaurants	(2.7)	(1.0)	(3.8)	(1.8)
Central / IT expenditures / Other	(4.2)	(5.4)	(6.3)	(6.7)
Total maintenance	$ (6.9)	$ (6.4)	$ (10.1)	$ (8.5)
Growth initiatives:				
Major renovations	(5.7)	(1.3)	(6.8)	(1.5)
New builds	(4.2)	(4.7)	(10.1)	(6.0)
Total growth	$ (9.9)	$ (6.0)	$ (16.9)	$ (7.5)
Total purchase of property, plant and equipment	**$ (16.9)**	**$ (12.4)**	**$ (27.1)**	**$ (16.0)**
Business acquisitions, net of cash assumed:				
Acquisitions	-	-	1.5	-
Buy backs [1]	(0.2)	-	(0.2)	(0.2)
Total business acquisitions, net of cash assumed	**$ (0.2)**	**$ -**	**$ 1.3**	**$ (0.2)**
Total purchase of property, plant and equipment	$ (16.9)	$ (12.4)	$ (27.1)	$ (16.0)
Total business acquisitions, net of cash assumed	(0.2)	-	1.3	(0.2)
Proceeds on disposal of property, plant and equipment	0.9	-	1.4	-
Proceeds on early buyout of equipment and rental contracts	-	0.1	0.1	0.1
Investment in joint ventures and associates	(15.5)	-	(15.5)	-
Share of loss from investment in associates in joint ventures	(0.4)	-	(0.3)	-
Additions to other assets	(0.1)	-	(0.1)	-
Change in long term receivables	0.7	0.8	1.1	1.6
Total cash flows used in investing activities [2]	**$ (31.5)**	**$ (11.5)**	**$ (39.1)**	**$ (14.6)**

[1] 2017 buy backs are comprised of 3 locations (2016 – 4 locations)

[2] Figures may not total due to rounding.

Cash flows used in investing activities were $31.5 million and $39.1 million during the 13 and 26 weeks ended June 25, 2017 compared to $11.5 million and $14.6 million for the 13 and 26 weeks ended June 26, 2016, an increase in use of $20.0 million and $24.5 million, respectively. The increase is primarily related to the construction of new corporate restaurants, renovation of corporate restaurants, capital expenditures related to the refresh of IT systems at the Cara data center and at restaurants and the investment in Burger's Priest.

Commitments for Capital Expenditures

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

Cash flows (used in) from financing activities

The following table presents Cara's cash from financing activities for the 13 and 26 weeks ended June 25, 2017 compared to the 13 and 26 weeks ended June 26, 2016:

	For the 13 weeks ended		For the 26 weeks ended	
(C$ millions unless otherwise stated)	**June 25, 2017**	**June 26, 2016**	**June 25, 2017**	**June 26, 2016**
Increases in debt	$ 17.3	$ -	$ 17.3	$ 6.0
Debt repayments	-	(6.0)	(32.0)	(24.0)
Issuance of subordinated voting common shares	-	-	0.1	-
Share re-purchase	(0.5)	-	(0.5)	-
Change in finance leases	(0.6)	(0.6)	(0.1)	(1.1)
Net proceeds on subscription receipts offering	-	(228.9)	-	(228.9)
Liabilities from subscritption receipts due upon closing of St-Hubert transaction	-	228.5	-	228.5
Interest paid net of interest income received	(2.1)	(0.1)	(4.4)	(0.5)
Dividends paid	(12.2)	(9.8)	(12.2)	(9.8)
Cash flows from (used in) financing activities [1]	$ 1.8	$ (16.8)	$ (31.9)	$ (29.7)

[1] Figures may not total due to rounding.

Cash flows from financing activities were $1.8 million for the 13 weeks ended June 25, 2017 and cash flows used in financing activities were $31.9 million for the 26 weeks ended June 25, 2017. Cash from financing activities were from debt borrowings used to complete the investment in Burger's Priest. Cash used in financing activities primarily consist of a reduction in the Company's credit facility, and interest and dividends paid.

Cash flows used in financing activities were $16.8 million and $29.7 million for the 13 and 26 weeks ended June 26, 2016. Cash used in financing activities primarily consist of a net reduction of the Company's credit facility, dividends paid, interest paid, changes in finance leases, and net proceeds being held in escrow relating to the subscription receipts offering.

Debt

On September 2, 2016, the Company amended and extended the terms of its existing term credit facility. The fourth amended and restated term credit facility is comprised of a revolving credit facility in the amount of $400 million with an accordion feature of up to $50 million maturing on September 2, 2021 and a non-revolving term credit facility in the amount of $150 million maturing on September 2, 2019. A maximum amount of $26.3 million per year may be repayable on the term credit facility if certain covenant levels are exceeded by the Company.

The interest rate applied on amounts drawn by the Company under its total credit 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.

The Company is required to pay a standby fee between 0.25% to 0.60% 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 June 25, 2017, the standby fee was 0.25%.

As at June 25, 2017, $377.3 million (December 25, 2016 - $392.0 million) was drawn under the amended and extended term credit facility with an effective interest rate of 2.94% representing bankers acceptance rate of 0.9% plus 1.69% borrowing spread, standby fee and the amortization of deferred financing fees of 0.35%.

As at June 25, 2017, the Company has not exceeded any covenant levels requiring early repayment.

Off Balance Sheet Arrangements

Letters of credit

Cara has outstanding letters of credit amounting to $0.6 million as at June 25, 2017 (December 25, 2016 - $0.7 million), primarily for various utility companies that provide services to the corporate owned locations and support for certain franchisees' external financing used to fund their initial conversion fee payable to Cara.

Outstanding Share Capital

The Company's authorized share capital consists of an unlimited number of common shares and an unlimited number of non-voting common shares. As at July 31, 2017, there were 59,848,758 subordinate and multiple voting shares (December 26, 2016 – 59,982,554) issued and outstanding.

The Company has a common share stock option plan for its directors, CEO and certain management employees. The total number of options granted and outstanding as at July 31, 2017 is 4,250,853.

Related Parties

Shareholders

As at June 25, 2017, the Principal Shareholders hold 63.3% of the total issued and outstanding shares and have 97.5% of the voting control attached to all the shares. Cara Holdings holds 24.2% of the total issued and outstanding shares, representing 40.9% voting control. Fairfax holds 39.1% of the total issued and outstanding shares, representing 56.6% voting control.

During the 13 and 26 weeks ended June 25, 2017, the Company paid a dividend of $0.20338 per share of Subordinate and Multiple Voting Shares of which Fairfax and Cara Holdings received $4.8 million and $3.0 million.

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.

Investment in Original Joe's joint venture companies

The Company has joint venture arrangements with certain Original Joe's franchises. The Company has an equity investment in these restaurants at varying ownership interests as well as term loans and demand loans related to new restaurant construction, renovation and working capital. The due from related party balance of $11.3 million consists of term loans and demand loans secured by restaurant assets of the joint venture company which has been recorded at fair value and will be accreted up to the recoverable value over the remaining term of the loans. The term loans bear interest at rates ranging from 7.75% to 9.76% and all mature September 21, 2017. The term and demand loans are reviewed and renewed on an annual basis. The expected current portion of these loans is $2.4 million. The demand loans bear interest at 5% and have no specific terms of repayment. Pooling arrangements between the joint venture companies to share costs and repay the loans exist such that restaurants within a certain restaurant pool of common ownership agree that available cash from restaurants can be used to apply against balances outstanding among the group. Management determines the fair value of these loans based on expected cash flows from the restaurant at a discount rate of 15%. For the 13 and 26 weeks ended June 25, 2017, the Company charged interest in the amount of $0.5 million and $0.7 million on the term loans and demand loans.

The Company charges Original Joe's joint venture franchises a royalty and marketing fee of 5% and 2%, respectively, on net sales. At June 25, 2017 the accounts receivable balance included $0.3 million due from joint venture related parties in relation to these royalty and marketing payments and $0.8 million due from related parties for restaurant construction costs. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties in accordance with the franchise agreement.

Investment in Burger's Priest joint venture

On June 1, 2017, the Company completed the investment in New & Old Kings and Priests Restaurants Inc. (operating as "Burger's Priest") for cash consideration of $14.7 million. Burger's Priest owns and operates 14 fast casual restaurants in Ontario and Alberta. The Company has a 79.4% ownership interest in the joint venture with the remaining 20.6% owned by a third party who has an earn-out agreement that can grow their ownership interest to 50% if certain earnings targets are met. The transaction is considered a joint venture arrangement as both parties have joint control and all relevant activities require the unanimous consent from both parties. The Company has accounted for the investment by using the equity method.

Investment in restaurant joint venture

The Company has an investment in a joint venture to build two new restaurants with a third party. As of June 25, 2017, the Company has invested $0.8 million, with a commitment for a further $4.0 million. The Company and the third party each have a 50% ownership interest in the joint venture. The transaction is considered a joint venture arrangement as both parties have joint control and all relevant activities require the unanimous consent from both parties. The Company has accounted for the investment by using the equity method.

The Company's investment in the Original Joe's and Burger's Priest joint ventures are reduced by losses incurred and increased for income earned. For the 13 and 26 weeks ended June 25, 2017, a $0.4 million and $0.3 million increase related to the Original Joe's investment was recorded in relation to the Company's proportionate share of income for the period and included in share of income from investment in associates and joint ventures on the statement of earnings.

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

Outlook

The Company continues to deliver on its long-term strategic objectives laid out at the time of the April 2015 IPO. Cara's successful acquisition and earnings efficiency strategies, including synergies from the 2016 St-Hubert and Original Joe's transactions, will continue to deliver profitable growth over 2016. In the second quarter, Total Systems Sales grew $210.5 million or 46.7% to $660.8 million, Operating EBITDA increased 26.8% to $41.6 million with a contribution margin of 6.3% as a percentage of Total System Sales, and adjusted Net Earnings increased to $26.4 million. Despite progress growing System Sales, restaurant count, Operating EBITDA, and Adjusted Net Earnings, management is unsatisfied with SRS despite improvements over previous quarters. Management provides the following comments regarding its strategies and initiatives:

- *System Sales and SRS Growth* — While Management is satisfied with total System Sales growth of 46.7%, the SRS decline of 0.3% in the second quarter fell below Management's expectations. SRS during the quarter was negatively impacted by 0.6% with Easter occurring in the second quarter of 2017 as compared to the first quarter in 2016. Excluding the impact of Easter, SRS for the second quarter was positive 0.3%, and SRS was positive for both June and July. While we are pleased with the improved SRS trend, lots of work is being done towards our goal of long-term sustainable SRS growth. As Cara is a multi-branded company, not all brands will have strong results at the same time which can result in overall variable sales and SRS results.

- Management continues to focus on both short-term and long-term strategies to improve SRS through restaurant renovations, greater emphasis on menu innovation, enhanced guest experiences, expanded off-premise sales through new and improved e-commerce applications that will be expanded to most brands over the next 2 years, and brand specific digital-social media marketing. Some specific developments:

  - In Q1 and Q2 the Company completed the renovation of 29 corporate and franchised restaurants. Restaurant renovations rejuvenate sales long-term and positively contributes to SRS. The Company expects to complete 43 renovations in the second half of the year. Management has reduced the number of planned renovations for the year to focus on completing renovations with higher sales impact.

  - The Company has completed improvements to its websites and mobile applications to simplify and enhance order functionality to improve online sales. In Q3 and Q4, the Company will be launching new APPs for East Side Mario's, Swiss Chalet and Montana's that will provide a new and improved options for customers for take-out and delivery sales.

  - In Q1&Q2 Cara expanded its on-line aggregator relationships (including Uber-Eats) to over 350 restaurants to enable customers to place delivery and pick-up orders through the channel and application of their choice; the Company will continue to roll out this initiative across its corporate and franchised restaurants and expects to be active in at least 470 restaurants by August 2017 and 600 by the end of Q4.

  - The Company continues to build on existing partnerships with key media partners including Facebook and Google and has also built new partnerships and integrations with strategic digital media partners including the Weather Network, TeamSnap and Waze where their subscribers overlap with Cara customers. This is part of the continued goal of enhancing customer specific marketing and marketing effectiveness.

  - In Q3 and Q4 the Company will be focused on growing active user databases across brands and leveraging a new CRM tool and database management systems to market directly to customers and to effectively maximize life time value of these guests.

  - In Q3 the Company will also be using the data gathered from these data analytics tools to identify and provide specific feedback to individual restaurants that have an opportunity to enhance guest experience.

  - In Q3 the Company is on track to launch a new local store marketing portal that will provide more effective local store marketing tools to help our franchisees and restaurants better connect with guests in their communities.

- In Q3 and Q4 Cara will be enhancing its partnership with Scene to more effectively leverage the 8 million plus Scene member database and customer data to drive new and repeat purchases from Scene members.

- *Total Operating EBITDA* — The combined contributions from Corporate, Franchise, Food Processing and Distribution, and Central segments resulted in Total Operating EBITDA margin of 6.3% as a percentage of total System Sales for the quarter compared to 7.3% in 2016. If we normalize second quarter Operating EBITDA for timing differences, Operating EBITDA Margin on System Sales was 7.1%, within our long-term target range. Year to date, Total Operating Margin was 6.4% compared to 6.7% in 2016. The Company will continue to work on all four segments to achieve its long-term targets to increase both segmented Operating EBITDA Contribution and Total Operating EBITDA in relation to Total System Sales especially as St-Hubert Food Processing and Distribution sales are highest in Q3 and Q4.

- *Corporate restaurant profitability* — While corporate restaurant profitability of 10.1% for the 13 weeks ended June 25, 2017 is within the Company's long-term target range of 10% - 15%, it is lower than the 13.0% achieved in Q2 in 2016. Year to date, corporate restaurant profitability was 9.1% compared to 10.6% in 2016. The reduction was mostly from St- Hubert and the Original Joe's corporate restaurants that currently operate below the 10% target contribution level, the 10 temporary closures during the period for renovation purposes, weaker performance in certain Cara corporate restaurants as a result of poor weather impacting our patio season, and negative SRS. Management believes there is significant opportunity for improved contribution in the future from St-Hubert and Original Joe's as Management realizes operating synergies from lower food costs and better labour management tools, as renovated restaurants re-open at higher sales levels, as the western provinces and Newfoundland recover from the economic slowdown and from the sale of corporate restaurants in franchise banners as 9 sales were already completed in the first half of 2017. There will be more corporate renovations and temporary closures in Q3 2017 as we continue our 2017 renovation plan. The Ontario government is proposing increases to minimum wage starting January 1, 2018 that will materially impact the cost of labour at 55% of the Company's restaurants. The Company is working with industry groups to challenge the speed of the minimum wage increases. At the same time, Management is evaluating alternatives to mitigate the impact of these increases while minimizing menu price increases that may otherwise be necessary to recover the extra costs.

- *Franchise segment* —Franchise contribution as a percentage of franchise sales remained steady at 3.9% and 4.0% for the 13 and 26 weeks ended June 25, 2017, respectively compared to 4.0% in 2016. The continued sales challenges experienced in the western provinces and Newfoundland has impacted financial assistance and bad debt provisions with certain franchised locations, which will result in slower improvements in franchise contribution rate over the short term.

- *Food processing and distribution* — Contribution dollars from food processing and distribution was $0.6 million and $5.3 million for the 13 and 26 weeks ended June 25, 2017 respectively. As a percentage of System Sales, the Contribution margin rate for food processing and distribution was 1.1% and 4.7% for the 13 and 26 weeks ended June 26, 2017, respectively. Lower sales in the second quarter due to seasonality have impacted contribution. Management expects sales and contribution to increase in the third and fourth quarters to levels comparable to 2016.

- *Central segment* — Going forward, central contribution will continue to improve on our model for growing sales faster than head office expenses, and by expanding our off premise business.

- *Restaurant Count* — During the 26 weeks ended June 25, 2017, the Company completed 25 new openings and closed 20 restaurants. Management is targeting to open a minimum of 30 net new restaurants in 2017 before the impact of Casey's closures and any acquisitions. Management is also pursuing the sale of certain corporate restaurants in its franchise banners to franchisees to continue to improve the corporate-franchise portfolio mix. During the 26 weeks end June 25, 2017, 9 corporate restaurants were sold and re-franchised.

- *Growth and acquisitions* —The Company currently has a debt to EBITDA ratio of approximately 2.0x. At this debt level, and with strong cash flow from operations, the Company has the ability to consider more growth opportunities while continuing to reduce its debt, and by opportunistically repurchasing its subordinate voting shares for cancellation under the NCIB. To supplement cash flow and debt repayment (and our ability to grow), the Company is also planning less capital expenditures in 2018 as we build fewer new restaurants and as we reduce the number of corporate restaurants in franchise banners by selling restaurants to franchisees.

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

Future Accounting Changes

New standards and amendments to existing standards have been issued and may be applicable to the Company for its annual periods beginning on or after December 26, 2016. See note 3 of the Company's condensed consolidated interim financial statements for the 13 and 26 weeks ended June 25, 2017 for a summary of new accounting standards adopted during 2017 and note 4 for a summary of future accounting standards not yet adopted.

Controls and Procedures

In accordance with the provisions of National Instrument 52-109 certification of Disclosure in issued annual and interim filings, management, including the CEO and CFO, have limited the scope of their design of the Company's disclosure controls and procedures and procedures and internal control over financial reporting to exclude controls, policies and procedures of St-Hubert and Original Joe's. The scope limitation is in accordance with section 3.3 (1)(b) of National Instrument 52-109, Certification of Disclosure in Issuer's Annual and Interim Filing, which allows an issuer to limit its design and evaluation of internal controls over financial reporting to exclude the controls, policies and procedures of a company acquired no more than 365 days before the end of the financial period to which the certification of interim filings relates. Cara acquired shares of St-Hubert on September 2, 2016 and Original Joe's on November 26, 2016.

There were no changes in the Company's internal controls over financial reporting during the 13 and 26 weeks ended June 25, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Critical Accounting Judgments and Estimates

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

Non-IFRS Measures

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

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

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

"SRS Growth" is a metric used in the restaurant industry to compare sales earned in established locations over a certain period of time, such as a fiscal quarter, for the current period against sales in the same period in the previous year. SRS Growth helps explain what portion of sales growth can be attributed to growth in established locations and what portion can be attributed to the opening of net new restaurants. Cara defines SRS Growth as the percentage increase or decrease in sales during a period of restaurants open for at least 24 complete fiscal months relative to the sales of those restaurants during the same period in the prior year. Cara's SRS Growth results excludes Original Joe's as the transaction was completed on November 28, 2016; Burger's Priest as the transaction was completed on June 1, 2017; Casey's restaurants as the Company is in the process of winding down its operations; and sales from international operations from 51 New York Fries and 3 US East Side Mario's. For the first quarter of 2016, SRS excludes the timing impact resulting from Easter weekend occurring in the last week of the first quarter of 2016 as compared to being in the first week of the second quarter in 2015. To provide comparable quarter over quarter results for 2016, SRS for the first quarter was comprised of 12 weeks compared to the same 12 weeks in the prior year and the second quarter SRS compares 14 weeks in 2016 to the same 14 weeks in 2015 to include the impact of Easter weekend.

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

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

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

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

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

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

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

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

(C$ millions unless otherwise stated)	Q2 - 2017 June 25, 2017	Q1 - 2017 March 26, 2017	Q4 – 2016 December 25, 2016	Q3 – 2016 September 25, 2016
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reconciliation of net earnings to Adjusted Net Earnings				
Net earnings	$ 17.4	$ 43.8	$ 19.7	$ 14.9
Deferred income taxes	3.8	(19.5)	5.5	4.3
Inventory fair value adjustment resulting from acquisition	-	-	0.3	2.5
Transaction costs	0.1	0.1	-	1.1
Restructuring and other	2.7	-	-	-
Impairment charges	2.4	1.2	0.4	1.5
Adjusted Net Earnings [(1)]	**$ 26.4**	**$ 25.6**	**$ 25.9**	**$ 24.3**

(C$ millions unless otherwise stated)	Q2 – 2016 June 26, 2016	Q1 – 2016 March 27, 2016	Q4 – 2015 Dec 27, 2015	Q3 – 2015 September 27, 2015
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reconciliation of net earnings to Adjusted Net Earnings				
Net earnings	$ 18.1	$ 14.3	$ 58.3	$ 19.2
Deferred income taxes	6.5	5.7	(37.0)	0.8
Transaction costs	0.9	1.1	0.4	0.2
Impairment charges	-	-	(1.1)	-
Adjusted Net Earnings [(1)]	**$ 25.5**	**$ 21.1**	**$ 20.7**	**$ 20.2**

[(1)] Figures may not total due to rounding.

The following table provides reconciliations of EBITDA and Operating EBITDA:

(C$ millions unless otherwise stated)	Q2 - 2017 June 25, 2017	Q1 - 2017 March 26, 2017	Q4 – 2016 December 25, 2016	Q3 – 2016 September 25, 2016
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reconciliation of net earnings from continuing operations to EBITDA:				
Net earnings ……	$ 17.4	$ 43.8	$ 19.7	$ 14.9
Net interest expense and other financing charges ……	2.7	3.0	2.8	1.6
Income taxes ……	4.2	(16.3)	10.6	5.8
Depreciation of property, plant and equipment ……	10.8	10.0	10.1	6.6
Amortization of other assets ……	1.6	1.5	1.6	1.5
EBITDA[(1)] ……	**$ 36.7**	**$ 42.0**	**$ 44.9**	**$ 30.4**
Reconciliation of EBITDA to Operating EBITDA:				
Losses on early buyout/cancellation of equipment rental contracts ……	0.1	-	0.4	0.5
Restructuring ……	2.7	-	0.6	0.1
Transaction costs ……	0.1	0.1	-	1.1
Conversion fees ……	(0.3)	(0.3)	(0.4)	(0.4)
Net (gain) loss on disposal of property, plant and equipment ……	(1.1)	(0.4)	(2.6)	(0.1)
Impairment of assets, net of reversals ……	2.4	1.2	0.4	1.5
Inventory fair value adjustment resulting from acquisition ……	-	-	0.4	2.5
Fair value adjustments ……	-	0.1	-	
Stock based compensation ……	0.8	0.5	0.7	1.2
Change in onerous contract provision ……	(0.2)	(0.3)	2.3	0.2
Proportionate share of equity accounted joint venture ……	0.4	(0.1)	-	-
Operating EBITDA [(1)] ……	**$ 41.6**	**$ 42.9**	**$ 46.7**	**$ 36.9**

(C$ millions unless otherwise stated)	Q2 – 2016 June 26, 2016	Q1 – 2016 March 27, 2016	Q4 – 2015 Dec 27, 2015	Q3 – 2015 September 27, 2015
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reconciliation of net earnings from continuing operations to EBITDA:				
Net earnings ……	$ 18.1	$ 14.3	$ 58.3	$ 19.2
Net interest expense and other financing charges ……	0.8	0.6	1.0	1.0
Income taxes ……	6.8	5.8	(36.7)	0.5
Depreciation of property, plant and equipment ……	5.5	4.9	5.1	4.9
Amortization of other assets ……	0.7	1.2	1.5	1.3
EBITDA[(1)] ……	**$ 31.9**	**$ 26.8**	**$ 29.2**	**$ 26.9**
Reconciliation of EBITDA to Operating EBITDA:				
Losses on early buyout/cancellation of equipment rental contracts ……	-	-	1.0	1.4
Restructuring ……	(0.4)	(0.1)	0.3	(0.1)
Transaction costs ……	0.9	1.1	0.4	0.2
Conversion fees ……	(0.4)	(0.4)	(0.4)	(0.5)
Net (gain) loss on disposal of property, plant and equipment ……	(0.2)	(0.9)	(0.4)	(0.6)
Impairment of assets, net of reversals ……	-	-	(1.1)	-
Stock based compensation ……	1.1	1.1	1.2	2.0
Change in onerous contract provision ……	(0.2)	(0.1)	(0.6)	(0.2)
Operating EBITDA [(1)] ……	**$ 32.8**	**$ 27.5**	**$ 29.6**	**$ 29.1**

[(1)] Figures may not total due to rounding.

Forward-Looking Information

Certain statements in this MD&A may constitute “forward-looking” statements within the meaning of applicable Canadian securities legislation which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company or the industry in which they operate, to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this MD&A, such statements use words such as “may”, “will”, “expect”, “believe”, “plan” and other similar terminology. These statements reflect management’s current expectations regarding future events and operating performance and speak only as of the date of this MD&A. These forward-looking statements involve a number of risks and uncertainties, including those related to: (a) the Company’s ability to maintain profitability and manage its growth including SRS Growth, System Sales Growth, increases in net income, Operating EBITDA, Operating EBITDA Margin on System Sales,, and Adjusted net earnings (b) competition in the industry in which the Company operates; (c) the general state of the economy; (d) integration of acquisitions by the Company; (e) risk of future legal proceedings against the Company. These risk factors and others are discussed in detail under the heading “Risk Factors” in the Company’s Annual Information Form dated March 2, 2017. New risk factors may arise from time to time and it is not possible for management of the Company to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance or achievements of the Company to be materially different from those contained in forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this MD&A.

Risks and Uncertainties

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

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

Please refer to the Company’s Annual Information Form available on SEDAR at www.sedar.com for a more comprehensive list.