Freshii Inc.

ANNUAL INFORMATION FORM

For the 52 week period ended December 25, 2016

March 21, 2017
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NON-IFRS FINANCIAL MEASURES AND INDUSTRY METRICS

This Annual Information Form (“AIF”) makes reference to certain non-IFRS measures including key performance indicators used by management and typically used by our competitors in the restaurant industry. These measures are not recognized measures under International Financial Reporting Standards (“IFRS”) and 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 our results of operations from management’s perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. We use non-IFRS measures including “EBITDA”, “Adjusted EBITDA”, “Pro Forma Adjusted EBITDA”, “free cash flow” and “free cash flow conversion”. This AIF also makes reference to “AUV”, “average entrée price”, “cash-on-cash returns”, “system-wide AUV”, “system-wide sales”, “same-store sales growth” and “target cash build-out costs” which are commonly used operating metrics in the restaurant industry but may be calculated differently by other companies in the restaurant industry. These non-IFRS measures and restaurant industry metrics are used to provide investors with supplemental measures of our operating performance and liquidity and thus highlight trends in our business that may not otherwise be apparent when relying solely on IFRS measures. We also believe that securities analysts, investors and other interested parties frequently use non-IFRS measures, including restaurant industry metrics, in the evaluation of companies in the restaurant industry. Our management also uses non-IFRS measures and restaurant industry metrics, in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and forecasts and to determine components of executive compensation.

All figures in this AIF are expressed in US Dollars unless otherwise noted.

Non-IFRS Financial Measures:

- “EBITDA” means net income (loss) before interest expense (net), income tax expense (recovery) and depreciation and amortization;
- “Adjusted EBITDA” means EBITDA further adjusted for share-based compensation, a contract termination fee, service provider commission costs, a legal settlement, other expenses and costs in connection with the IPO (as defined herein) and the Reorganization (as defined herein);
- “Pro Forma Adjusted EBITDA” means Adjusted EBITDA adjusted for commission costs paid under the Company’s Chicago master franchise agreement for which the Company intends to use a portion of the net proceeds from the IPO to exercise its buyback option;
- “free cash flow” means an amount equal to Pro Forma Adjusted EBITDA less capital expenditures; and
- “free cash flow conversion” means an amount equal to free cash flow divided by Pro Forma Adjusted EBITDA.

Industry Metrics:

- “AUV” means average unit volume, which is calculated by dividing total sales for stores open for operations during an entire 52 week period by the number of stores open during such entire 52 week period;
- “average entrée price” means the average price for our entrée items offered in our stores located in the U.S. Entrée items are items that are offered under the following menu categories: salads, bowls, burritos, wraps and soups. We use the average entrée price for our U.S. stores in order to remove the effects of foreign currency impact;
- “cash-on-cash returns” means estimated year two store level operating profit after royalties and advertising, but before the impact of store owner operator or manager salaries, divided by the target cash build-out costs of approximately $260,000 (in local currency);
• “same-store sales growth” means the percentage change in year-over-year sales for the system-wide same-store base. We include a store in our same-store base in the first full fiscal quarter following its first 52 full weeks of operations, excluding non-traditional stores. A store is not included in same-store sales if it is closed for a week or longer, such as for remodeling, during the stated period. Same-store sales growth is measured on a constant currency basis, which means the results exclude the effect of foreign currency translation;

• “system-wide AUV” means the average annual sales of system-wide stores that have been open for a trailing 52 week period or longer. This measure is calculated by dividing total sales during the 52 week period for all such stores in the system that were open for operations during the entire 52 week period by the number of stores that were open for operations during the entire 52 week period. We apply the average exchange rate over the 52 week period to convert the total sales for our stores located outside the U.S. into U.S. dollars. A store is not included in system-wide AUV if it is closed for a week or longer, such as for remodeling, during the 52 week period;

• “system-wide sales” means sales for all of our franchised and Company-owned stores. This measure allows management to assess changes in our overall system performance, the health of our brand and the strength of our market position relative to our competitors. System-wide sales are measured using the average exchange rate for the period presented to convert the total sales for our stores located outside the U.S. into U.S. dollars;

• “target cash build-out costs” means the estimated target investment costs for new stores across North America, including, but not limited to, initial franchise fees, kitchen equipment and small-ware, leasehold and construction costs, furniture, signage, menu boards, point of sale equipment, other technology equipment, architectural costs and other miscellaneous costs, and excluding pre-opening expenses, lease costs and working capital, in each case payable in the local currency and based in part on estimates derived from information reported to us by our franchise partners; and

• “year two” means the 53 to 105 week period of time during which the applicable store was open and operating provided that the applicable store was open and operating for not less than 105 weeks.

FORWARD LOOKING INFORMATION

This AIF contains “forward-looking information” for purposes of applicable securities laws (“forward-looking statements”). Forward-looking statements are neither historic facts nor assurances of future performance. Instead, they are statements that are based on our current beliefs, expectations or assumptions regarding the future of our business, future plans and strategies, our operational results and other future conditions. Forward-looking statements can be identified by words such as “anticipate”, “believe”, “estimate”, “expect”, “intend”, “may”, “plan”, “predict”, “project”, “seek”, “target”, “potential”, “will”, “would”, “could”, “should”, “continue”, “contemplate” and other similar expressions, although not all forward-looking statements contain these identifying words. These forward-looking statements include all matters that are not historical facts.

Discussions containing forward-looking information may be found, among other places, under the headings “General Development of the Business”, “Description of the Business” and “Risk Factors”. This forward-looking information includes, among other things, statements relating to:

• expectations regarding industry trends, overall market growth rates and our growth rates and growth strategies;

• expectations regarding certain of our future results and information, including expectations regarding our future revenue, expenses, EBITDA, Adjusted EBITDA, Pro Forma Adjusted EBITDA, sales growth, capital expenditures, operations and use of future cash flow;

• expectations regarding the growth of system-wide sales and same-store sales growth;

• our business plans and strategies, including expectations regarding the growth of our franchise store base, our ability to deliver attractive new store economics and our expected drivers of same-store sales growth;
• expectations regarding North American and international growth, including future revenue growth generation and our ability to enhance future profitability and free cash flow;
• our competitive position in our industry;
• implementation of the proposed Franchise Partner Share Purchase Program (as defined herein); and
• the market price for the Class A subordinate voting shares.

The forward-looking statements and other forward-looking information are based on our opinions, estimates and assumptions in light of our experience and perception of historical trends, current trends, current conditions and expected future developments, as well as other factors that we currently believe appropriate and reasonable in the circumstances. Despite a careful process to prepare and review the forward-looking statements, there can be no assurance that the underlying opinions, estimates, and assumptions will prove to be correct.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We believe that these risks and uncertainties include, but are not limited to, those described in the "Risk Factors" section of this AIF, which include, but are not limited to, the following:

• our failure to successfully implement our growth strategies, which include opening new stores;
• our failure to identify, recruit and contract with a sufficient number of qualified franchise partners;
• our franchise partners’ new stores, once opened, may not be profitable initially or at all;
• our broad expansion into new markets in the U.S., Canada and internationally;
• the significant dependence of our business and results of operations upon the future performance of existing and new franchise stores, and the variety of additional risks associated with our franchise partners;
• our failure to manage our growth effectively;
• our and our franchise partners’ failure to secure desirable store locations;
• our failure to support our expanding franchise system;
• we may engage in litigation with our franchise partners;
• changes in food and supply costs;
• increased labour costs or difficulties in finding suitable employees for our and our franchise partners’ stores;
• competition could adversely affect us;
• failure to receive frequent deliveries of higher-quality food ingredients and other supplies meeting our specifications;
• our limited number of suppliers for our major products and reliance on one custom distribution company for the majority of our distribution programs in North America;
• changes in customer tastes and preferences, spending patterns and demographic trends;
• governmental regulation, which could harm our ability to open new stores or increase our and our franchise partners’ operating costs;
• our and our franchise partners’ failure to obtain and maintain required licenses and permits or to comply with food control regulations could lead to the loss of our and our franchise partners’ food service licenses;
• litigation that could adversely affect us by distracting management, increasing our expenses or subjecting us to material money damages and other remedies;
• our inability to persuade customers of the benefits of paying our prices for higher-quality food;
• our dependence on the continued service of key personnel;
• our marketing and advertising strategies may not be successful;
• we and our franchise partners may be harmed by data security risks we face in connection with our and our franchise partners’ electronic processing and transmission of confidential customer and employee information;
• our and our franchise partners’ heavy reliance on information technology;
• our storage of personally identifiable information of our customers;
• the inability of our insurance coverage reserves to cover future claims;
• negative publicity relating to our stores or the Company;
• our inability to adequately protect our intellectual property rights;
• significant fluctuations in our quarterly results, which could fall below the expectations of securities analysts and investors due to various factors;
• instances of food-borne or localized illnesses;
• the concentration of our North American stores in local or regional areas;
• the risks associated with our operations in emerging markets;
• our inability to use our net operating loss carryforwards and certain other tax attributes;
• our inability to generate sufficient cash flow or raise capital on acceptable terms to meet our future needs;
• our franchise partners could take actions or omit to take certain actions that could harm our business;
• our limited influence over the operations of our franchise partners and on-going required cooperation;
• our inability to maintain good relationships with our franchise partners, which could decrease revenues and hinder our ability to expand our presence in certain markets;
• the number of new franchised Freshii stores that actually open in the future may differ materially from the number of signed commitments from potential, existing and new franchise partners;
• changes to current franchise laws;
• fluctuations in exchange rates;
• the risks associated with doing business internationally;
• the potential for us to be adversely affected by violations of anti-bribery and anti-kickback laws due to our international franchise operations;
• disruptions in the international supply chain for our international franchised stores;
• the impact of negative economic factors, including the availability of credit, on our and our franchise partners’ landlords and surrounding tenants;
• changes to estimates related to our property, fixtures and equipment or results of operations that are lower than our current estimates at certain store locations, which may cause us to incur impairment charges on certain long-lived assets;
• federal, state, provincial, municipal and local tax rules;
• the potential for us to be treated as a passive foreign investment company under applicable U.S. tax laws;
• our share structure has the effect of concentrating voting control and the ability to influence corporate matters with Matthew Corrin, our Chairman and Chief Executive Officer;
• dilution;
• securities analysts’ research or reports could impact price of Class A subordinate voting shares;
• the forward looking statements contained in this AIF may prove to be incorrect; and
• fluctuations of quarterly results.

These factors should not be construed as exhaustive and should be read with the other cautionary statements in this AIF.

Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. The Company does not undertake to update any forward-looking information contained herein, except as required by applicable securities laws.

GENERAL

In this AIF, unless the context requires otherwise, references to the “Company”, “our”, “us” or “Freshii” means Freshii Inc. Unless otherwise indicated, all information in this AIF is provided as at December 25, 2016.
In addition to terms defined elsewhere in this AIF, as used in this AIF, the following defined terms shall have the following meanings unless the context otherwise requires:

- “CAGR” means compound annual growth rate;
- “international” means our system-wide stores located in any country other than the U.S. and Canada;
- “non-traditional franchise partners” means our franchise partners that operate stores located on university campuses, in airports, in hospitals, in fitness centres and within select retailers;
- “non-traditional stores” means stores located on university campuses, in airports, in hospitals, in fitness centres and within select retailers that are operated by our non-traditional franchise partners. Stores located on university campuses do not operate for a full fiscal year as they generally follow a school year schedule;
- “North America” means the U.S. and Canada;
- “our system” or “system-wide” means both Company-owned and franchised stores, and the number of stores presented in our store system, unless otherwise indicated, as of December 25, 2016;
- “system-wide stores” means the total number of stores, including franchised stores and Company-owned stores, open across the system at the end of a particular reporting period. The number of franchised and Company-owned stores along with the number of operating weeks is used by management to evaluate new store growth, system-wide sales, royalty and franchise fee revenue and the performance of our stores; and
- “traditional stores” means all stores other than non-traditional stores.

Financial data is prepared in accordance with IFRS. All amounts are in Canadian dollars, unless otherwise noted.

CORPORATE STRUCTURE

The business of the Company was founded in 2005 in Toronto, Canada by Matthew Corrin. The Company was incorporated under the Business Corporations Act (Ontario) (“OBCA”) on July 19, 2007. On December 28, 2012, the Company filed articles of amendment to increase the authorized capital of the Company by creating 525,000 Series A Preferred Shares and an unlimited number of Series B Preferred Shares. The Company filed articles of amendment on August 30, 2016 to create 22 different classes of common shares in order to effect the restructuring related to the Recapitalization (as defined herein). On January 12, 2017, the Company filed articles of amendment to increase the maximum number of directors to 10. On January 31, 2017, in connection with the IPO (as defined herein), the Company filed articles of amendment to, among other things, (a) amend the authorized share capital to provide for Class A subordinate voting shares and Class B multiple voting shares, (b) amend and redesignate its common shares on a one-for-one basis as Class A subordinate voting shares, and (c) amend its authorized capital to remove the existing classes of preferred shares and replace same with a single class of “blank cheque” preferred shares, issuable in series. Immediately prior to the closing of the IPO, the Company issued Class B multiple voting shares to Jaxii Holdings LLC (“Jaxii”), a company controlled by Matthew Corrin, the Chairman and Chief Executive Officer of the Company, on a one-for-one basis, in exchange for Class A subordinate voting shares held by Jaxii (other than 1,086,984 Class A subordinate voting shares sold by Jaxii in connection with the IPO). The foregoing transactions are collectively referred to as the “Reorganization”.

On January 31, 2017, the Company completed its initial public offering and secondary offering (“IPO”) of 10,900,000 Class A subordinate voting shares at a price of C$11.50 per Class A subordinate voting share, for total gross proceeds to the Company and the selling shareholders of C$125,350,000. On February 8, 2017, the underwriters exercised their over-allotment option to purchase an additional 1,635,000 Class A subordinate voting shares for additional gross proceeds of C$18,802,500.

The Company and the selling shareholders sold 12,535,000 Class A subordinate voting shares in connection with the IPO and the underwriters’ exercise of their over-allotment option for net proceeds of C$133,203,350 after deducting underwriting commissions of C$7,521,000.
The Company’s head and principal executive offices are located at 1055 Yonge Street, Unit 101, Toronto, Ontario M4W 2L2.

**Intercorporate Relationships**

The following chart identifies the Company’s material subsidiaries (including jurisdiction of formation or incorporation of the various entities). Each material subsidiary is wholly-owned.

**GENERAL DEVELOPMENT OF THE BUSINESS**

**Three Year History**

We have established one of the fastest growing franchised restaurant concepts, reaching more than 200 stores in 11 years. Since the end of fiscal 2013, Freshii has increased its store network from 70 locations to 278 locations as at December 25, 2016 while concurrently delivering 15 consecutive quarters of positive same-store sales growth, including same-store sales growth of 6.8% for the 52 week period ended December 25, 2016.

We believe our extensive, customizable and innovative menu and growing brand awareness have contributed to the exceptional financial performance of our Company, including for example, the increase in system-wide sales have from $41.7 million in fiscal 2014 to $96.1 million in fiscal 2016, representing a CAGR of 52.8% and the increase in total revenue from $9.0 million in fiscal 2014 to $16.2 million in fiscal 2016, representing a CAGR of 33.8%

**Highlights of the 2016 fiscal year**

i) **New Credit Facility**

On June 28, 2016, the Company entered into a new credit facility with a Canadian chartered bank (the “New Credit Facility”), consisting of: (i) a $2,000,000 demand operating facility (the “Operating Credit Facility”); (ii) a $15,000,000 demand term loan (the “Term Loan”); and (iii) a $200,000 demand Visa credit facility. The Term Loan matures on June 1, 2021. On June 30, 2016, the Company drew $3,678,561 on its New Credit Facility and used the funds to repay its existing credit facility (the “retired credit facility”). The retired credit facility was cancelled on June 30, 2016. On July 8, 2016, the Company drew an additional US$11,321,438 on its New Credit Facility. The Operating Credit Facility is a revolving facility that consists of: (i) US dollar base rate loans, which bear interest at the US base rate plus 1.00% per annum; (ii) US dollar LIBOR loans, which bear interest at LIBOR plus 2.25% per
annum; and (iii) Canadian dollar or US dollar standby letters of credit with fees to be calculated by a Canadian chartered bank. The Term Loan consists of: (i) US dollar base rate loans, which bear interest at the US base rate plus 1.50% per annum; and (ii) US dollar LIBOR loans, which bear interest at LIBOR plus 2.75% per annum. The outstanding principal and interest owing on the Operating Credit Facility and Term Loan was repaid by the Company following closing of the IPO.

ii) Recapitalization

On September 1, 2016, the Company’s shareholders approved both a distribution of cash of US$0.44 per common share (being the aggregate amount of US$11,321,438) as well as a reorganization of the Company’s share capital in order to facilitate the return of capital to the shareholders of the Company (the “Recapitalization”). Immediately prior to the return of capital, the share capital of the Company was reorganized such that each shareholder received a special class of common shares in respect of their shareholdings in the Company. The reorganization was implemented to facilitate the efficiency of the return of capital to each shareholder based upon their original subscription of shares in the Company. Immediately after the return of capital, each shareholder exchanged its special class of common shares for shares of the existing class of common shares. The aggregate cash distribution was comprised of two amounts, a return of capital of US$4,016,825 and a dividend of US$7,304,613.

Highlights of the 2015 fiscal year

i) Retired Credit Facility

On August 21, 2015, the Company amended the retired credit facility. The amended retired credit facility reduced the Company’s term loan amount from US$1,100,000 to US$794,445 and amended the maturity date thereof to October 9, 2017. The amendment provided the Company with an additional term loan in the amount of US$4,000,000, maturing on September 18, 2019. The additional term loan carried interest at the bank’s prime rate plus 1.75%.

ii) Stock Options Granted to Certain Members of Management

Options to purchase an aggregate of 1,021,245 common shares were granted to certain employees on January 2, 2015. Each option allows the holder thereof to purchase an aggregate of 1,021,245 common shares at an exercise price of US$3.78 per share. The options will expire on January 2, 2020.

The options require the holder to be continually employed by the Company at the time of vesting and vest based on performance conditional upon market success of the franchise measured by a count of the number of stores in the Company, except for a portion of options which immediately vested upon grant. All outstanding unvested options vested on completion of the IPO and are exercisable to acquire Class A subordinate voting shares.

iii) Company Cancelled Franchise Sales Agreement for US and International Sales

The Company had an arrangement with a service provider to support franchise sales around the world (excluding Canada) in exchange for a portion of the up-front fees charged by the Company to the franchise partner along with a portion of the future royalties earned from the successfully opened franchise locations. On September 18, 2015, the Company entered into an agreement to terminate this agreement with the service provider.

Company Settled Legal Dispute with Third Party

The Company agreed to a settlement through arbitration with a third party.
Highlights of the 2014 fiscal year

i) Retired Credit Facility

On June 26, 2014 the Company entered into the retired credit facility. The retired credit facility was comprised of a term loan in the amount of US$1,100,000 and a US$350,000 revolving credit facility. The retired credit facility agreement was set to expire on October 15, 2017. The term loan bore interest at the bank’s prime rate plus 1.75%. The revolving credit facility bore interest at the bank’s prime plus 1.0% per annum. The retired credit facility was secured by limited personal guarantees from the Company’s then sole director and a general security agreement.

DESCRIPTION OF THE BUSINESS

Freshii is a fast-growing restaurant brand serving a healthy and customizable menu built around high-quality ingredients such as fresh produce, lean proteins, healthy grains and ethnic spices. Founded in 2005 by Matthew Corrin in Toronto, Canada, Freshii’s core mission is to help people all over the world live healthier and better lives by making healthy food convenient and affordable. Freshii offers a delicious and diverse menu that energizes people “on-the-go”, appealing to a broad spectrum of customers across many demographics. The Freshii brand is particularly embraced by the millennial generation, a demographic that is focused on maintaining a healthy and customized lifestyle. Our franchise partners are opening stores across various countries, demonstrating the global portability of our brand and its broad appeal. We believe Freshii is at the forefront of the global health and wellness movement, pioneering the new “healthy fast food” category.

Since opening our first store in 2005, Freshii has grown to 278 stores located across 15 countries and in more than 30 states and provinces in North America as of December 25, 2016. As of December 25, 2016, our franchise partners operated 45 international stores. As of December 25, 2016, our store base was approximately 99% franchised, with 274 franchised locations and four Company-owned stores.

Innovative and Evolving Menu of Healthy, Fresh and Craveable Food at Affordable Price Points

The Company’s extensive, customizable and innovative menu has an outsized impact on its business and drives higher same-store sales growth. The menu is designed to have something for everyone, including salads, bowls, burritos, wraps, soups, juices, smoothies and frozen yogurt, which is intended to provide broad customer appeal and helps avoid the “veto vote”. Each core menu item is chef designed and certified nutritionist approved. We consider ourselves the “fast fashion” of food: our dedicated team works to track food trends in global culinary markets and then capitalizes on those trends by quickly introducing new menu items. We believe this model encourages customers to visit our stores more frequently and that our strategy minimizes the risk associated with being the “first-mover”. Furthermore, at an average entrée price of US$7.50, we believe we offer customers a compelling value proposition leading to increased frequency of visits, while maintaining store-level margins that generate attractive cash-on-cash returns for our franchise partners. We believe our mission to provide healthy, great tasting, affordable food in a quick and convenient manner positions us well to capitalize on our large addressable market.

Asset-Light Franchise Model with an Exceptional New Store Growth Opportunity

Freshii has a highly franchised business model in which 99% of its 278 locations are owned by franchise partners. Our franchised business model is asset-light and requires minimal capital expenditures by Freshii. We believe that we have tremendous growth ahead of us. Since 2013, Freshii increased its store network from 70 locations to 278 locations as at December 25, 2016. We believe that our highly scalable platform enables our franchise partners to open these new stores without a material increase in Freshii’s overhead expenses and capital expenditures.
**Compelling Unit Economics Driven by Flexible Real Estate Model**

Our broad appeal and flexible real estate model drive strong unit-level economics across various markets and geographies. As of December 25, 2016, we and our franchise partners operated a total of 278 stores, ranging in size from fewer than 300 square feet to greater than 2,500 square feet in urban business districts, suburban settings, university campuses and retail stores. In order to maximize flexibility in site selection and portability to different markets, our stores are specifically designed with small kitchen spaces that do not require ovens, freezers, microwaves, hoods or other large and expensive cooking equipment. This allows our franchise partners to open stores with modest cash build-out costs and generate attractive cash-on-cash returns. Our traditional U.S. and Canada new unit economic model targets a store with approximately 1,200 square feet, target cash build-out costs of approximately $260,000 (in local currency) and cash-on-cash returns in excess of 40%. While our diverse store network includes a wide range of AUVs due to differences in store formats, markets and the impact of currency, and cash build-out costs vary as a result of these factors and franchise partner construction choices, we believe cash-on-cash returns to our franchise partners remain compelling.

We believe the attractive nature of our proposition to potential franchise partners is highlighted by: (i) a high percentage of new franchise partners being direct referrals and/or regular Freshii guests, (ii) Freshii receiving over 3,800 franchise partner applications during fiscal 2016 without engaging in traditional franchisee marketing campaigns, and (iii) 33% of new Freshii locations opened during fiscal 2016 were opened by existing traditional franchise partners who sought additional stores.

**Strong Franchise Partner Network and New Store Pipeline**

Our franchise partners are our greatest asset. With a store base that is approximately 99% franchised, we pride ourselves on having a strong, diverse and growing network of franchise partners. As of December 25, 2016, we had a total of 226 franchise partners with signed franchise agreements, of which 154 were operating Freshii restaurants. We believe that we have a strong franchise development pipeline, which is evidenced by approximately 33% of new Freshii locations opened during fiscal 2016 being opened by an existing traditional franchise partner.

We estimate the average time period between a franchise application being received and a franchise agreement being signed to be approximately eight weeks. Once a franchise agreement is signed, we provide significant support to our franchise partners, including site selection and development, training, pre-opening assistance and opening support which generally results in a franchise partner opening a store approximately nine months after a franchise agreement is signed. In total, we estimate the average time period between receiving a franchise application and a store opening to be approximately 11 months.

Outside of our franchise development pipeline, we receive significant interest from others applying to join our franchise partner community. Given the strength of our brand, we have not engaged in traditional advertising to attract new franchise partners. Instead, our philosophy is to allow passionate potential franchise partners who are drawn to the Freshii brand to find us, and we believe that their passion for the brand is key to our success. As part of a rigorous vetting process, we received more than 3,800 applications during fiscal 2016 from which we awarded franchises to fewer than 1.7% of applicants.

In recent years, Freshii has also been approached by an increasing number of potential multi-unit franchise partners, many of whom are also involved with other well-known North American brands. We believe that they have been attracted to the growth potential of the Freshii brand and our compelling unit economics.

We believe that well-capitalized, professionally run multi-unit franchise partners may represent an attractive avenue through which to accelerate the growth of our existing network in new and currently under-penetrated markets.
Significant Opportunities for Growth

We believe that we have a significant growth opportunity ahead of us, building on our successful track record. We are committed to rapidly increasing the number of franchise partner locations in our store network and leveraging the scalability of our operating platform to increase the profitability of our business. See “Non-IFRS Financial Measures and Industry Metrics”, “Forward Looking Information” and “Risk Factors”.

Grow Our Franchise Partner Store Base

We have grown our system-wide store base from a single store in downtown Toronto in 2005 to a network of 278 stores located across 15 countries and in more than 30 states and provinces in North America as of December 25, 2016. Our franchise partners opened 38 stores in fiscal 2014, 83 stores in fiscal 2015 and 110 stores in fiscal 2016, of which 21.1%, 28.9% and 32.7% were opened by existing Freshii franchise partners, respectively.

As of December 25, 2016, our system-wide AUV, which is comprised of stores open for a trailing 52 week period or longer, was US$468,000. Going forward, we anticipate our new stores to achieve AUVs of approximately US$520,000 in their year two of operation as we optimize our store mix to include a greater proportion of traditional North American stores, and as we open an increasing number of international locations in developed markets such as the United Kingdom and non-traditional stores in high traffic locations such as airports and selected stores of certain North American retailers. While our diverse store network experiences a wide range of AUVs due to differences in store format, markets and the impact of currency, and cash build-out costs vary as a result of these factors and franchise partner construction choices, we believe cash-on-cash returns to our franchise partners remain compelling. We also expect the new store opening process to be accelerated by our in-house real estate team, who will work with new franchise partners to identify and select real estate from a preferred list of pre-identified locations in target markets. We do not expect the acquisition of suitable real estate to constrain our ability to grow our system-wide store count.

We believe that we are in the very early stages of our growth story and that we have the potential to significantly grow our store count over the long-term in the U.S. and Canada. In addition to our North American store potential, we are confident that Freshii has brand appeal well beyond North America, as evidenced by the fact that we had stores located in 15 countries as of December 25, 2016.

Our approach to growing our store base is designed to allow existing and new single or multi-unit franchise partners to develop the Freshii brand in markets according to their experience and knowledge, rather than targeting specific markets. We believe that selecting passionate franchise partners who have extensive knowledge of their own markets and ties to their communities is key to our success. When we enter new markets, we expand our network of customers and potential franchise partners, further building our brand awareness and driving customer traffic.

Grow the Freshii Community Through Non-Traditional Partnerships

We have established non-traditional franchise partnerships with universities, airports, hospitals, fitness centres and select retailers. In fiscal 2015, we were selected by a number of North American retailers, including Walgreen Co. ("Walgreens") and Target Corporation ("Target"), to participate in tests to replace select in-store restaurants with Freshii in order to drive traffic. This has been driven by the retailers’ focus on health and wellness as a core theme and their belief that Freshii’s product offering would be well-received by their customers. We currently operate Freshii stores in retail locations in Los Angeles, Minneapolis, Miami, Boston and Chicago. We believe that if these stores perform well, there will be opportunities for more Freshii stores within the Walgreens system as well as other large retailers. We also have strategic partnerships and licensing agreements with Aramark Food and Support Services Group, Inc., Compass Group USA Inc., Sodexo Operations, LLC, and SSP America, Inc. These relationships provide us with access to unique and desirable locations, including university campuses, airports and hospitals. We have also launched a pilot meal delivery program with a high school in Toronto, Canada to energize an even younger generation. We believe these non-traditional partnerships will help us to further our goal of bringing the Freshii brand to the masses.
**Drive Same-Store Sales Growth**

We intend to continue to drive same-store sales growth through the following strategies:

**i) Attract New Customers by Expanding Brand Awareness**

We expect to continue attracting new customers to Freshii as we expand brand awareness in new and existing markets through store openings and marketing efforts. As we continue to expand and build density, we are experiencing strong same-store sales growth due to a broadening customer base and increasing awareness of our brand. We regularly engage in social media and public relations campaigns to expand our brand reach and drive traffic to our stores. Freshii has received a growing number of franchise partner applications from established, professionally run multi-unit franchise operators who management believe have the potential to accelerate new market penetration in the U.S. and internationally. Our digital strategy encompasses utilizing our website, social media and blogs to promote our brand and new product introductions. Our strong social presence on Facebook, Instagram and Twitter includes more than 124,000 total followers. We expect these marketing efforts will continue to attract new customers and drive same-store sales growth.

**ii) Increase Frequency of Customer Visits and Traffic Through Menu Innovation**

We strive to increase the frequency of customer visits and traffic by evolving our menu to generate customer excitement, to adapt to changing customer preferences to keep Freshii relevant and to build customer loyalty. We have an operational model that allows us to selectively change our menu based on consumers’ preferences. We have a proven history of bringing new healthy food options to the masses at an affordable price point. We utilize customer feedback and closely analyze sales data to introduce, test and perfect menu items that appeal to our customers’ evolving tastes. We are able to quickly adopt newly popular food items into our stores given our flexible kitchens and strong relationships with suppliers. We believe our highly optimized supply chain and ability to react quickly to consumer preferences make Freshii the “fast fashion” of food and drive an increased frequency of customer visits and traffic.

**iii) Expand and Optimize Menu Mix and Dayparts**

We are focused on growing all of our dayparts and optimizing our stores’ capacity utilization during off-peak hours. We believe we have an opportunity to complement our strong and growing lunch daypart with our breakfast, snack and dinner dayparts as well as through catering to increase same-store sales growth. We expect to drive growth across these dayparts by continuing to introduce innovative menu offerings and creative marketing campaigns. We will continue to explore new ways to increase the number of occasions and the flexibility of daypart options for our customers to enjoy our food every day and for every meal. For example, we are now selling “meal boxes”, affordable juice cleanses, catering services, snacks and enhanced breakfast offerings to enhance non-core dayparts.

**Meal Boxes**: Our “meal box” program offers customers three meals and two snacks each day, which are designed by our in-house, certified nutritionists and customized to meet specific nutritional requirements. We prepare the Freshii “meal boxes” during off-peak hours within the store and deliver the meals daily to our customers’ preferred location to ensure freshness. Our “meal box” program allows us to capitalize on the increasing demand for convenient, high-quality home meal replacement alternatives and expand our customer base. The “meal box” program has been rolled out system-wide, and despite being in its nascent stages has represented up to 5% of total sales at certain locations during particular periods. We believe this program is a significant differentiator among other restaurant brands. This program competes directly with home meal delivery and diet services offerings. By using our stores as commissaries and taking advantage of small radius delivery, we differentiate ourselves from most of our home meal delivery competitors on both price and freshness, because we eliminate shipping costs and the need for longer shelf life preparation and storage.

**Juice Cleanses**: Our juice cleanse program is available in each of our markets and offers customers up to four juices and one salad each day. We believe benefits of this cleanse program may include improved digestion,
increased nutrient intake, better sleep, clearer complexion, increased energy, hydration and weight loss. Our customers can enjoy our juice cleanse at a price point that is compelling relative to other well-known competitors’ juice cleanses. Juice cleanses represented 1% of our system-wide sales during the 52 week period ended December 25, 2016.

**Catering and Snacks:** Our catering menu is available in each of our markets and offers breakfast options, sharable snacks, platters, wrap and burrito boxes and salads to large groups. We believe our catering services are well-suited for office luncheons and corporate, social and special events. We recently launched a number of new snack offerings, which include “Energii Bites”. Our new snack offerings are an opportunity to increase the average in-store purchase. We intend to continue to innovate our snack offerings to drive growth across our dayparts. Catering orders and snacks are prepared daily, during off-peak hours and leverage existing Freshii menu items.

**Breakfast:** In September 2016, we upgraded our breakfast menu with the introduction of Protein Egg Bowls and Green Smoothie Bowls. We see breakfast as an opportunity to differentiate ourselves in the industry and we believe we can grow the breakfast daypart over time by promoting our new menu items to our existing lunch and dinner customers.

iv) **Leverage Mobile Technology to Increase Order Frequency and Speed of Service**

In September 2016, we launched a mobile application designed and owned by Freshii to help customers access our food more conveniently, further enhance brand loyalty, streamline order operations and shape our marketing strategy. Our mobile application enables customers to order ahead of time and skip the line. Furthermore, while using the mobile application, customers take advantage of our loyalty program, which includes free meals and other exclusive deals. We and our franchise partners also benefit from the mobile application, by using it to prepare pre-ordered meals during off-peak hours, which increases efficiency and helps us serve more customers during peak hours. Additionally, our marketing and operations teams utilize our valuable user data gathered from the mobile application to shape our store-specific marketing strategy and communicate with our customers. We believe our mobile application will help increase order frequency, customer spend and brand loyalty.

**Enhance Profitability and Free Cash Flow**

We will continue to focus on increasing our profitability while also investing in personnel and infrastructure to support our future growth. As we execute our growth strategy, we believe we will grow revenue and leverage our fixed cost infrastructure, creating greater operating leverage and generating increased earnings growth and free cash flow.

Our stores are primarily operated by our franchise partners, which we believe results in low operational risk, attractive margins, stable cash flow generation and minimal ongoing capital expenditures for Freshii. Due to the nature of our franchise operating model which outsources many franchise partner services to third-party service providers, including food delivery service, IT, telecommunications and integrated marketing platforms, we believe that our expected franchise partner new store growth can be undertaken without materially increasing fixed costs and overhead expenses at Freshii. We expect our asset-light, highly-franchised business model to generate strong operating margins and consistent free cash flow as a result of low capital expenditures and working capital needs.

**Our Concept**

**Our Stores**

Our store footprint is diverse in format, size and design. Our store formats are tailored to fit specific locations and markets. We and our franchise partners operate stores ranging in size from fewer than 300 square feet to greater than 2,500 square feet with an average size of approximately 1,200 square feet. Our traditional stores can be found in urban business districts and suburban settings and our non-traditional franchise partners operate stores on university campuses, in airports, in hospitals, in fitness centres and within select retailers. Hours
and days of operation vary to adapt to the needs of each location and market, but typically range from 8:00 a.m. to 9:00 p.m. and are open five or seven days a week. Each store has an “un-franchised” like design, with a look and feel that is consistent with its respective community. Our stores all operate under the Freshii® trade name and use our distinctive logo and branding.

Our People

In order to maintain our unique and mission-led culture throughout our franchised organization, we begin by rigorously screening all potential franchise partners to ensure that they are:

1. Passionate about our mission;
2. Aligned with our guiding principles and people values; and
3. Capable of maintaining their focus on the triple bottom line within their own stores.

Once we have selected our franchise partners, we then foster our culture by setting them up with best-in-class training, systems and tools, including but not limited to:

- Freshii University online, an e-learning platform;
- Comprehensive people management guides (including recruiting, coaching, performance management, employee growth opportunities and employee experience modules);
- In-store training;
- Ongoing field consultant coaching and support;
- Weekly corporate communications (including videos, tools, news, alerts and results);
- Surveys and polls;
- Regional in-market franchise partner visits; and
- Guest feedback analytics and action plans.

Our goal is to ensure that all of our franchise partners are equipped to develop a community of Freshii guests who are energized every time they interact with our brand - whether that is in-store, online, through our mobile app or in the community. With our broad menu mix across multiple dayparts, we are able to capitalize on a high rate of repeat visits. The quality of in-store guest interactions with our team members is critical to our long-term success. This is why we will continue to invest in our franchise partners and strive to attract and retain highly motivated team members who love our brand, believe in our mission, and are committed to providing authentic, high-quality guest service.

Our Menu

Our menu includes items such as salads, bowls, burritos, wraps, soups, juices, smoothies and frozen yogurt, all of which can be customized with flavourful combinations from a wide variety of high-quality and colourful ingredients. Our menu evolves and at any point in time, our top selling items often come from a variety of flavours, including Asian-, Mexican- and Mediterranean-inspired flavours. Our menu is also supplemented by seasonal food offerings that create excitement and increase customer frequency.

Each menu item is crafted by our certified nutritionists based on high-quality and fresh ingredients. These ingredients are sourced from a select list of approved suppliers in an effort to guarantee our high-quality standards as well as maintain consistency across locations. Our commitment to freshness and quality is evidenced by not having freezers or microwaves in our stores. Our team members also make select items in-store daily in order to ensure we offer the highest quality and freshest product. For example, our sauces and dressings are freshly made in-store from a list of additive and preservative free ingredients, including Greek yogurt, olive oil, lemon and balsamic vinegar.

We consider ourselves the “fast fashion” of food: our dedicated team works to track food trends in global culinary markets and then capitalizes on those trends by quickly introducing new menu items. We believe this model encourages customers to visit our stores more frequently and that our strategy minimizes the risk associated with being the “first-mover”. For example, we regularly introduce limited time and seasonal offerings, such as our sushi style burritos and vegan chili, to create excitement and drive customer traffic. This approach
along with our broad menu allows us to evolve our brand as the definition of healthy food evolves over time. We believe our extensive, customizable and innovative menu drives repeat business and enhances brand loyalty.

**New Store Development**

Our franchise partners opened 38, 83 and 110 stores in fiscal 2014, fiscal 2015 and fiscal 2016, respectively. We expect our franchise partners to open between 150 and 160 net new franchised stores in 2017. Our franchised store growth strategy is designed to allow existing and new franchise partners to develop the Freshii brand in markets according to their experience and knowledge, rather than targeting specific markets. We believe that selecting passionate franchise partners who have an extensive knowledge of their own markets and ties to their communities is key to our success and to our future growth. We have a strong development pipeline and we believe we have significant store growth prospects in both existing and new markets, as evidenced by our deep penetration in our legacy markets of Toronto and Chicago.

We receive a significant number of franchise partner applications from new potential traditional franchise partners. We received more than 3,800 franchise partner applications during fiscal 2016, and with a rigorous vetting process we awarded franchises to fewer than 1.7% of applicants. In addition to new franchise partner growth, our existing franchise partners continue to open new stores. Approximately 29% and 33% of new stores were opened by an existing franchise partner in fiscal 2015 and fiscal 2016, respectively. We believe that we are in the very early stages of our growth story and that we have the potential to significantly grow our store count over the long term in Canada and the U.S. In addition to our North American store potential, we are confident that Freshii has brand appeal well beyond North America, as evidenced by the fact that we had stores located in 15 countries as of December 25, 2016. We have recently executed master franchise agreements in Australia, the United Kingdom and Peru.

**Franchise Overview**

We utilize a franchise development strategy as our primary method for new store growth, leveraging the interest of our existing franchise partners and those potential franchise partners with an entrepreneurial spirit looking to launch their own business, in order to drive growth. Given the strength of our brand, we have not engaged in traditional advertising to attract new franchise partners. Instead, our philosophy is to allow passionate potential franchise partners who are drawn to the Freshii brand to find us, and we believe that their passion for the brand is key to our success. As of December 25, 2016, our franchise partners operated a total of 274 stores across the U.S., Canada, Europe, Latin America and the Middle East. We have a rigorous franchise partner qualification and selection process and work hard to ensure that every Freshii franchise partner meets our strict brand standards.

Our existing franchise base consists of a diverse set of partners that operate anywhere from a single store to 10 stores as of December 25, 2016.

**Franchise Agreements**

*Traditional Franchise Agreements:* Our traditional franchise partners execute a franchise agreement for each individual store opened, typically providing for an initial 10-year term, with an opportunity to renew for an additional 10 years, subject to certain conditions. Our traditional franchise partners must pay an initial franchise fee upon signing of the franchise agreement and royalties of franchised store gross sales. Our traditional franchise partners are responsible for constructing, furnishing and otherwise developing each store, at their expense, in accordance with our standards, specifications and directions.

*Non-Traditional Franchise Agreements:* Our non-traditional franchise partners execute a master license agreement for the specific country in which they wish to operate. Each licensee then enters into a separate license agreement for each franchised store, typically providing for an initial five-year term per franchised store, with automatic renewal for an additional five years, subject to certain conditions. Our non-traditional franchise partners must pay an initial franchise fee upon the applicable store commencing operations and royalties of franchised
store gross sales. The royalty percentage payable could decrease over time as additional stores are opened by the non-traditional franchise partner.

**Area Development Franchise Agreements:** Our area development partners execute an area license agreement for the specific territory in which they wish to operate. Each licensee then enters into a separate license agreement for each franchised store, typically providing for an initial 10-year term per franchised store, with automatic renewal for an additional 10 years, subject to certain conditions. The initial franchise fees for our area development franchise partners are due upon signing of the applicable franchise agreement. After the first location under an area development franchise agreement is opened, an additional franchise fee is due upon commencement of operations of each additional location that is opened.

**Master Franchise Agreements:** Our master franchise partners execute a master license agreement for the specific territory in which they wish to operate or sub-franchise stores, typically providing for an initial 10-year term per franchised store, with automatic renewal for an additional 10 years, subject to certain conditions. Our master franchise partners are typically experienced local operators. Under the master license agreements, sub-franchisees are typically identified by master franchise partners, but approved by us. Unlike our traditional franchise partners, our master franchise partners identify and approve real estate locations for sub-franchisees and our master franchise partners located in international regions identify food suppliers, subject to our approval. Our master franchise partners are also directly responsible for managing the performance of the stores operated by sub-franchisees, with support from us. The initial franchise fees for our master franchise partners are due upon signing of the applicable franchise agreement. We are required to evenly split royalties of sub-franchised store gross sales and initial franchise fees with our master franchise partners.

Our franchise agreements require that each store operates in accordance with our defined operating procedures, complies with our established Freshii menu and meets applicable quality, brand, customer service and health standards. Our franchise operating standards include requirements pertaining to menu offerings, in the case of our North American franchise partners, approved and recommended suppliers, storage, paper products, order-taking procedure, customer interaction and related customer service, food preparation and presentation, cleaning of equipment and furniture, point of sale systems and other reporting methods regarding store operations.

If a franchise partner fails to comply with the terms of its franchise agreement, we have remedies in place depending on the particular circumstances, including providing additional assistance to help the franchise partner resolve its operating issues, issuing a formal default notice or transitioning the franchise partner out of the system by helping it find another party to whom it can sell its franchise rights. If all other appropriate remedies to enforce a franchise partner’s compliance with our standards and requirements have proved to be unsuccessful, we may also terminate the franchise rights of any non-compliant franchise partner.

Under our franchise agreements, franchise partners are required to participate in various training programs. Additionally, we are obligated to provide our franchise partners with, among other things, certain store build-out and development support services, initial and ongoing training for franchise partners and managerial team members, in the case of our North American franchise partners, lists of designated, recommended, and approved suppliers for the equipment, food products, supplies and other items needed to operate their stores, and an operations manual identifying the standards, specifications, and operating procedures that they must follow in order to operate their stores in accordance with our brand standards. We believe that maintaining superior food quality, an inviting and energetic atmosphere and excellent customer service are critical to our brand’s reputation and success.

**How We Support our Franchise Partners**

**Site Selection and Development.** Our franchise partners work alongside our corporate real estate committee during the search, review, leasing and development process for a new store. Typically, it takes between 60 to 90 days from the time we sign an agreement with a franchise partner to the moment that franchise partner signs a lease.
Field Consultant Assistance. In fiscal 2015, we introduced a key corporate role solely dedicated to serving as the first line of support for our franchise partners. Our field consultants operate as a direct liaison between our franchise partners and our corporate team. Field consultants are instrumental in supporting our franchise partners during the initial months of operations where they monitor weekly performance. After the initial period, they focus on ensuring each store maintains brand consistency and operational excellence, helping franchise partners maximize their cash-on-cash returns. Our team of 11 field consultants is responsible for supporting our 274 franchised stores with each field consultant typically responsible for up to approximately 20 to 30 stores. Field consultants visit each unit approximately once per fiscal quarter, with the flexibility to increase visits and support on a case-by-case basis in addition to maintaining an open dialogue. Field consultants assist franchise partners with training and developing managers, controlling food and labour costs, and introducing limited time and seasonal offerings. A significant portion of each field consultant’s compensation is tied to the performance of the stores that he or she supports. Specifically, their compensation is based on the food costs, labour costs and EBITDA of the stores that they support, which incentivizes the field consultants to improve the performance of their assigned stores as much as possible.

Supply Chain Assistance. We assist our franchise partners and provide, in the case of our North American franchise partners, approved suppliers for food products and other necessary commodities to develop and operate a Freshii store. Our approved suppliers help ensure that all ingredients and supplies utilized in our stores satisfy our grade and quality standards. As we negotiate regional and national contracts, we seek to promote the overall interests of our franchise system and supply products to our franchise partners at competitive prices. Additionally, we recognize that there are unique dynamics in the various international markets where we operate. We provide our international partners with criteria and suggested benchmarks for selecting suppliers rather than an approved list.

Menu Innovation and Nutrition Assistance. We have dedicated certified nutritionists that work to ensure that we are at the forefront of healthy and delicious food options for our customers. We work with our franchise partners to continuously evolve our menu and provide our customers with new and on-trend options. Our dedicated team works to track food trends in global culinary markets. At each of our stores, we display the name and contact information of our system’s dedicated certified nutritionists. We believe our customers appreciate having direct access to a certified nutritionist, and support to ask any questions or provide feedback about our menu.

People Culture

Our People Culture team, led by our Vice President, People Culture and consisting of a People Culture Manager, Communications Manager, two Training Managers and seven Store Trainers, supports our franchise partners by helping them foster a unique Freshii culture within their stores. This team is dedicated to providing our franchise partners with best-in-class training, operations, systems and tools. We provide comprehensive people management guides, including topics such as recruiting, coaching, performance management, in-store growth and development, progressive discipline, rewards and recognition and employee experience. The People Culture team leverages our franchise system size and scope in order to best negotiate and deliver people management software and vendor options for our stores.

Training, Pre-Opening Assistance and Opening Support. The Freshii training program provides instruction to every franchise partner, allowing them to develop skills and expertise that are critical to the successful opening and ongoing operation of their stores. The program includes a two-week, in-class training program held in our training centres at the Freshii headquarters and a two-week, on-site opening support training for the first store of each franchise partner and one week for each subsequent store. The program is structured as follows:

- Franchise Partner and Management Operator Training: The operator training program includes 10 days of intensive training at the Freshii headquarters in Toronto, Canada. Each day is split into theoretical and practical learning and each night trainees log into our online platform to review completed learning modules and take an exam. Upon graduation, at the end of the two weeks, franchise partners are ready to
operate their own store. Franchise partners that do not pass the training program are required to re-take and complete it before opening their stores.

- **Opening Support**: For new store openings, the Freshii training team is involved in educating and providing operational support. Each trainer remains on-site from the week prior to launch until the end of the first week of operations, guiding the franchise partner and team members along the way. Sometimes the amount of time that each trainer remains on-site is extended, but it is never shortened.

- **Ongoing Training**: Each of our stores has full access to Freshii University online, which is an e-learning platform. We create content that is interactive and can be used in real-time. The training content includes videos, demonstrations, PowerPoint presentations, quizzes, and certifications, and covers topics that we standardize in-store, such as “who we are” (brand FAQs), guest experience, selling techniques, communications, operations, and food safety.

**Communications**. The People Culture team crafts weekly internal communications that engage our franchise partners and managers in our brand and mission, and provides them the tools to best manage their business. We use surveys and polls on a regular basis in order to engage in two-way communication with our franchise partners, managers and hourly team members. This allows us to hear their ideas and to seek their feedback on the issues that impact them. Our findings guide our actions accordingly. On an ongoing basis, field consultants and trainers work closely with our dedicated and knowledgeable People Culture team in order to create tailored action plans for any stores that may be facing challenging situations or guest experiences.

**Programs and Systems**. The People Culture team creates and manages programs, such as our quarterly Global Brand Ambassador Award or Limited Time Offering Team Sales Challenges, that reward excellence in our stores, drive sales results and bring local and global Freshii teams together.

**Marketing and Advertising Support**

We currently utilize multiple marketing channels to drive brand awareness and traffic to our stores. Freshii primarily uses digital media channels to build and expand awareness of the brand more broadly. We currently direct our marketing and advertising efforts through the following three categories: corporate advertising, digital and social media advertising and local advertising.

**Corporate Advertising**. Upon executing a letter of intent to develop a Freshii store, we require our Canadian traditional franchise partners to pay us a marketing deposit of US$5,000 which is applied to any products or services necessary for the store’s grand opening. We also currently charge our traditional, area development and master franchise partners 1.5% of gross sales to support the Freshii brand. We direct and retain control over all advertising and promotions that Freshii corporate finances.

**Digital and Social Media Advertising**. Freshii has a strong brand presence across social media platforms, including a mobile application and more than 124,000 total followers on Facebook, Twitter and Instagram. Social media platforms allow Freshii to reach a broad range of customers. For example, we utilize Instagram as a platform for introducing new menu items and receiving initial feedback from our customers on new offerings. We can take this real-time feedback and make appropriate adjustments to offerings quickly given our highly flexible operational model. We believe our mobile technology is best-in-class and our customers are utilizing our mobile application to enhance their Freshii experience, increasing order frequency and brand loyalty.

**Local Advertising**. In addition to the corporate advertising fee, we require our traditional, area development and master franchise partners to spend an additional 1.5% of gross sales on local advertising and promotions, in addition to the corporate advertising fee that we require. We encourage and allow our franchise partners operating within each designated market area to collaborate and utilize the required local marketing spend together to create and build the Freshii brand within their local communities. To assist our franchise partners, we introduced an experiential marketing team that helps connect franchise partners with their communities, creates local partnerships, and drive sales in individual markets. Each experiential marketer’s compensation is tied to the sales growth of the stores they cover, along with the level of support our franchise partners believe they provide. We believe this exponentially enhances opportunities for our franchise partners to drive brand awareness, and further enriches the company culture.


Suppliers and Distribution

We insist that all ingredients and supplies utilized in Freshii stores satisfy our grade and high-quality standards. We manage sourcing and pricing negotiations for our Company-owned stores and our North American franchise partners. The contracts with suppliers are negotiated by us on behalf of the system with set pricing and quality standards. We believe that this allows us to improve the negotiating leverage of the system with suppliers for the benefit of the whole system. Our team actively manages costs for our and our North American franchise partners’ ingredients and products by entering into what we believe are favourable pricing agreements, given existing market conditions. Historically, we have entered into pricing agreements ranging from three months to one year, depending on current and expected market conditions. In fiscal 2015, we and our U.S. franchise partners contracted with Distribution Market Advantage, Inc. (“DMA”) and we and our Canadian franchise partners contracted with Gordon Food Service Canada Ltd. (“GFS”) for our foodservice purchases and distribution.

Management believes that having food delivery outsourced to third party food service and distribution partners will allow the Company to benefit from operating leverage as we expand our franchise partner network.

Our North American franchise partners are required to purchase all core menu items, such as chicken, beef, produce, grains, rice, wraps, beverages, logo-imprinted paper goods and cleaning supplies, from suppliers that we designate and approve, as discussed above. Our international franchise partners source most of their ingredients locally. When an international franchise partner opens a store in a new market, our supply chain team will approve the ingredients that the international franchise partner wishes to source. If there is a perishable ingredient that they cannot find locally, we will provide them with an approved recipe to make the item in-house or remove it from the menu. We regularly inspect vendors to ensure that products purchased conform to our standards and that prices offered are competitive.

Many of our ingredients, products and supplies are currently sourced from multiple suppliers. Additionally, our supply chain team has established contingency plans for many key ingredients and products. We believe that we are able to source many of our ingredients and products from alternative suppliers in the open market, if doing so becomes necessary. We believe these strategies would collectively enable us to obtain sufficient ingredient and product quantities from other sources at competitive prices without material disruption should a current supplier be unable to fulfill its commitment to us. Changes in the price or availability of certain ingredients or products may affect the profitability of certain items, our ability to maintain existing prices and our ability to purchase sufficient amounts of items to satisfy our customers’ demands.

Food Safety

Food safety and customer well-being are our top priority. Maintaining rigorous standards for each of our menu items is critical to successfully growing our brand and keeping the trust of our customers. Our food safety program is integrated at all levels, from the senior management at our corporate headquarters to our team members in our stores. We focus our oversight on a centrally managed supply chain for our North American franchise partners, diligence programs for distributors and vendors, regulating specifications on key ingredients, and implementing best practices at the store level. We believe the long-term focus of our food safety policy is important, because we have built and optimized our entire brand, real estate model and supply chain around it.

- Centrally Managed Supply Chain: Having one strong distribution partner in North America enables us to have one point of contact across North America, to mandate product specifications, to track data across the supply chain and to mobilize quickly in the event of any food safety concern.

- Diligence Programs for Distributors and Vendors: From each of our distributors and vendors, we require annual internal audits to guarantee our products and ingredients continue to meet our standards.

- Key Ingredient Specifications: Select ingredients require additional oversight. For example, since our inception, we have used only high-quality, all-natural, fully pre-cooked protein to minimize the risk of food borne illness and our produce is either pre-washed (e.g., lettuce, onions, and cilantro) or washed and peeled in-house according to Freshii standards. Furthermore, we optimize our product offering to ensure
food quality by eliminating high risk products and optimizing pack sizes to balance cost with product freshness.

- **Store-level Best Practices**: We place significant emphasis on teaching our safety standards. As part of our mandatory training, our franchise partners and operators are taught all Freshii food safety protocols.
- **Mock Product Recalls**: We conduct biannual mock product recalls in order to ensure that our stores are trained and prepared to react in the event of a real product recall. During our mock product recalls, our supply chain team will send out a memo to the stores that purchased the affected product (and their respective field consultants) that will alert the stores of the recall and provide instructions on how to identify and segregate the affected lot codes. It is then the responsibility of the field consultants to log all communication and ensure that all of their stores have confirmed that they have properly exercised the recall. Our most recent mock product recall was conducted in October 2016 across all of our North American stores and we had a 90% response rate within first 24 hours of the mock product recall.

We train our team members to be well prepared in the event of a food safety concern. Our field consultants work closely with franchise partners to understand best practices if a vendor or manufacturer were to initiate a product recall. They also implement our rigorous system of compliance to hold franchise partners accountable to our protocols. We are committed to providing our guests with healthy and great-tasting food that adheres to our food safety standards.

**Management Information / Technology Systems**

We have core management information systems in place and believe they are scalable to support our future growth plans. We specify standard, approved Point of Sale ("POS") systems in all of our Company-owned stores and in all of our franchised stores, which helps facilitate the operation of the stores by recording sales, cost of sales and labour and other operating metrics and allows managers to create various reports to assess performance. Our POS systems are configured to record and store financial information in a manner that we specify, and we require franchise partners to provide us with continual and unlimited independent access to all information on each POS system.

We require that our and our franchise partners’ electronic information systems, including POS systems, comply with and maintain established network security standards, including applicable Payment Card Industry standards.

In September 2016, we launched a mobile application designed and owned by Freshii to help customers access our food more conveniently, further enhance brand loyalty, streamline order operations and shape our marketing strategy. Our mobile application enables customers to order ahead of time and skip the line. Furthermore, while using the mobile application, customers take advantage of our loyalty program, which includes free meals and other exclusive deals. Team members also benefit from the mobile application, by using it to prepare pre-ordered meals during off-peak hours, which increases efficiency and helps us serve more customers during peak hours. Additionally, our marketing and operations teams utilize our valuable user data gathered from the mobile application to shape our store-specific marketing strategy and communicate with our customers. We believe our mobile application will help increase order frequency, customer spend and brand loyalty.

**Intellectual Property Rights**

We have registered “Freshii”, “Lettuce Eatery” and certain other trademarks and service marks with the Canadian Intellectual Property Office and the U.S. Patent and Trademark Office, as well as with equivalent offices in certain other jurisdictions in which we operate internationally. We believe that our trademarks and other intellectual property rights are important to our success and our competitive position, and, therefore, we devote resources to the protection of our intellectual property rights. In particular, our registered trademarks and service marks are valuable assets that distinguish our brand and reinforce our customer’s positive perception of our stores. In addition, our website domain name (www.freshii.com), social media accounts and the related online content (including the intellectual property rights therein) are valuable assets. We also maintain certain standards,
specifications and operating procedures as confidential proprietary business information to sustain our competitive position.

**Team Members**

As of December 25, 2016, we employed 98 persons, of whom 48 were full-time corporate-based and regional personnel. The remainder were part-time or store-level team members. None of our team members are represented by a labour union or are covered by a collective bargaining agreement, and we believe that we have good relations with our team members. Our franchise partners are independent business owners. They and their team members are not included in our team member count.

**Competition**

Our primary competition for franchise partners are North American and global franchisors with franchises in the Quick Service Restaurant and/or Fast Casual Restaurant categories of the Limited Services Restaurants ("LSR") segment of the restaurant industry. Many of our direct competitors are well-established national, regional or local franchisors with franchises in the markets in which we operate or in which we anticipate operating.

Our franchise partners’ stores primarily compete with LSRs, Full Service Restaurants, take-out operations, delivery operations and grocery stores that offer home meal replacements. Our stores compete for consumers based on taste, quality and price of food, customer service, ambience, location, convenience and overall experience. We believe that our stores offer customers a compelling value proposition – flavourful, healthy food that customers feel good about eating, at an affordable price – which enables us to differentiate ourselves from our competitors. Our franchise partners’ competitors are typically unable to offer a comparable scope of healthy eating options in a convenient manner and at an affordable price.

**Government Regulations**

**U.S.** We and our franchise partners are subject to varied federal, state and local government regulation affecting the operation of our business, as are our franchise partners, including regulations relating to food production, procurement and handling, manufacturing, distribution, employees, workplace safety and other working conditions, citizenship requirements, public and occupational health, zoning, safety, sanitation, fire prevention, franchise operation, nutritional information disclosure, environmental and building and fire safety.

**Canada.** Our franchised stores located in Canada are subject to national and local franchise laws and regulations, as well as food labelling laws and regulations. In addition, provinces in Canada have human rights legislation that addresses accommodation up to the point of undue hardship.

**International.** We and our franchise partners are subject to extensive international government regulations, including regulations relating to public and occupational health and safety, local regulation of restaurants, food product regulation, franchise regulation and regulations governing alcoholic beverages, smoking, sanitation, zoning and fire prevention.

**Environmental.** Our operations, including the selection and development of Company-owned and franchised stores and any construction or improvements we or our franchise partners make at those locations, are subject to a variety of federal, state, provincial and local environmental laws and regulations, including such laws and regulations concerning waste disposal, pollution, protection of the environment and the presence, discharge, storage, handling, release and disposal of, or exposure to, hazardous or toxic substances as well as food packaging we and our franchise partners use in our restaurants.
DESCRIPTION OF CAPITAL STRUCTURE

As at December 25, 2016, the Company’s authorized share capital consisted of an unlimited number of common shares, an unlimited number of Class A-V common shares, 525,000 Series A preferred shares and an unlimited number of Series B preferred shares, of which 25,467,169 common shares were issued and outstanding.

As at the date of this AIF, the Company’s authorized share capital consisted of an unlimited number of Class A subordinate voting shares, an unlimited number of Class B multiple voting shares and an unlimited number of preferred shares, issuable in series, of which 25,233,152 Class A subordinate voting shares, 5,248,017 Class B multiple voting shares and no preferred shares were issued and outstanding.

The Class A subordinate voting shares are “restricted securities” within the meaning of such term under applicable Canadian securities laws. Under applicable securities laws in Canada, an offer to purchase Class B multiple voting shares would not necessarily require that an offer be made to purchase Class A subordinate voting shares. In accordance with the rules of the TSX designed to ensure that, in the event of a take-over bid, the holders of Class A subordinate voting shares will be entitled to participate on an equal footing with holders of Class B multiple voting shares, the holder of the outstanding Class B multiple voting shares entered into a Coattail Agreement on January 31, 2017 (the “Coattail Agreement”). The Coattail Agreement contains provisions customary for dual class, TSX-listed corporations designed to prevent transactions that otherwise would deprive the holders of Class A subordinate voting shares of rights under the take-over bid provisions of applicable Canadian securities laws to which they would have been entitled if the Class B multiple voting shares had been Class A subordinate voting shares.

Class A Subordinate Voting Shares and Class B Multiple Voting Shares

Except as described herein, the Class A subordinate voting shares and the Class B multiple voting shares (collectively, the “Shares”) have the same rights, are equal in all respects and are treated by us as if they were one class of shares.

Rank

The Class A subordinate voting shares and Class B multiple voting shares rank pari passu, share for share, with respect to the payment of dividends, return of capital and distribution of assets in the event of the liquidation, dissolution or winding up of the Company. In the event of the liquidation, dissolution or winding-up of the Company or any other distribution of its assets among its shareholders for the purpose of winding-up its affairs, whether voluntarily or involuntarily, the holders of Class A subordinate voting shares and the holders of Class B multiple voting shares are entitled to participate equally in the remaining property and assets of the Company available for distribution to the holders of Shares, without preference or distinction among or between the Class A subordinate voting shares and the Class B multiple voting shares, subject to the rights of the holders of any outstanding preferred shares.

Dividends

The holders of outstanding Class A subordinate voting shares and Class B multiple voting shares are entitled to receive dividends on a pari passu, share for share, basis at such times and in such amounts and form as the Board may from time to time determine, without preference or distinction among or between the Class A subordinate voting shares and the Class B multiple voting shares, subject to any preferential rights of the holders of any outstanding preferred shares. The Company is permitted to pay dividends unless there are reasonable grounds for believing that: (i) it is, or would after such payment be, unable to pay its liabilities as they become due; or (ii) the realizable value of its assets would, as a result of such payment, be less than the aggregate of its liabilities and stated capital of all classes of shares.
Voting Rights

Each Class A subordinate voting share is entitled to one vote per share and each Class B multiple voting share is entitled to 10 votes per share.

Conversion

The Class A subordinate voting shares are not convertible into any other class of shares. Each outstanding Class B multiple voting share may at any time, at the option of the holder, be converted into one fully paid and non-assessable Class A subordinate voting share. Upon the first date that any Class B multiple voting share is held by or transferred to a person other than a Permitted Holder (as defined in the articles of the Company (the “Articles”)), the Permitted Holder which held such Class B multiple voting share until such date, without any further action, shall automatically be deemed to have exercised his, her or its rights to convert such Class B multiple voting share into one fully paid and non-assessable Class A subordinate voting share.

In addition, all Class B multiple voting shares will convert automatically into Class A subordinate voting shares at such time that is the earlier to occur of the following: (i) the date on which the outstanding Class B multiple voting shares represent, as at the close of business, less than 10% of the aggregate number of outstanding Shares, and (ii) Matthew Corrin is no longer serving as a director of, or in a senior management position with, the Company.

Subdivision or Consolidation

No subdivision or consolidation of the Class A subordinate voting shares or the Class B multiple voting shares may be carried out unless, at the same time, the Class B multiple voting shares or the Class A subordinate voting shares, as the case may be, are subdivided or consolidated in the same manner and on the same basis so as to preserve the relative economic and voting interests of the two classes.

Certain Class Votes

In addition to any other voting right or power to which holders of Class A subordinate voting shares shall be entitled by law or regulation or other provisions of the Articles, but subject to the provisions of the Articles, holders of Class A subordinate voting shares shall be entitled to vote separately as a class, in addition to any other vote of shareholders that may be required, in respect of any alteration, repeal or amendment to the Articles that would adversely affect the powers, preferences or rights of the holders of Class A subordinate voting shares, or affect the holders of Class A subordinate voting shares or Class B multiple voting shares differently, on a per share basis, including an amendment to the terms of the Articles providing that any Class B multiple voting shares held by or transferred to a person that is not a Permitted Holder shall be automatically converted into Class A subordinate voting shares.

Pursuant to the Articles, holders of Class A subordinate voting shares and Class B multiple voting shares will be treated equally and identically, on a per share basis, in certain change of control transactions that require approval of our shareholders under the OBCA, unless different treatment of the shares of each such class is approved by a majority of the votes cast by the holders of our Class A subordinate voting shares and Class B multiple voting shares, each voting separately as a class.

Issuance of Additional Class B Multiple Voting Shares

The Company may not issue Class B multiple voting shares without the approval of at least two-thirds of the votes cast at a meeting of the holders of Class A subordinate voting shares duly held for that purpose. However, such approval is not required in connection with a subdivision or consolidation on a pro rata basis as between the Shares.
Preferred Shares

Each series of preferred shares shall consist of such number of shares and having such rights, privileges, restrictions and conditions as may be determined by the Board prior to the issuance thereof. Holders of preferred shares, except as otherwise provided in the terms specific to a series of preferred shares or as required by law, will not be entitled to vote at meetings of holders of shares, and will not be entitled to vote separately as a class upon a proposal to amend the Articles in the case of an amendment of the kind referred to in paragraph (a), (b) or (e) of subsection 170(1) of the OBCA. With respect to the payment of dividends and distribution of assets in the event of liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, the preferred shares are entitled to preference over the Class A subordinate voting shares, Class B multiple voting shares and any other shares ranking junior to the preferred shares from time to time with respect to the payment of paid-up capital remaining after the payment of all outstanding debts on a pro rata basis, and, the payment of any or all declared but unpaid cumulative dividends or any or all declared but unpaid dividends on the preferred shares and may also be given such other preferences over Class A subordinate voting shares, Class B multiple voting shares and any other shares ranking junior to the preferred shares as may be determined at the time of creation of such series.

The issuance of preferred shares and the terms selected by the Board could decrease the amount of earnings and assets available for distribution to holders of the Class A subordinate voting shares and Class B multiple voting shares or adversely affect the rights and powers, including the voting rights, of the holders of the Class A subordinate voting shares and Class B multiple voting shares without any further vote or action by the holders of the Class A subordinate voting shares and Class B multiple voting shares. The issuance of preferred shares, or the issuance of rights to purchase preferred shares, could make it more difficult for a third-party to acquire a majority of our outstanding voting shares and thereby have the effect of delaying, deferring or preventing a change of control of us or an unsolicited acquisition proposal or of making the removal of management more difficult. Additionally, the issuance of preferred shares may have the effect of decreasing the market price of our Class A subordinate voting shares.

The Company currently does not have a present intention to issue any preferred shares.

Franchise Partner Share Purchase Program

Our franchise partners are our greatest asset and, in order to recognize and reward their hard work and dedication in growing the Freshii brand, we intend to create and implement a program in 2017 to facilitate voluntary franchise partner ownership in the Class A subordinate voting shares (the “Franchise Partner Share Purchase Program”).

Our goal for the Franchise Partner Share Purchase Program is two-fold:

1. to recognize the contribution and value creation of our greatest asset – our franchise partners – over the long term; and

2. to align the interests of both our shareholders and our franchise partners.

It is intended that the Franchise Partner Share Purchase Program will enable eligible franchise partners to acquire Class A subordinate voting shares at a to-be-determined discount to the then trading price of the Class A subordinate voting shares. The Company anticipates that it will contribute a percentage of the acquisition cost paid by its participating franchise partners to acquire Class A subordinate voting shares in the public market.

The franchise partners eligible to participate in the Franchise Partner Share Purchase Program will be subject to the availability of applicable securities law exemptions, compliance with applicable securities laws in the jurisdiction of residence of the participating franchise partner, compliance with the rules and policies of the Toronto Stock Exchange (“TSX”) and other considerations to be determined by the board of directors of the Company (the “Board”).
DIVIDENDS & DISTRIBUTIONS

On September 2, 2016, the Company completed the Recapitalization and a distribution in the aggregate amount of US$11,321,438 was paid to shareholders as a return of capital and dividend.

The Company currently expects to retain all future earnings for use in the operation and expansion of the business and does not anticipate paying cash dividends in the foreseeable future. The declaration and payment of any dividends in the future will be determined by the Board, in its discretion, and will depend on a number of factors, including the Company’s earnings, capital requirements, overall financial condition, and contractual restrictions, including restrictions contained in any agreements governing any indebtedness it may incur.

MARKET FOR SECURITIES & PRIOR SALES

Market for Securities

On January 31, 2017, the Class A subordinate voting shares were listed for trading on the TSX under the symbol “FRII”.

Prior Sales

On January 25, 2017, the Company adopted the Restricted Share Unit Plan (the “RSU Plan”) in order to facilitate the grant of restricted share units (each, a “RSU”) to directors, officers (including executive officers), employees and consultants of the Company and certain of its affiliates and to enable the Company and certain of its affiliates to obtain and retain services of these individuals, which is essential to the Company’s long-term success. The shareholders of the Company approved the RSU Plan on January 4, 2017. The following table sets forth the grants of RSUs by the Company pursuant to the RSU Plan.

<table>
<thead>
<tr>
<th>Grant Date</th>
<th>Number of RSUs Granted</th>
<th>Terms of Grant</th>
</tr>
</thead>
</table>
| January 25, 2017 | 1,019,475(1)           | • one-third of the RSUs granted to employees and executive officers will vest on the date that is six months following the closing of the IPO. One-third of the remaining two-thirds will vest evenly on each of the first three anniversary dates following the closing of the IPO.  
• Half of the RSUs granted to non-management directors will vest on the date that is six months following the closing of the IPO and the remaining half of such RSUs will vest on the date that is 12 months following the closing of the IPO.  
• In the event that any recipient of RSUs is terminated without cause or resigns from his or her employment, office or directorship with the Company, he or she shall forfeit all unvested RSUs other than the RSUs schedule to vest on the next vesting date following that person’s termination date. |

Notes:

(1) 969,975 RSUs were granted to employees and executive officers and 49,500 RSUs were granted to non-management directors.
**DIRECTORS AND EXECUTIVE OFFICERS**

As at December 25, 2016, Matthew Corrin was the sole director of the Company. The following table sets forth the name, the province and county of residence, the position and office(s) held with the Company and the principal occupation for the last five or more years for each director and executive officer of the Company, as at the date of this AIF. Directors are elected to serve until the next annual meeting or until their successors are elected or appointed, unless their office is earlier vacated.

<table>
<thead>
<tr>
<th>Name, Province or State and Country of Residence</th>
<th>Office</th>
<th>Principal Occupation(s) During the Last Five Years</th>
<th>Period Served</th>
</tr>
</thead>
<tbody>
<tr>
<td>Matthew Corrin, Ontario, Canada</td>
<td>Chief Executive Officer and Chairman of Board of Directors</td>
<td>Chief Executive Officer and Chairman of Board of Directors of the Company</td>
<td>Chief Executive Officer and Chairman of Board of Directors since July 19, 2007</td>
</tr>
<tr>
<td>Craig De Pratto, Ontario, Canada</td>
<td>Chief Financial Officer and Corporate Secretary</td>
<td>Chief Financial Officer and Corporate Secretary; Vice President, Finance and Administration, Freeze-Dry Foods Limited</td>
<td>Chief Financial Officer and Corporate Secretary since April 14, 2014</td>
</tr>
<tr>
<td>Adam Corrin, Ontario, Canada</td>
<td>Chief Operating Officer and Director</td>
<td>Chief Operating Officer and Director</td>
<td>Chief Operating Officer since January 4, 2016; Director since January 25, 2017</td>
</tr>
<tr>
<td>Michael Pandich, Virginia, U.S</td>
<td>Director of Franchise Development</td>
<td>Director of Franchise Development; Managing Director, TOPF LLC</td>
<td>Director of Franchise Development since January 1, 2016</td>
</tr>
<tr>
<td>Ashley Dalziel, Ontario, Canada</td>
<td>Vice President, People Culture</td>
<td>Vice President, People Culture; Global Manager of Recruiting and Talent, Lululemon Athletica Inc.</td>
<td>Vice President, People Culture since February 1, 2016</td>
</tr>
<tr>
<td>Jenny Hoshoian, Ontario, Canada</td>
<td>Vice President, Supply Chain</td>
<td>Vice President, Supply Chain; Business Manager, Supply Chain, Cara Operations Limited</td>
<td>Vice President, Supply Chain since November 3, 2013</td>
</tr>
<tr>
<td>Melissa Gallagher, Ontario, Canada</td>
<td>Vice President, Marketing</td>
<td>Vice President, Marketing; Partner and Vice President, Karo Group; Vice President, Twist Marketing; Account Director, Cundari Group</td>
<td>Vice President, Marketing since October 31, 2016</td>
</tr>
<tr>
<td>Michael Allen, Ontario, Canada</td>
<td>Director</td>
<td>Partner, Private Equity Group, Collins Barrow Toronto LLP</td>
<td>Director since January 25, 2017</td>
</tr>
<tr>
<td>Sean Berry, California, United States</td>
<td>Director</td>
<td>Director, Tennenbaum Capital Partners, LLC</td>
<td>Director since January 25, 2017</td>
</tr>
<tr>
<td>Jeffrey Burchell, Ontario, Canada</td>
<td>Director</td>
<td>Managing Director and Portfolio Manager, Gluskin Sheff + Associates Inc.; Co-Chief Investment Officer, Aston Hill Financial Inc.</td>
<td>Director since January 25, 2017</td>
</tr>
</tbody>
</table>
Marc Kielburger
Ontario, Canada
Director
Co-Founder, Free the Children
Director since January 25, 2017

Jeff Swenson
Massachusetts, United States
Director
Managing Director, Thomas H. Lee Partners
Director since January 25, 2017

Michele Romanow
Ontario, Canada
Director
Co-Founder, Clear Finance Technology Corp.; Head of Marketing, Groupon Snap, Groupon, Inc.; Co-Founder and President, Buytopia.ca
Director since January 25, 2017

Notes:
(1) Member of Audit Committee, Compensation Committee and Nomination and Governance Committee.

Ownership of Securities

As at December 25, 2016, Matthew Corrin, the Chairman and Chief Executive Officer of the Company, indirectly through Jaxii, beneficially owned, or controlled or directed, 6,335,001 common shares, representing approximately 25% of issued and outstanding common shares.

As at the date of this AIF, the directors and executive officers of the Company, as a group, beneficially owned, or controlled or directed, directly or indirectly 71,051 Class A subordinate voting shares, representing approximately 0.3% of the issued and outstanding Class A subordinate voting shares. Matthew Corrin, indirectly through Jaxii, beneficially owned, or controlled or directed, 5,248,017 Class B multiple voting shares, representing 100% of issued and outstanding Class B multiple voting shares, approximately 17.2% of the issued and outstanding Shares and approximately 67.5% of the votes attached to the issued and outstanding Shares.

Corporate Cease Trade Orders

As at the date of this AIF, no director or executive officer of the Company is, or was within 10 years prior to the date of this AIF a director, chief executive officer or chief financial officer of any company that:

i. was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued while the director, executive officer or promoter was acting in the capacity as director, chief executive officer or chief financial officer of the relevant company; or

ii. was subject to a cease trade order, an order or similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after the director, executive officer or promoter ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

Penalties or Sanctions

At the date of this AIF, no director or executive officer of the Company or any shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, is or has been, within 10 years prior to the date of this AIF, subject to:

i. any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
ii. any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor making an investment decision.

Bankruptcies

No director or executive officer of the Company, or a shareholder holding a sufficient number of securities to affect materially the control of the Company:

i. is, at the date of this AIF, or has been within 10 years prior to the date of this AIF, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager, or trustee appointed to hold its assets; or

ii. has, within 10 years prior to the date of this AIF become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer, promoter or shareholder.

Conflicts of Interest

The directors of the Company are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interests, which they may have in any project or opportunity of the Company. If a conflict of interest arises at a meeting of the Board, any director in a conflict will disclose his or her interest and abstain from voting on such matter.

To the best of the Company’s knowledge, and other than as disclosed herein, there are no known existing or potential conflicts of interest among the Company, its promoters, directors and officers or other members of management of the Company as a result of their outside business interests except that certain of the directors and officers serve as directors and officers of other companies, and therefore it is possible that a conflict may arise between their duties to the Company and their duties as a director or officer of such other companies. Mr. Swenson and his wife indirectly own a 50% interest in Freshii’s existing Boston franchise partner and act as non-operating financial investors in Freshii’s Boston stores. Accordingly, conflicts of interest may arise which could influence Mr. Swenson in evaluating potential transactions on behalf of Freshii and Mr. Swenson will be required to disclose any such conflict to the Board as described above.

AUDIT COMMITTEE

Our Audit Committee is comprised of Messrs. Burchell, Berry and Swenson, and is chaired by Mr. Burchell. Our Board has determined that each of these directors meets the independence requirements, including the heightened independence standards for members of the Audit Committee, pursuant to National Instrument 52-110 – Audit Committees (“NI 52-110”), and the rules and regulations of the TSX. The Board also determined that each of these directors is financially literate within the meaning of NI 52-110 and that Mr. Burchell is identified as an audit committee financial expert as defined by NI 52-110. Each of the Audit Committee members has an understanding of the accounting principles used to prepare financial statements and varied experience as to the general application of such accounting principles, as well as an understanding of the internal controls and procedures necessary for financial reporting. The Board has adopted a written charter for the Audit Committee, in the form set out under Appendix A to this AIF, which sets out the Audit Committee’s responsibilities.

The Audit Committee’s principal duties and responsibilities include assisting the Board in discharging the oversight of: (i) the integrity of our consolidated financial statements and accounting and financial processes and the audits of our consolidated financial statements; (ii) our compliance with legal and regulatory requirements; (iii) our external auditors’ qualifications and independence; (iv) the work and performance of our financial
management and our external auditors; and (v) our system of disclosure controls and procedures and system of internal controls regarding finance, accounting, legal compliance, and risk management established by management and our Board. Our Audit Committee has access to all books, records, facilities and personnel and may request any information about us as it may deem appropriate. It will also have the authority to retain and compensate special legal, accounting, financial and other consultants or advisors to advise the Audit Committee. Our Audit Committee will review and approve all related-party transactions and prepare reports for the Board on such related-party transactions.

Relevant Education and Experience

Jeffrey Burchell is the Chair of the Audit Committee and is a Managing Director and Portfolio Manager at Gluskin Sheff + Associates Inc., a pre- eminent, independent Canadian wealth management firm that manages investment portfolios for high net worth private clients as well as select institutional investors, including family offices, foundations, endowments and both public and private pension plans. Prior to joining Gluskin Sheff + Associates Inc., Mr. Burchell was the Co-Chief Investment Officer at Aston Hill Financial Inc. Mr. Burchell also worked as a senior portfolio manager at Polar Securities. Mr. Burchell holds an M.B.A. and law degree from Dalhousie University and earned his Chartered Financial Analyst designation.

Sean Berry is a director of the Company and a Director at Tennenbaum Capital Partners, LLC, an alternative investment management firm focused on performing credit and special situations for mid-market companies. Prior to joining Tennenbaum Capital Partners, LLC, Mr. Berry worked in UBS Investment Bank’s Growth Capital and Restructuring group, where he was involved in a variety of transactions including leveraged buyouts, private placements and debt financings across various industries. Mr. Berry holds a B.A., with honours, in Business Administration from the Richard Ivey School of Business at the University of Western Ontario.

Jeff Swenson is a director of the Company and a Managing Director at Thomas H. Lee Partners, one of the world’s oldest and most experienced private equity firms. Prior to joining Thomas H. Lee Partners, Mr. Swenson worked in the private equity group at Bain Capital, LLC. Mr. Swenson also worked as a management consultant at Bain & Company. Mr. Swenson is currently a director of 1-800 CONTACTS, Bargain Hunt, CTI Foods, Fogo de Chão (NASDAQ: FOGO), GCA Services Group, Give and Go Prepared Foods Corp. and Phillips Pet Food & Supplies. He was previously a director of Acosta Sales and Marketing, GrubHub Seamless Holdings Corporation, Intermedix Corporation and West Corporation and a board observer at Dunkin’ Brands, Inc. (NASDAQ: DNKN). Mr. Swenson holds a B.A., with honours, in Economics from Northwestern University and an M.B.A. from Harvard Business School.

Pre-Approval Policies and Procedures

The Audit Committee must pre-approve any permitted non-audit services to be provided by the independent auditor to the Company, provided that no approval will be provided for any service that is prohibited under the rules of the Canadian Public Professional Accountability Board or the Independence Standards of the Canadian Institute of Chartered Accountants.

External Auditor Service Fees

PricewaterhouseCoopers LLP, Chartered Professional Accountants has been the Company’s external auditor since 2013. From time to time, PricewaterhouseCoopers LLP also provides the Company with advisory and other non-audit services. Fees incurred for services performed by PricewaterhouseCoopers LLP for the 52 week periods ended December 25, 2016 and December 27, 2015 were as follows:
<table>
<thead>
<tr>
<th></th>
<th>52 week period ended December 25, 2016</th>
<th>52 week period ended December 27, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit fees&lt;sup&gt;(1)&lt;/sup&gt;</td>
<td>C$100,000</td>
<td>C$150,000</td>
</tr>
<tr>
<td>Audit related fees&lt;sup&gt;(2)&lt;/sup&gt;</td>
<td>C$745,000</td>
<td>-</td>
</tr>
<tr>
<td>Tax fees&lt;sup&gt;(3)&lt;/sup&gt;</td>
<td>C$42,125</td>
<td>C$28,000</td>
</tr>
<tr>
<td>All other fees&lt;sup&gt;(4)&lt;/sup&gt;</td>
<td>C$25,000</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total fees paid</strong>&lt;sup&gt;(5)&lt;/sup&gt;</td>
<td>C$912,125</td>
<td>C$178,000</td>
</tr>
</tbody>
</table>

Notes:
(1) Fees for audit service on accrued basis.
(2) Fees for assurance and related services not included in audit service above.
(3) Fees for tax compliance, tax advice and tax planning.
(4) All other fees not included above.

**RISK FACTORS**

*If we fail to successfully implement our growth strategies, which include opening new stores, our ability to increase our revenue and operating profits could be adversely affected.*

Future revenue growth depends to a large extent on our franchise partners opening new stores. Our growth strategies rely substantially upon new store development by existing and new franchise partners. While we believe that we have the potential to significantly grow our store count over the long term, we cannot predict the time period over which we can achieve this store growth or whether we will achieve this level of growth at all. In addition, we and our franchise partners face many challenges in opening new stores, including:

- availability of financing;
- selection and availability of suitable store locations;
- competition for store sites;
- negotiation of acceptable lease and financing terms;
- securing required governmental permits and approvals;
- consumer tastes in new geographic regions and acceptance of Freshii’s products;
- employment and training of qualified personnel;
- impact of inclement weather, natural disasters and other acts of nature;
- general economic and business conditions; and
- the legal and regulatory landscape in which Freshii stores operate.

In particular, because the majority of our new store development is funded by franchise partner investment, our growth strategy is dependent on our franchise partners’ (or prospective franchise partners’) ability to access funds to finance such development. We do not provide our franchise partners with direct financing and therefore their ability to access borrowed funds generally depends on their independent relationships with various financial institutions. Some of our existing franchise partners utilize loans guaranteed by the U.S. Small Business Administration (the “SBA”) which guarantees loans made by financial institutions to small businesses in the U.S., including franchise partners. If SBA guaranteed loans are no longer available to our franchise partners (or potential franchise partners), their ability to obtain the requisite financing at attractive rates, or at all, could be adversely affected. Moreover, if our franchise partners (or prospective franchise partners) are not able to obtain financing from any source at commercially reasonable rates, or at all, they may be unwilling or unable to invest in the development of new stores, and our future growth could be adversely affected.

To the extent our franchise partners do not open new stores, any revenue growth would come primarily from same-store sales growth. Our failure to add new stores would adversely affect our ability to increase our revenue and operating income and could materially and adversely harm our business and operating results.
If we fail to identify, recruit and contract with a sufficient number of qualified franchise partners, our ability to open new franchised stores and increase our revenue could be materially adversely affected.

The opening of additional franchised stores depends, in part, upon the availability of prospective franchise partners who meet our criteria. We may not be able to identify, recruit or contract with suitable franchise partners in our target markets on a timely basis or at all. In addition, our franchise partners may not ultimately be able to access the financial or management resources that they need to open the stores contemplated by their agreements with us, or they may elect to cease store development for other reasons. If we are unable to recruit suitable franchise partners or if franchise partners are unable or unwilling to open new stores as planned, our growth may be slower than anticipated, or cease, which could materially adversely affect our ability to increase our revenue and materially adversely affect our business, financial condition and results of operations.

Our franchise partners’ new stores, once opened, may not be profitable initially, and may adversely impact our business.

Historically, many of our franchise partners’ new stores have opened with an initial ramp-up period typically lasting six to 12 months, during which they generated sales and income below the levels at which we expect. This is in part due to the time it takes to build a customer base in a new area, higher fixed costs relating to increased labour, other start-up inefficiencies that are typical of new stores and cash build-out costs of new stores may be higher than our target cash build-out costs in certain instances due to franchise partners’ preferences and tastes, development costs, additional store features, budgets, etc. It may also be difficult for us and our franchise partners to attract a customer base, or otherwise overcome the higher costs associated with new store locations. New stores may not have results similar to existing franchise partner stores or may not be profitable. If new stores remain unprofitable for a prolonged period of time, we and our franchise partners may decide to close these stores. For example, we and our franchise partners closed eight, six and 10 stores in fiscal 2014, fiscal 2015 and fiscal 2016, respectively, and we cannot assure you that new stores opened by our franchise partners in the future will not fail. The closures of these stores could have a negative impact on our business and operating results.

Moreover, our new store activity has broadened recently to incorporate trade areas or store sites in which we have little or no prior experience, including smaller or more economically mixed communities, highway sites, outlet centres, retail stores, such as select Walgreens locations, and other non-traditional stores in airports, hospitals and food courts. The risks relating to building a customer base, managing franchise development and operating costs may be more significant in some or all of these types of trade areas or store sites, which could have an unexpected negative impact on our business. Non-traditional stores may expose us and our franchise partners to new challenges, including reliance on the strength of other companies, the potential that our stores are a poor fit for the non-traditional markets into which they enter and possible negative publicity regarding the retail stores or other locations in which they operate, each of which may cause a downturn in their business and in turn may have a negative impact on our business and operating results.

Our broad expansion into new markets in North America and internationally may present increased risks due to lower customer awareness of our brand, our unfamiliarity with those markets and other factors.

As of December 25, 2016, we had 278 stores located across 15 countries and in more than 30 states and provinces in North America, of which 233 stores were located in North America and 45 stores were located internationally. While we intend to expand in North America, our operating experience with respect to our existing stores may not be relevant or necessarily translate into similar results. In addition, we plan to continue to open stores in markets where we have little or no operating experience. As a result of our relatively small number of international stores and the relatively short time our international franchise partners have been operating those stores, our international franchise partners have lower brand awareness, lower sales and/or transaction counts and less operating experience in these markets. Any additional new markets we enter in the future may have different competitive conditions, less familiarity with the Freshii brand and/or different consumer tastes and discretionary spending patterns. As a result, new stores may be less successful than stores in our existing markets.
Sales at stores in new markets may take longer to ramp up and reach expected sales and profit levels, or may never do so, thereby affecting our overall growth and profitability as a result of reduced royalty revenue. To build brand awareness in these new markets, we and our franchise partners may need to make greater investments in advertising and promotional activity than originally planned, which could negatively impact the profitability of our operations in those markets.

We and our franchise partners may also find it more difficult in these new markets to hire, motivate and keep qualified employees who can project our vision, passion and culture and labour costs may be higher in international markets due to regulation or local market conditions. In addition, new stores could have higher construction, occupancy and food costs. With respect to our international stores, our international franchise partners may have difficulty finding reliable suppliers or distributors or ones that can provide our international franchise partners with adequate supplies of ingredients meeting our quality standards. International markets may also have regulatory differences with North America, which we and our international franchise partners may not be familiar with, or that subject us and our international franchise partners to significant additional expense or to which we and our international franchise partners are not able to successfully comply with, which may have a particularly adverse impact on our international franchise partners’ sales or profitability in those markets and could in turn adversely impact our revenue and results of operations. As a result, these new stores may be less successful or may achieve target AUVs at a slower rate or not at all. If we do not successfully execute our plans to enter new markets, our business, financial condition and results of operations could be materially adversely affected.

*Our business and results of operations depend in significant part on the future performance of our franchise partners’ existing and new franchise stores, and we are subject to a variety of additional risks associated with our franchise partners.*

Our business and results of operations are significantly dependent upon the success of our franchise partners’ stores. Our franchise partners’ stores may be adversely affected by:

- declining economic conditions;
- increased competition in the restaurant industry;
- changes in consumer tastes and preferences;
- demographic trends;
- customers’ budgeting constraints;
- customers’ willingness to accept menu price increases;
- adverse weather conditions;
- instances of food-borne illness;
- our reputation and consumer perception of our market position and Freshii’s offerings in terms of quality, price, value and service; and
- customers’ experiences in our stores.

Our franchise partners are also susceptible to increases in certain key operating expenses that are either wholly or partially beyond our control, including:

- food, particularly commodity-driven items, such as produce, poultry and beef;
- labour costs, including wages, workers’ compensation, minimum wage requirements, health care and other benefits expenses;
- rent expenses and construction, remodeling, maintenance and other costs under leases for our existing and new stores;
- compliance costs as a result of changes in legal, regulatory or industry standards;
- energy, water and other utility costs;
- insurance costs;
- information technology and other logistical costs; and
- expenses associated with legal proceedings, if any.
In addition, a substantial portion of our revenue comes from royalties generated by our franchised stores. We anticipate that franchise royalties will represent a substantial part of our revenue in the future. As of December 25, 2016, we had 127 North American franchise partners operating 299 North American stores and 27 international franchise partners operating 45 international stores. As of December 25, 2016, our largest franchise partner operated 10 stores and our top 10 franchise partners operated a total of 51 stores. Accordingly, we are heavily reliant on the performance of our franchise partners in successfully operating their stores and paying royalties to us on a timely basis. Our franchise system subjects us to a number of risks, any one of which may impact our ability to collect royalty payments from our franchise partners, may harm the goodwill associated with our franchise, and/or may materially adversely affect our business and results of operations.

Furthermore, a bankruptcy of any multi-unit franchise partner could negatively impact our ability to collect payments due under such franchise partner’s franchise agreements. In a franchise partner bankruptcy, the bankruptcy trustee may reject its franchise agreements pursuant to Section 365 under the United States Bankruptcy Code, in which case there would be no further royalty payments from such franchise partner. There may not be any proceeds that can be recovered in a bankruptcy proceeding of such franchise partner in connection with a damage claim resulting from such rejection. In Canada, if the franchise partner becomes bankrupt, the trustee in bankruptcy may choose to assign the franchise agreement under Section 84.1 of the Bankruptcy and Insolvency Act (the “BIA”), subject to obtaining court approval, or take no action with respect to the franchise agreement. If no action is taken, presumably no further royalty payments would be received. While we would be entitled to make a claim in the bankruptcy proceeding for our damages, there may not be any proceeds available to be distributed to us. Alternatively, an insolvent franchise partner may seek the protection of restructuring legislation in Canada pursuant to the Companies’ Creditors Arrangement Act (the “CCAA”) or the proposal provisions of the BIA. In either case, it is possible for the franchise partner to disclaim the franchise agreement (under Section 65.11 of the BIA or under Section 32 of the CCAA). We would be entitled to file a claim in the insolvency proceeding for the damages resulting from such rejection but we might make little or no recovery in respect of our claim.

Our failure to manage our growth effectively could harm our business and results of operations.

As described elsewhere in this AIF, our plans call for a significant increase in the number of new franchise partner stores. Our existing store management systems, financial and management controls, information systems and personnel may be inadequate to support our expansion. Managing our growth effectively will require us to continue to enhance these systems, procedures and controls and to hire, train and retain general managers, team members and corporate staff. We also are continuing to improve our field management. We may not respond adequately or quickly enough to the changing demands that our expansion will impose on management, team members and existing infrastructure, and changes to our operating structure may result in increased costs or inefficiencies that we cannot anticipate. Changes as we grow may have a negative impact on the operation of our and our franchise partners’ stores, and cost increases resulting from our inability to effectively manage our growth could adversely impact our profitability. We also place great importance on our culture, which we believe has been an important contributor to our success. As we grow, we may have difficulty maintaining our culture or adapting it sufficiently to meet the needs of our operations. Among other important factors, our culture depends on our ability to attract, retain and motivate employees who share our enthusiasm and dedication for our concept. Our failure to foster and maintain our corporate culture could also harm our business and results of operations. In addition, we invest in continually developing new menu items, such as our meal boxes, juice cleanses and snacks, as well as in marketing and advertising our new menu items. Our new menu items may not be well-received by consumers and may not be successful, which could harm our business and results of operations.

Our and our franchise partners’ success depends in substantial part on securing desirable store locations.

The success of any restaurant depends in substantial part on its location. There can be no assurance that the current locations of our and our franchise partners’ stores will continue to be attractive as demographic patterns change. Neighbourhood or economic conditions where stores are located could decline in the future, thus
resulting in potentially reduced sales in those locations. Competition for store locations can also be intense and there may be delay or cancellation of new store developments by our franchise partners, which may be exacerbated by factors related to the commercial real estate or credit markets. If our franchise partners cannot obtain desirable locations for their stores at reasonable prices due to, among other things, higher than anticipated acquisition, construction and/or development costs of new locations, difficulty negotiating leases with acceptable terms, onerous land use or zoning restrictions, or challenges in securing required governmental permits, then their ability to open new stores and our ability to meet our growth expectations may be adversely affected.

Failure to support our expanding franchise system could have a material adverse effect on our business, financial condition and results of operations.

Our growth strategy depends significantly on expanding our franchise partner store base, which will require the implementation of enhanced management information systems, financial controls and other systems and procedures as well as additional management, franchise support and financial resources. We may not be able to manage our expanding franchise partner store base effectively. Failure to provide our franchise partners with adequate support and resources could materially adversely affect both our new and existing franchise partners as well as cause disputes between us and our franchise partners and potentially lead to material liabilities. This may also lead to fewer qualified persons seeking to become new franchise partners. Any of the foregoing could materially adversely affect our business, financial condition and results of operations.

We may engage in litigation with our franchise partners.

The nature of our relationships with our franchise partners may give rise to litigation or disputes. In the ordinary course of business, we are the subject of complaints or litigation, for example, regarding the exclusivity arrangements we enter into or the rights of our franchise partners. We may also engage in future litigation to enforce the terms of our agreements and compliance with our brand standards as determined necessary to protect our brand, the consistency of our products and the customer experience. Engaging in such litigation may be costly and time-consuming and may distract management and materially adversely affect our relationships with our franchise partners or potential franchise partners and our ability to attract new franchise partners. Any negative outcome of these or any other claims could materially adversely affect our results of operations as well as our ability to expand our franchise system and may damage our reputation and brand. Furthermore, existing and future legislation could subject us to additional litigation risk in the event we terminate or fail to renew a supplier or franchise relationship or decide not to enter into a franchise partner relationship.

Changes in food and supply costs could adversely affect the profitability of our franchise partners’ stores and ultimately our results of operations.

The profitability of our Company-owned and franchised stores depends in part on our and our franchise partners’ ability to anticipate and react to changes in food and supply costs. Like all restaurant companies, our Company-owned and franchised stores are susceptible to increases in food costs as a result of factors beyond our and our franchise partners’ control, such as general economic conditions, seasonal fluctuations, weather conditions, global demand, food safety concerns, generalized infectious diseases, foreign currency fluctuations, product recalls and government regulations. The cost of many basic foods, including corn, wheat, rice and cooking oils, has increased markedly at times in the past, resulting in upward pricing pressures on almost all of the raw ingredients used throughout our system, including produce and proteins, increasing our and franchise partners’ food costs. During fiscal 2016, the cost of many commodity items decreased and we leveraged our growth in order to drive down our product costs. We expect that there will be additional pricing pressures on dairy and some produce items in 2017, but we are expecting prices to remain consistent on major protein items and packaging. We expect that food costs as a percentage of revenue will remain consistent with fiscal 2015; however, if food costs increase as a percentage of revenue from fiscal 2015, our business, financial condition and results of operations may be adversely affected.
Weather-related issues, such as freezes, wildfires or drought, may also lead to temporary spikes in the prices of some ingredients such as produce or meats. For instance, drought conditions in parts of the U.S. resulted in significant increases in beef prices during fiscal 2015 which remained high throughout fiscal 2016. We expect moderate price reductions in 2017. Increasing weather volatility or other long-term changes in global weather patterns, including any changes associated with global climate change, could have a significant impact on the price or availability of some of our ingredients.

In the event of cost increases with respect to one or more of the raw ingredients used throughout our system, we and our franchise partners may choose to temporarily suspend serving certain menu items, and find alternative ingredients, rather than paying the increased cost for the original ingredients. For example, strawberries could be replaced with blueberries and spinach could be replaced with romaine lettuce. Any such changes to the available menu may negatively impact store traffic and same-store sales growth at such stores and could also have an adverse impact on our brand. In addition, we may choose not to, or be unable to, pass along ingredient price increases to our customers.

*Our and our franchise partners’ business could be adversely affected by increased labour costs or difficulties in finding suitable employees for our and our franchise partners’ stores.*

Labour is a primary component in the cost of sales for our Company-owned and franchised stores, and we believe good managers and team members are a key part of our success. We and our franchise partners devote significant resources to recruiting and training general managers, team members and more recently, field consultants. Increased labour costs due to factors like additional employment taxes or requirements to incur additional employee benefits costs, including the requirements of the Patient Protection and Affordable Care Act (the “Affordable Care Act”), as well as competition, increased minimum wage requirements, any change in law that would result in us being vicariously liable for entitlements owed to our franchise partners’ employees, paid sick leave or vacation accrual mandates, and any changes in our store staffing structure would adversely impact the operating costs of our Company-owned and franchised stores. In addition, costs associated with workers’ compensation are rising and could continue to rise in the future. Our success also depends in part on the energy and skills of our and our franchise partners’ employees and our and our franchise partners’ ability to hire, motivate and keep qualified employees, especially field consultants, general managers and team members. Competition for these employees could require us to pay higher wages, which could result in higher labour costs. As we grow, we believe we will need to promote or hire additional top-performing field consultants to ensure we hire and motivate good managers and team members, and it may be difficult to identify and keep those field consultants. Our and our franchise partners’ failure to find and keep enough employees who are a good fit with our culture could delay planned store openings, result in higher employee turnover or erode our employee and store cultures, any of which could have a material adverse effect on our business and results of operations. Restaurant operators have traditionally experienced relatively high employee turnover rates. Any increase in our turnover rates for managers or team members, especially at our franchised stores, could be costly and could negatively impact our operations.

Various countries in which we and our franchise partners operate are considering or have already adopted new immigration laws, or implemented changes to immigration laws, regulations or enforcement programs. Changes in immigration or work authorization laws may increase our and our franchise partners’ obligations for compliance and oversight, which could subject us and our franchise partners’ to additional costs and make our and our franchise partners’ hiring processes more cumbersome, or reduce the availability of potential employees. Although we and our franchise partners require all workers to provide us with government-specified documentation evidencing their employment eligibility, some of our and our franchise partners’ employees may, without our knowledge, be unauthorized workers. Termination of a significant number of employees in specific markets or across our system would disrupt our and our franchise partners’ operations, including slowing our throughput, and could also cause adverse publicity and temporary increases in our and our franchise partners’ labour costs as we and our franchise partners train new employees. We and our franchise partners could also become subject to fines, penalties and other costs related to claims that we or our franchise partners did not fully comply with all recordkeeping obligations of federal, state, provincial, municipal and local immigration compliance
laws. Our reputation, financial performance and ability to hire and keep qualified employees may be materially harmed as a result of any of these factors.

In addition, unfavourable fluctuations in market conditions, availability of insurance or changes in state, provincial and/or federal regulations could significantly increase our insurance premiums. In addition, we are subject to the risk of employment-related litigation at the state, provincial and federal levels, including claims styled as class action lawsuits which are more costly to defend. Also, some employment related claims in the area of wage and hour disputes are not insurable risks. See “—We could be party to litigation that could adversely affect us by distracting management, increasing our expenses or subjecting us to material money damages and other remedies” and “—Our insurance coverage reserves may not cover future claims”.

**Competition could adversely affect us.**

The LSR segment of the restaurant industry is highly competitive with respect to, among other things, taste, price, food quality and presentation, service, location and the ambience and condition of each restaurant. Our competition includes a variety of restaurants in each of these segments, including locally owned restaurants and national and regional chains. Many of our competitors offer dine-in, carry-out, delivery and catering services. Many of our competitors have existed longer than we have and may have a more established market presence with higher revenues, more economies of scale and greater financial, marketing, personnel and other resources than we have. These advantages may allow them to (i) react to changes in pricing, marketing and the LSR segment more quickly and more effectively than we can, (ii) rapidly expand new product introductions, (iii) spend significantly more on advertising, marketing and other promotional activities than we do, which may give them a competitive advantage through higher levels of brand awareness among consumers, (iv) devote greater resources to accelerate their restaurant remodeling efforts, and (v) negotiate more favourable lease terms than are available to us or our franchise partners. These competitive advantages arising from greater financial resources and economies of scale may be exacerbated in a difficult economy, thereby permitting our competitors to gain market share.

Among our main competitors are a number of multi-unit, multi-market healthy restaurant concepts, some of which are expanding internationally. Some of these competitors and other LSRs have sought to duplicate various elements of our business operations, and more chains may copy us to varying degrees in the future. In addition, the restaurant industry has few barriers to entry, and new competitors may therefore emerge at any time.

Many of our competitors in the LSR segment of the restaurant industry also emphasize lower-cost, “value meal” menu options, which is a strategy we do not currently pursue. Our sales may be adversely affected by these products and price competition. Our sales could also decline due to changes in popular tastes and media attention on new restaurants.

Moreover, we may also compete with juice cleanse companies, home meal delivery companies and other companies outside the LSR segment of the restaurant industry. For example, competitive pressures can come from deli sections and in-store cafés of several major grocery store chains, including those targeted at customers who want higher-quality food, from convenience stores and other dining outlets, as well as home meal delivery companies and juice cleanse companies. These competitors may have, among other things, a more diverse menu, lower operating costs, better locations, better facilities, better management, more effective marketing and more efficient operations than we have. In addition, any of these competitive factors may adversely affect us and reduce our sales and profits.

**Failure to receive frequent deliveries of higher-quality food ingredients and other supplies meeting our specifications could harm our operations.**

Our ability to maintain our menu depends in part on our ability to acquire ingredients that meet our specifications from reliable suppliers. Shortages or interruptions in the supply of ingredients caused by unanticipated demand, problems in production or distribution, food contamination, inclement weather, suppliers
ceasing operations or deciding not to follow our required protocols or other conditions could adversely affect the availability, quality and cost of our ingredients, which could harm our operations. In particular, shortages of one or more of our menu items could force our stores to remove items from their menus, which may result in customers choosing to eat elsewhere. If that happens, our affected stores could experience significant reductions in sales during the menu item shortage, and potentially thereafter if customers do not return to us after the shortage is resolved. Our focus on high-quality ingredients and a healthy menu that is not easily substitutable would make the consequences of a shortage of a key ingredient more severe than at other restaurants.

We have almost no long-term contracts with suppliers, and we have relied largely on a third party distribution network with a limited number of distribution partners. We do not control the business of our suppliers and our efforts to specify and monitor the standards under which they perform may not be successful. Furthermore, certain food items are perishable and we have limited control over whether these items will be delivered to us in appropriate condition for use in our stores. If any of our distributors or suppliers performs inadequately, or our distribution or supply relationships are disrupted for any reason, the risk of ingredient shortages may increase and our business, financial condition, results of operations or cash flows could be adversely affected. We and our North American franchise partners currently rely almost exclusively on one contract for some of our key ingredients, including poultry, beef and packaging, as described in more detail below under “We have a limited number of suppliers for our major products and rely on one custom distribution company for the majority of our distribution programs. If our suppliers or distributors are unable to fulfill their obligations under their contracts, we could encounter supply shortages and incur higher costs."

We have a limited number of suppliers for our major products and rely on one custom distribution company in each of Canada and the U.S. for the majority of our distribution programs. If our suppliers or distributors are unable to fulfill their obligations under their contracts, we could encounter supply shortages and incur higher costs.

We have a limited number of suppliers for some of our key ingredients, including poultry, beef and packaging. We contract with DMA, a cooperative of multiple food distributors located throughout North America, on behalf of our Company-owned stores and our U.S. franchise partners for our foodservice purchases and distribution in the U.S. We contract with GFS, a food distributor, on behalf of our Company-owned stores and our Canadian franchise partners. Although we believe that alternative supply and distribution sources are available, there can be no assurance that we will be able to identify or negotiate with such sources on terms that are commercially reasonable to us. If our suppliers or distributors are unable to fulfill their obligations under their contracts or we are unable to identify alternative sources of supply, we could encounter supply shortages and incur higher costs. Such events could also materially and adversely affect our results of operations while we establish alternative distribution channels. We cannot assure you that we would be able to find replacement sources of supply on commercially reasonable terms or a timely basis, if at all.

Changes in customer tastes and preferences, spending patterns and demographic trends could cause sales to decline.

The restaurant industry depends on consumer discretionary spending. The North American or the international markets in which we operate may suffer from depressed economic activity, recessionary economic cycles, low consumer confidence, high levels of unemployment, investment losses, personal bankruptcies, reduced access to credit or other economic factors that may affect consumer discretionary spending. Changes in customer preferences, general economic conditions, discretionary spending priorities, demographic trends, traffic patterns
and the type, number and location of competing restaurants affect the restaurant industry. Our sales could be impacted by changes in consumer preferences in response to dietary concerns, including preferences regarding calories, sodium, carbohydrates or fat. These changes could result in consumers avoiding our menu items in favour of other foods, and our focus on a menu limited to quality and healthy ingredients could make the consequences of a change in consumer preferences more severe than our competitors may face. The foregoing is especially true with respect to millennials, who, though supportive of Freshii to date, may change their preferences with respect to brands. Our success also depends to a significant extent on consumer confidence, which is influenced by general economic conditions and discretionary income levels. Our store sales may decline during economic downturns or periods of uncertainty, which can be caused by various factors such as high unemployment, increasing taxes, interest rates, or other changes in fiscal or monetary policy, tight credit markets or foreign political or economic unrest. Any material decline in consumer confidence or a decline in family “food away from home” spending could cause our sales, profits, business, financial condition and results of operations to decline. If we fail to adapt to changes in customer preferences and trends, we may lose customers and our sales may deteriorate.

Furthermore, traffic in our stores could decline if consumers choose to dine out less frequently or reduce the amount they spend on meals while dining out. Negative economic conditions might cause consumers to make long-term changes to their discretionary spending behavior. If store sales decrease, our profitability could decline as we spread fixed costs across a lower level of sales. Reductions in staff levels, asset impairment charges and potential store closures could result from prolonged negative store sales, which could materially adversely affect our business, financial condition and results of operations.

**Governmental regulation in one or more of the following areas may adversely affect our existing and future operations and results of operations, including by harming our ability to open new stores or increasing our and our franchise partners’ operating costs.**

**Franchise and Restaurant Regulations**

We and our franchise partners are subject to various existing Canadian federal, provincial and municipal laws and U.S. federal, state, and local laws affecting the operation of our stores, including various health, sanitation, fire and safety standards. Franchise partners may in the future become subject to regulation seeking, for example, to limit the serving size of beverages containing sugar, ban the use of certain packaging materials or require the display of detailed nutrition information. Each of these regulations would be costly to comply with and/or could result in reduced demand for our products. Legislation and changes to regulations requiring the display and provision of nutritional information for our menu offerings, and new information or attitudes regarding diet and health, could result in changes to consumer consumption habits that could adversely affect our business, financial condition and results of operations.

There is also a potential for increased regulation of certain food establishments in the U.S., where compliance with a Hazard Analysis and Critical Control Points ("HACCP") approach may now be required. HACCP refers to a management system in which food safety is addressed through the analysis and control of potential hazards from production, procurement and handling, to manufacturing, distribution and consumption of the finished product. Many states have required restaurants to develop and implement HACCP Systems, and the U.S. government continues to expand the sectors of the food industry that must adopt and implement HACCP programs. For example, the Food Safety Modernization Act of 2011 (the “FSMA”), signed into law in January 2011, granted the U.S. Food and Drug Administration ("FDA") new authority regarding the safety of the entire food system, including through increased inspections and mandatory food recalls. Similar legislation was enacted in Canada in November 2012 through the Safe Food for Canadians Act, the operational provisions of which are not yet in force. Although restaurants are specifically exempted from or not directly implicated by some of these new requirements, we anticipate that the new requirements may impact our industry. Additionally, our and our franchise partners’ suppliers may initiate or otherwise be subject to food recalls that may impact the availability of certain products, result in adverse publicity or require us to take actions that could be costly for us or otherwise impact our business.
We are subject to state, provincial, municipal and local franchise and business opportunity registration or filing requirements, the rules and regulations of the Federal Trade Commission (“FTC”), the Canadian Competition Bureau, various state, provincial, municipal and local laws regulating the offer and sale of franchises and business opportunities in the U.S. and Canada, as applicable, through the provision of franchise disclosure documents containing certain mandatory disclosures, various state, provincial, municipal and local laws regulating the franchise relationship and certain rules and requirements regulating franchising arrangements in countries other than the U.S. or Canada. Although we believe that our franchise disclosure documents, together with any applicable state or province-specific versions or supplements, and our franchising procedures comply in all material respects with both the FTC guidelines and all applicable state, provincial, municipal and local laws regulating franchising and business opportunities in those states and provinces in which we offer and grant new franchise arrangements, noncompliance could adversely impact our fundraising activities and thereby reduce anticipated royalty income, which in turn could materially adversely affect our business, financial condition and results of operations.

Six provinces in Canada, in which we and our franchise partners have locations, being Alberta, British Columbia, Manitoba, Ontario, New Brunswick and Prince Edward Island, have franchise statutes and regulations. These franchise laws require a disclosure document or statement of a material change to be issued to prospective franchise partners containing prescribed information. Failure to comply with these statutes can result in a prospective franchise partner having the right to rescind the franchise agreement, without penalty or obligation, for up to 60 days after receipt of the disclosure document, if the franchisor failed to provide the disclosure document or statement of material change within the time period prescribed or if the contents did not meet the requirements set out in the relevant legislation, or for a period of up to two years after entering into the franchise agreement if the franchisor failed to provide the disclosure document. In addition, if a franchise partner suffers a loss because of a misrepresentation contained in the disclosure document or in a statement of a material change or as a result of the franchisor failing to comply with the disclosure requirements, a franchise partner has a right of action for damages. These rights are in addition to any other rights a franchise partner may have at law.

The impact of current laws and regulations, the effect of future changes in laws or regulations that impose additional requirements and the consequences of litigation relating to current or future laws and regulations, or our inability to respond effectively to significant regulatory or public policy issues, could increase our compliance and other costs of doing business and therefore have an adverse effect on our results of operations. Failure to comply with the laws and regulatory requirements of federal, state, provincial, municipal and local authorities could result in, among other things, revocation of required licenses, administrative enforcement actions, fines, and civil and criminal liability. In addition, certain laws, including the ADA (as defined below), could require us or our franchise partners to expend significant funds to make modifications to our stores if we failed to comply with applicable standards. Compliance with all of these laws and regulations can be costly and can increase our exposure to litigation or governmental investigations or proceedings.

**Employment and Immigration Regulations**

We and our franchise partners are subject to various federal, state, provincial, municipal and local laws governing our and our franchise partners’ relationship with, and other matters pertaining to, our and our franchise partners’ employees, including wage and hour laws, requirements to provide meal and rest periods or other benefits, family leave mandates, requirements regarding working conditions and accommodations to certain employees, citizenship or work authorization and related requirements, insurance and workers’ compensation rules and anti-discrimination laws. Complying with these rules subjects us and our franchise partners to substantial expense and can be cumbersome, and can also expose us to liabilities from claims for non-compliance. For example, although the U.S. National Labor Relations Board recently issued an advice memorandum stating that we were not liable as a “joint employer” for the alleged unfair labour practices of a Chicago franchise operator, the incident highlights the types of issues to which we may be subject in the future, as described in more detail below under “– Changes to the current law with respect to the assignment of liabilities in the franchise business model could adversely impact our profitability”. We could suffer losses from and incur legal costs to defend cases, and the amount of such losses or costs could be significant. In addition, certain states, provinces and localities in which we and our franchise partners currently operate, and in the future may operate, and the federal government have
from time to time enacted, and in the future may enact, minimum wage increases, paid sick leave and mandatory vacation accruals, and similar requirements and these changes could increase our labour costs.

We also are audited from time to time for compliance with citizenship or work authorization requirements, as described in more detail above under “—Our and our franchise partners’ business could be adversely affected by increased labour costs or difficulties in finding suitable employees for our and our franchise partners’ stores”. Unauthorized workers may subject us to fines or penalties, and if any of our workers are found to be unauthorized our business may be disrupted as we try to replace lost workers with additional qualified employees. On the other hand, in the event we wrongfully reject work authorization documents, or if our compliance procedures are found to have a disparate impact on a protected class such as a racial minority or based on the citizenship status of applicants, we could be found to be in violation of anti-discrimination laws. We could experience adverse publicity arising from enforcement activity related to work authorization compliance, anti-discrimination compliance, or both, that negatively impacts our brand and may make it more difficult to hire and keep qualified employees.

Additionally, while we do not currently have any unionized employees, union organizers have engaged in efforts to organize employees of other restaurant companies and at one of our franchised stores. If a significant portion of our franchise partners’ employees were to become union organized, our franchise partners’ labour costs could increase and our efforts to maintain a culture appealing only to top performing employees could be impaired. Potential changes in labour laws, or in the interpretation of labour laws, including the possible passage of legislation designed to make it easier for employees to unionize, could increase the likelihood of some or all of our and our franchise partners’ employees being subjected to greater organized labour influence, and could have an adverse effect on our business and financial results by imposing requirements that could potentially increase our and our franchise partners’ costs, reduce our flexibility and impact our employee culture.

Nutrition and Food Regulation

Regulations and consumer eating habits may change as a result of new information or attitudes regarding diet and health or new information regarding the adverse health effects of consuming certain menu offerings. Such changes may include federal, state, provincial, municipal and local regulations that impact the ingredients and nutritional content of the food and beverages we offer. The growth of our store operations is dependent in part upon our ability to effectively respond to changes in any consumer health regulations and our ability to adapt our menu offerings to trends in food consumption. If consumer health regulations or consumer eating habits change significantly, we may choose or be required to modify or delete certain menu items, which may adversely affect the attractiveness of our stores to new or returning customers. We and our franchise partners may also experience higher costs associated with the implementation of those changes. To the extent we are unwilling or unable to respond with appropriate changes to our menu offerings, it could materially affect consumer demand and have an adverse impact on our business, financial condition and results of operations.

Such changes have also resulted, and may continue to result, in laws and regulations requiring us and our franchise partners to disclose the nutritional content of our food offerings, and they have resulted, and may continue to result, in laws and regulations affecting permissible ingredients and menu offerings. For example, a number of states, provinces, counties and cities have enacted or are considering enacting menu labeling laws requiring multi-unit restaurant operators to disclose to consumers certain nutritional information, or have enacted legislation restricting the use of certain types of ingredients in restaurants. These requirements may be different or inconsistent with requirements under the U.S. Affordable Care Act, which establishes a uniform, federal requirement for certain restaurants to post nutritional information on their menus. Specifically, the FDA recently published the final rules on menu and vending machine nutrition labeling, which amended section 403(q) of the U.S. Federal Food, Drug, and Cosmetic Act, to require chain restaurants with 20 or more locations operating under the same name and offering substantially the same menus to publish the total number of calories of standard menu items on menus and menu boards, along with a statement that puts this calorie information in the context of a total daily caloric intake. While we disclose the nutritional value and calorie count of our menu items on our website and upon request, these inconsistencies could be challenging for us to comply with in an efficient manner. Additionally, we use On the Menu, a third-party nutritional group to evaluate the nutritional value and calorie count of our menu items. If On the Menu’s evaluation report is inaccurate or incomplete, we may fail to comply
with the rule or other consumer health regulations. The rule also requires covered restaurants to provide to consumers, upon request, a written summary of detailed nutritional information for each standard menu item, and to provide a statement on menus and menu boards about the availability of this information upon request. An unfavourable report on, or reaction to, our menu ingredients, the size of our portions or the nutritional content of our menu items could negatively influence the demand for our offerings.

Effective January 1, 2017, the Ontario locations of our stores are required to comply with the **Healthy Menu Choices Act** (Ontario) and regulations thereunder which are applicable to a chain of food service premises with 20 or more locations in the province that operates under the same or substantially the same name, regardless of ownership. A food service premise is any food premise where meals or meal portions are prepared for immediate consumption or sold and served in a form that will permit immediate consumption on the premises or elsewhere. This legislation and its regulation require us and our franchise partners to display caloric labelling for standard food items, being a food or drink item that is sold or offered for sale in servings that are standardized for portion and content. The information for each standard food item is required to be displayed on each menu and where the standard food item is put on display at the regulated food service premise, on a label or tag identifying the standard food item. Such information is also required to be displayed on a menu that is distributed or available outside the regulated food service premise, provided pricing is also set out. In addition, this legislation contains requirements for publicly posted signs setting out prescribed caloric intake information for adults and children. Although this legislation also contemplates disclosure of nutritional information, none has yet been prescribed.

Compliance with current and future laws and regulations regarding the ingredients and nutritional content of our menu items may be costly and time-consuming. We cannot predict the impact of the new nutrition labeling requirements under the U.S. **Affordable Care Act** or otherwise at this time. The risks and costs associated with nutritional disclosures on our menus could also impact our operations, particularly given differences among applicable legal requirements and practices within the restaurant industry with respect to testing and disclosure, ordinary variations in food preparation among our own stores and the need to rely on the accuracy and completeness of nutritional information obtained from third-party suppliers.

We may not be able to effectively respond to changes in consumer health perceptions, to successfully implement the nutrient content disclosure requirements or to adapt our menu offerings to trends in eating habits. The imposition of menu labeling laws could materially adversely affect our business, financial condition and results of operations, as well as our position within the restaurant industry in general.

**Privacy/Cybersecurity**

We and our franchise partners are required to collect and maintain personal information about our employees, and, through third-party providers, collect information about customers in connection with the processing of credit and debit transactions and as part of certain of our marketing programs. The collection and use of such information is regulated in the U.S. at the federal and state levels, in Canada at the federal and provincial levels and in the European Union (the “EU”) and its member states, and the regulatory environment in these and other jurisdictions related to information security and privacy is increasingly demanding. At the same time, we are relying increasingly on cloud computing and other technologies that result in third parties holding customer or employee information on our behalf. If the security of our, our franchise partners’, or our third-party providers’ information systems used to store or process such information is compromised, or if we or such third parties otherwise fail to comply with applicable laws and regulations, we or our franchise partners could face litigation and the imposition of penalties that could adversely affect our financial performance. Our reputation as a brand or as an employer could also be adversely affected from these types of security breaches or regulatory violations, which could impair our sales or ability to attract and keep qualified employees.

**Local Licensure, Zoning and Other Regulation**

Each of our stores may also be subject to federal, state, provincial, municipal and local licensing and regulation by health, sanitation, food and workplace safety, and other agencies. We may experience material difficulties or failures in obtaining the necessary licenses or approvals for new stores, which could delay planned
store openings. In addition, stringent and varied requirements of local regulators with respect to zoning, land use and environmental factors could delay or prevent development of new stores in particular locations.

Environmental Laws

We and our franchise partners are subject to federal, state, provincial, municipal and local environmental laws and regulations, including such laws and regulations concerning pollution, protection of the environment, waste disposal, the presence, discharge, storage, handling, release and disposal of, or exposure to, hazardous or toxic substances, as well as food packaging we and our franchise partners use in our stores. These environmental laws and regulations provide for significant fines and penalties for noncompliance and liabilities for remediation of hazardous or toxic substances, sometimes without regard to whether the owner or operator knew of, or was responsible for, the release or presence of hazardous or toxic substances. Third parties may also assert personal injury, property damage or other claims against owners or operators of properties associated with release of, or actual or alleged exposure to, hazardous or toxic substances at, on or from our properties. It is possible that we may not have identified all of the potential environmental liabilities at our properties and we may become subject to environmental liabilities at our prior, existing or future store sites, including franchised store sites, which may have a material adverse effect on our business, financial condition and results of operations. We also cannot predict what environmental laws will be enacted in the future, how existing or future environmental laws will be administered, interpreted or enforced, or the amount of future expenditures that we may need to make to comply with, or to satisfy claims relating to, environmental laws.

Human Rights, Disabilities and Similar Legislation

We and our franchise partners are subject to the U.S. Americans with Disabilities Act (“ADA”) and similar state and provincial laws that give civil rights protections to individuals with disabilities in the context of employment, public accommodations and other areas. Provinces in Canada have human rights legislation that addresses accommodation up to the point of undue hardship. Ontario has enacted the Accessibility for Ontarians with Disabilities Act and British Columbia is proposing similar legislation. The issue of “joint employer” liability with our franchise partners is an increasing concern in some provinces and could result in changes that could subject us and our franchise partners to liability for employment and discrimination related issues. We and our franchise partners may in the future have to modify stores, for example by adding access ramps or redesigning certain architectural features, to provide service to, or make accommodations for, disabled persons under these laws. The expenses associated with these modifications, or any damages, legal fees and costs associated with litigating or resolving claims under the ADA or similar state or provincial laws, could be material.

Failure to obtain and maintain required licenses and permits or to comply with food control regulations could lead to the loss of our food service licenses and, thereby, harm our business.

The restaurant industry is subject to various federal, state, provincial, municipal and local government regulations, including those relating to the sale of food and alcoholic beverages. Such regulations are subject to change from time to time. The failure to obtain and maintain these licenses, permits and approvals could adversely affect our results of operations. Typically, licenses must be renewed annually and may be revoked, suspended or denied renewal for cause at any time if governmental authorities determine that our conduct violates applicable regulations. Difficulties or failure to maintain or obtain the required licenses and approvals could adversely affect our existing stores and delay or result in our decision to cancel the opening of new stores, which would adversely affect our business.

We could be party to litigation that could adversely affect us by distracting management, increasing our expenses or subjecting us to material money damages and other remedies.

We and our franchise partners may become subject to claims alleging violations of federal, state and provincial laws regarding workplace and employment matters, including wages, work hours, overtime, vacation
and family leave, discrimination, wrongful termination, and similar matters, and we could become subject to class action or other lawsuits related to these or different matters in the future. Our customers also could file complaints or lawsuits against us alleging that we are responsible for some illness or injury they suffered at or after a visit to our stores, or that we have problems with food quality, operations or our food related disclosure or advertising practices. In addition, the restaurant industry has been subject to a growing number of claims based on the nutritional content of food products sold and disclosure and advertising practices. We may be subject to actions of this type in the future.

We believe the number of the foregoing types of claims has increased as our business has grown and we have become more visible to potential plaintiffs and their lawyers. Regardless of whether any claims against us are valid, or whether we are ultimately held liable for such claims, they may be expensive to defend and may divert time and money away from our operations and hurt our performance. A significant judgment for any claims against us could materially and adversely affect our financial condition and results of operations. Any adverse publicity resulting from these allegations, whether directed at us or at fast casual restaurants generally, may also materially and adversely affect our reputation or prospects, which in turn could adversely affect our results.

We may not persuade customers of the benefits of paying our prices for higher-quality food.

Our success depends in large part on our ability to persuade customers that food made with higher-quality ingredients is worth the prices they will pay at our stores relative to prices offered by some of our competitors, particularly those in the fast casual restaurant category. We may not successfully educate customers about the quality of our food, and customers may not care even if they do understand our approach. This could require us and our franchise partners to change our pricing, advertising or promotional strategies, which could materially and adversely affect our results of operations or the brand identity that we have tried to create. Consumers may also be more price-sensitive during periods of economic difficulty or uncertainty. If customers are not persuaded that we offer a good value for their money, our store transaction counts could be adversely affected, which would negatively impact our business results.

Our success may depend on the continued service of key personnel.

Our Chairman and Chief Executive Officer, Matthew Corrin, founded the Company and has been the principal architect of our business strategy, and has led our growth from a single store in 2005 to 278 stores as of December 25, 2016. Craig De Pratto, Chief Financial Officer, and Adam Corrin, Chief Operating Officer, have also served with us for several years and much of our growth has occurred under their direction as well. We believe our executive officers have created an employee culture, food culture and business strategy at our Company that has been critical to our success and that may be difficult to replicate under another management team. We also believe that it may be difficult to locate and retain other executive officers who are able to grasp and implement our unique strategic vision. If our Company culture were to deteriorate following a change in leadership, or if a new management team were to be unsuccessful in executing our strategy or were to change important elements of our current strategy, our growth prospects or future results of operations may be adversely impacted.

Our marketing and advertising strategies may not be successful, which could adversely impact our business.

We have developed a marketing and advertising strategy that we believe is unique in the restaurant industry. We have not generally advertised on television and we engage in very limited price or value-based promotions. Instead we invest in marketing and advertising strategies that we believe will increase customers’ connection with our brand. If these marketing and advertising investments do not drive increased store sales, the expense associated with these programs will adversely impact our financial results, and we may not generate the levels of same-store sales growth we expect.

We have also implemented strategies such as our mobile application, meal boxes, juice cleanses, snacks and catering options in an effort to increase overall sales. Our mobile application, meal boxes, juice cleanses, snacks
and catering program are new and unproven and may not increase our sales to the degree we expect, or at all. Meal boxes, catering and other out-of-store sales options also introduce new operating procedures to our stores and we and our franchise partners may not successfully execute these procedures, which could adversely impact the customer experience in our stores and thereby harm our sales and customer perception of our brand.

We and our franchise partners may be harmed by data security risks we face in connection with our and our franchise partners’ electronic processing and transmission of confidential customer and employee information.

We and our franchise partners accept debit and credit cards for payment in our and our franchise partners’ stores. During fiscal 2016, approximately 68% of our Company-owned stores sales and approximately 72% of our franchised stores’ sales were attributable to credit and debit card transactions, and credit and debit card usage could continue to increase. Although we and our third-party providers use secure networks to transmit confidential information, and certain types of information (e.g., debit and credit card information) are encrypted, we cannot guard against all techniques used to breach our security measures and those of our third-party providers, and therefore we may not effectively prevent others from obtaining improper access to this information. The techniques used to obtain unauthorized access, disable or degrade service or sabotage systems change frequently and are often difficult to detect for long periods of time, which may cause such an event to go undetected for an extensive period of time. We or our franchise partners may experience security breaches in which credit and debit card information is stolen. Further, because we and our franchise partners are subject to certain requirements promulgated by the Payment Card Industry Data Security Standard (“PCI-DSS”), in order to remain PCI-DSS compliant, we may be required to make changes with respect to our systems used for transmission and approval of electronic payment transactions or with respect to the technology utilized in electronic payment transactions in order to remain compliant with updated versions of PCI-DSS. These potential changes may cause us to incur unplanned expenses.

We and our franchise partners may in the future become subject to additional claims for purportedly fraudulent transactions arising out of the actual or alleged theft of credit or debit card information, and we and our franchise partners may also be subject to lawsuits or other proceedings in the future relating to these types of incidents. Proceedings related to theft of credit or debit card information may be brought by payment card providers, banks and credit unions that issue cards, cardholders (either individually or as part of a class action lawsuit) and federal, state and provincial regulators. Any such proceedings could distract our management from running our business and cause us to incur significant unplanned losses and expenses. Consumer perception of our brand could also be negatively affected by these events, which could further adversely affect our results and prospects.

We and our franchise partners rely heavily on information technology, and any material failure, weakness, interruption or breach of our security systems could prevent us from effectively operating our business.

We and our franchise partners rely heavily on information systems, including point of sale processing in our and our franchise partners’ stores, for management of our supply chain, payment of obligations, collection of cash, credit and debit card transactions and other processes and procedures. Our ability to efficiently and effectively manage our business depends significantly on the reliability and capacity of these systems. Our and our franchise partners’ operations depend upon our collective ability to protect our computer equipment and systems against damage from physical theft, fire, power loss, telecommunications failure or other catastrophic events, as well as from internal and external security breaches, viruses and other disruptive problems. The failure of these systems to operate effectively, maintenance problems, upgrading or transitioning to new platforms, expanding our systems as we grow or a breach in security of these systems could result in delays in customer service and reduce efficiency in our operations. Remediation of such problems could result in significant and unplanned capital investments.
We store personally identifiable information of our customers. If the security of this information is compromised or otherwise subjected to unauthorized access, our reputation may be harmed and we may be exposed to liability.

Our third-party providers store limited amounts of personally identifiable information, credit and debit card information and other confidential information of our customers on our own systems and applications. We may experience attempts by third parties to obtain unauthorized access to the personally identifiable information, credit and debit card information and other confidential information of our customers. This information could also be otherwise exposed through human error or malfeasance. The unauthorized access or compromise of this personally identifiable information, credit and debit card information and other confidential information could have an adverse effect on our business, financial condition and results of operations.

We are also subject to federal, state, provincial and foreign laws regarding privacy and protection of data. Some jurisdictions have enacted laws requiring companies to notify individuals of data security breaches involving certain types of personal data and our agreements with certain merchants require us to notify them in the event of a security incident. We post on our website our privacy policy and terms of service, which describe our practices concerning the use, transmission and disclosure of data relating to our customers. In addition, the interpretation of data protection laws in the U.S., Canada and the international markets in which we operate, and their application to the internet, is unclear and in a state of flux. There is a risk that these laws may be interpreted and applied in conflicting ways from jurisdiction to jurisdiction, and in a manner that is not consistent with our current data protection practices. Changes to such data protection laws may impose more stringent requirements for compliance and impose significant penalties for noncompliance. Any such new laws or regulations, or changing interpretations of existing laws and regulations, may cause us to incur significant costs and effort to ensure compliance.

Our failure to comply with federal, state, provincial and foreign laws regarding privacy and protection of data could lead to significant fines and penalties imposed by regulators, as well as claims by our customers. These proceedings or violations could force us to spend money in defense or settlement of these proceedings, result in the imposition of monetary liability and the diversion of management’s time and attention, increase our costs of doing business, and adversely affect our reputation. In addition, if our security measures fail to protect credit and debit card information adequately, we could be liable to our customers for their losses.

Our insurance coverage reserves may not cover future claims.

We maintain various insurance policies for general liability, specialty professional liability, workplace safety and property damage. We have third party insurance coverage to limit exposure for both individual and aggregate claim costs. We are also responsible for losses up to a certain limit for general liability, specialty professional liability and property damage insurance.

Our history of claims experience is short and our significant growth rate could affect the accuracy of estimates based on historical experience. If a greater amount of claims occur compared to what we estimated, our accrued liabilities might not be sufficient and we may be required to record additional expense. Unanticipated changes may also produce materially different amounts of expense than reported under these programs, which could adversely impact our results of operations.

Our failure to comply with federal, state, provincial and foreign laws regarding privacy and protection of data could lead to significant fines and penalties imposed by regulators, as well as claims by our customers. In addition, if our security measures fail to protect credit and debit card information adequately, we could be liable to our customers for their losses. There can be no assurance that the limitations of liability in our contracts would be enforceable or adequate or would otherwise protect us from any such liabilities or damages with respect to any particular claim. We also cannot be sure that our existing general liability insurance coverage and coverage for errors and omissions will continue to be available on acceptable terms or will be available in sufficient amounts to cover one or more large claims, or that our insurers will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceeds our available insurance coverage, or changes in our
insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have an adverse effect on our business, financial condition and results of operations.

**Negative publicity relating to our stores or our Company could adversely impact our reputation, which may significantly harm us.**

We depend in part on customers’ perception of and connection to our brand. The negative impact of adverse publicity relating to one or more stores or any of the foregoing topics may extend far beyond the store(s) involved and affect many more, or even all, of our stores. The considerable expansion in the use of social media over recent years can further amplify any negative publicity that may be generated. A similar risk exists with respect to unrelated food service businesses, if consumers associate those businesses with our own operations.

Negative publicity may adversely impact customers’ perception of us, which could adversely impact our sales. If the impact of any such negative publicity is particularly long-lasting, the value of our brand may suffer and our ability to grow could be diminished. Additionally, negative publicity about our employment practices, or our franchise partners’ employment practices, may affect our reputation among employees and potential employees, which could make it more difficult for us to attract and retain top-performing employees. This could adversely impact the quality of the customer experience we can offer and our operations generally, and may increase our and our franchise partners’ labour costs as well.

Employee claims against us, or our franchise partners, based on, among other things, alleged wage and hour violations, discrimination, harassment or wrongful termination may also create not only legal and financial liability, but negative publicity that could adversely affect us and divert our financial and management resources that would otherwise be used to benefit the future performance of our operations. These types of employee claims could also be asserted against us, on a co-employer theory, by employees of our franchise partners. For example, although the U.S. National Labor Relations Board recently issued an advice memorandum stating that we were not liable as a “joint employer” for the alleged unfair labour practices of a Chicago franchise operator, the media coverage of this incident demonstrates the negative publicity to which we may be subject as result of actions or inactions of our franchise partners. A significant increase in the number of these claims or an increase in the number of successful claims could adversely impact our reputation, which may significantly harm us.

**We may not be able to adequately protect our intellectual property rights, which could harm the value of our brands and adversely affect our business.**

Our ability to successfully implement our business plan depends in part on our ability to maintain and build brand recognition using our trademarks, service marks, trade dress, domain names and other intellectual property rights, including our name and logos, and the unique ambience of our stores. We devote resources to the protection of our intellectual property rights and rely on trademark, copyright and trade secret laws, as well as franchise agreements, license agreements, non-disclosure agreements and other contractual provisions to protect our intellectual property. If our efforts to protect our intellectual property are inadequate, or if any third party misappropriates or infringes on our intellectual property, the value of our brands may be harmed, which could have a material adverse effect on our business and might prevent our brands from achieving or maintaining market acceptance.

We have taken steps to protect our intellectual property rights in jurisdictions where we operate and believe that our current portfolio is adequate to maintain and build our brand recognition in such markets. However, we cannot be certain that our steps to protect our intellectual property will be adequate in the future as we grow into new markets, particularly with respect to emerging market countries. The laws of certain foreign countries may not protect intellectual property rights to the same extent as do the laws of the U.S. and Canada and mechanisms for enforcement of intellectual property rights may be inadequate in those jurisdictions. This could have an adverse impact on our ability to successfully expand into other jurisdictions in the future. We may be unable to obtain registrations for our intellectual property rights in foreign jurisdictions due to prior registrations of which we are not aware, or we may encounter claims from prior users of similar intellectual property in areas where we
operate or intend to conduct operations. This could harm our image, brand or competitive position and cause us to incur significant penalties and costs.

**Our quarterly results may fluctuate significantly and could fall below the expectations of securities analysts and investors due to various factors.**

Our quarterly results may fluctuate significantly and could fail to meet the expectations of securities analysts and investors because of various factors, including:

- changes in same-store sales growth and customer visits, including as a result of changes in consumer confidence, discretionary spending, perceptions about our brand, competition and other factors listed in these Risk Factors;
- fluctuations in supply costs, particularly for our most significant food items;
- our relationship with our franchise partners;
- our ability to raise menu prices without adversely impacting customer traffic, particularly if food costs continue to increase;
- labour availability and wages of store management and team members, as well as temporary fluctuations in labour costs as a result of large-scale changes in workforce;
- negative publicity about the ingredients we use or the occurrence of food-borne illnesses or other problems at our stores;
- the timing of new store openings and related revenues and expenses;
- operating costs at newly opened stores, which are often materially greater during the first several months of operation;
- the impact of inclement weather, natural disasters and other calamities, such as freezes that have impacted produce crops, droughts that have impacted livestock and the supply of certain meats and wildfires that have caused evacuations;
- variations in general economic conditions, including the impact of declining interest rates on our interest income;
- increases in infrastructure costs;
- litigation, settlement costs and related legal expense;
- tax expenses, impairment charges and other non-operating costs; and
- potential distraction or unusual expenses associated with our expansion into international markets or initiatives to expand new concepts.

In addition, our store sales may be lower during the winter months and the holiday season and during periods of inclement weather, because fewer people are eating out, and higher during the spring, summer and fall months, when more people tend to eat out. Our store sales will also vary as a result of the number of days in a quarter when a store is open.

As a result of these factors, results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for any year. AUVs or same-store sales growth in any particular future period may decrease. In the future, results of operations may fall below the expectations of securities analysts and investors, which could cause our share price to fall. If we fail to meet market expectations for our results of operations in the future, any resulting decline in the price of our Class A subordinate voting shares could be significant.

**Instances of food-borne or localized illnesses could cause the temporary closure of some stores or result in negative publicity, thereby resulting in a decline in our sales, and could adversely affect the price and availability of the meat, produce or dairy we use to prepare our food.**

Food safety is a top priority, and we dedicate substantial resources to ensure that our customers enjoy safe, quality food products. However, instances of food-borne illnesses, real or perceived, whether at our stores or those of our competitors could result in negative publicity about us or the restaurant industry and adversely affect
our sales. Any instances of food-borne illnesses at our stores could subject us to liability to affected customers. We may be at a higher risk for food-borne illness outbreaks than some competitors due to our use of fresh produce and meats rather than frozen foods. The risk of illnesses associated with our food might also increase in connection with an expansion of our catering business or other situations in which our food is served in conditions we cannot control.

If our customers become ill from food-borne or localized illnesses or if an illness is attributed to our food, even incorrectly, we could be forced to temporarily close some stores, further impacting sales. Any instances of food contamination, whether or not at our stores, could subject our stores or our suppliers to a food recall pursuant to the FSMA, the U.S. Pure Food and Drug Act of 1906 and/or the Safe Food for Canadians Act and related acts and regulations. Similarly, past outbreaks of E. coli, or salmonella and listeria, among other food-borne bacteria, relating to certain food items caused consumers to avoid certain products and restaurant chains. Asian and European countries have experienced outbreaks of avian flu, and incidents of “mad cow” disease have occurred in Canadian and U.S. cattle herds. These problems, other food-borne illnesses (such as hepatitis A or norovirus) and injuries caused by food tampering have had in the past, and could have in the future, an adverse effect on the price and availability of affected ingredients. Additionally, the significant amount of media coverage regarding these incidents and problems and the impact of social media in increasing the awareness of these incidents may also indirectly negatively impact our brand. A decrease in customer traffic as a result of these health concerns or negative publicity, or as a result of a change in our menu or dining experience or a temporary closure of any of our stores, would adversely impact our store sales and profitability. Furthermore, if we react to these problems by changing our menu or other key aspects of the Freshii experience, we may lose customers who do not accept those changes, and may not be able to attract enough new customers to generate sufficient revenue to make our stores profitable. Customers may also shift away from us if we and our franchise partners choose to pass along to consumers any higher ingredient costs resulting from supply problems associated with outbreaks of food-borne illnesses, which would have a negative impact on our and our franchise partners’ sales and profitability.

In addition, our and our franchise partners’ reliance on third-party food suppliers and distributors increases the risk that food-borne illness incidents could be caused by factors outside of our control and that multiple stores would be affected rather than a single store. We cannot assure that all food items are properly maintained during transport throughout the supply chain and that our employees and our franchise partners and their employees will identify all products that may be spoiled and should not be used in our stores. In addition, our industry has long been subject to the threat of food tampering by suppliers and employees, such as the addition of foreign objects in the food that we sell. Reports, whether or not true, of injuries caused by food tampering have in the past severely injured the reputations and brands of restaurant chains in the limited-service fast casual restaurant segment and could affect us in the future. If our customers become ill from food-borne illnesses, we could be forced to temporarily close some stores.

The U.S., Canada and other countries have also experienced, and may experience in the future, outbreaks of diseases or viruses, such as Zika, H1N1, avian influenza, various other forms of influenza, enterovirus, SARS and Ebola. To the extent that a virus is transmitted by human-to-human contact, our employees, our franchise partners’ employees or our customers could become infected or could choose, or be advised, to avoid gathering in public places and avoid eating in restaurant establishments such as our stores, which could materially adversely affect our business, financial condition and results of operations.

Because many of our North American stores are concentrated in local or regional areas, we are susceptible to economic and other trends and developments, including adverse weather conditions, in these areas.

Our financial performance is somewhat dependent on stores located in the Toronto and Chicago metropolitan areas, which together comprised approximately 28% (or 77 out of 278) of our total North American stores, as of the 52 week period ended December 25, 2016. As a result, adverse economic conditions in any of these areas could have a material adverse effect on our overall results of operations. In addition, given our geographic concentrations, negative publicity regarding any of our stores in these areas could have a material adverse effect on our business and operations, as could other regional occurrences such as local strikes, terrorist attacks, increases in energy prices, inclement weather or natural or man-made disasters. In particular, adverse
weather conditions, such as regional winter storms, floods, severe thunderstorms and hurricanes, could negatively impact our results of operations. Temporary or prolonged store closures may occur and customer traffic may decline due to the actual or perceived effects of future weather-related events.

**Our operations in emerging markets present a higher degree of financial, political, economic and other business risks.**

We are and will continue to be exposed to financial, political, economic and business risks in connection with our worldwide operations. We carry on business in various developing and emerging markets, which also present a higher degree of risk than more developed markets. In addition to the business risks inherent in developing and servicing new markets, economic conditions may be more volatile, legal and regulatory systems less developed and predictable, and the possibility of various types of adverse governmental action more pronounced. Unexpected or uncontrollable events or circumstances in these markets could have a material adverse effect on our results.

**Our ability to use our net operating loss carryforwards and certain other tax attributes will be limited.**

As of December 25, 2016, our U.S. subsidiaries had U.S. federal net operating loss carryforwards of US$0 million and state net operating loss carryforwards of US$0.2 million. Under Sections 382 and 383 of the *Internal Revenue Code of 1986*, as amended (the “Code”), if a corporation undergoes an “ownership change”, the corporation’s ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes to offset its post-change income may be limited. In general, an “ownership change” occurs if there is a cumulative change in a corporation’s ownership by “5-percent shareholders” that exceeds 50 percentage points over a rolling three-year period. Similar rules may apply under state tax laws. Our U.S. subsidiaries will experience ownership changes as a result of the Closing of this Offering for U.S. federal (and applicable state) income tax purposes. As a result of our U.S. subsidiaries’ prospective ownership changes, if they earn net taxable income, our U.S. subsidiaries’ ability to use their pre-change net operating loss carryforwards, or other pre-change tax attributes, to offset their U.S. federal and state taxable income will be subject to limitations.

As of December 25, 2016, we had Canadian non-capital loss carryforwards of $1.9 million. Under subsection 111(5) of the Tax Act, if a corporation undergoes a “loss restriction event”, the corporation’s ability to use its pre-acquisition of control non-capital loss carryforwards to offset its post-acquisition of control income may be limited. A “loss restriction event” occurs if control of the corporation is acquired by a person or group of persons. We experienced an acquisition of control as a result of the exchange by Jaxii of Class A subordinate voting shares for Class B multiple voting shares. As a result of our acquisition of control, if we earn net taxable income in Canada, our ability to use our pre-acquisition of control non-capital loss carryforwards to offset Canadian taxable income will be subject to limitations.

**We may not be able to generate sufficient cash flow or raise capital on acceptable terms to meet our future needs.**

To meet our capital needs, we expect to rely on our cash flow from operations. Third-party financings in the future may not be available on terms favourable to us, or at all, and we may not manage costs and working capital successfully. Our ability to obtain funding will be subject to various factors, including general market conditions, our operating performance, the market’s perception of our growth potential, lender sentiment and our ability to incur debt in compliance with other contractual restrictions. These factors may make the timing, amount, terms and conditions of additional financings unattractive. We cannot assure you that our business will generate cash flow from operations in an amount sufficient to enable us to fund our liquidity needs. Our inability to raise capital could impede our growth and could materially adversely affect our business, financial condition and results of operations.
Additionally, our ability to fund planned expenditures for our growth plans will depend on our ability to generate cash in the future and our capital requirements may vary materially from those currently planned if, for example, our revenues do not reach expected levels or we have to incur unforeseen capital expenditures and make investments to maintain our competitive position. If our business does not achieve the levels of profitability or generate the amount of cash that we anticipate or if we expand faster than anticipated, we may need to seek additional debt or equity financing to operate and expand our business. Our inability to raise capital could impede our growth or otherwise require us to forego growth opportunities and could materially adversely affect our business, financial condition and results of operations.

We believe that cash and expected cash flow from operations are adequate to fund our debt service requirements, operating lease obligations, capital expenditures and working capital obligations for the next fiscal year.

**Our franchise partners could take actions or omit to take actions that could harm our business.**

Our results of operations are impacted by the ability of our franchise partners to generate revenues at their franchised stores. Our franchise partners are contractually obligated to operate their stores in accordance with the operations, brand, safety and health standards set forth in our agreements with them and applicable laws. However, although we will attempt to properly train and support all of our franchise partners, franchise partners are independent third parties whom we do not control. The franchise partners own, operate, and oversee the daily operations of their stores, and their employees are not our employees. Accordingly, their actions are outside of our control. Although we have developed criteria to evaluate and screen prospective franchise partners, we cannot be certain that our franchise partners will have the business acumen or financial resources necessary to operate successful franchises at their approved locations, and state, provincial, municipal and local franchise laws, as applicable, may limit our ability to terminate or not renew these franchise agreements. Moreover, despite our training, support and monitoring, franchise partners may not successfully operate stores in a manner consistent with our standards and requirements, or may not hire and adequately train qualified managers and other store personnel. The failure of our franchise partners to operate their franchises in accordance with our standards or applicable law, actions taken by their employees or a negative publicity event at one of our franchised stores or involving one of our franchise partners could have a material adverse effect on our reputation, our brand, our ability to attract prospective franchise partners, our Company-owned stores, or our business, financial condition and results of operations. State, provincial, municipal and local, as applicable, franchise laws may limit our ability to terminate, not renew or otherwise modify these franchise arrangements.

Franchise partners, as independent business operators, may from time to time disagree with us and our strategies regarding the business or our interpretation of our, and their, rights and obligations under franchise and development agreements. This may lead to disputes with our franchise partners in the future. These disputes may divert the attention of our management and our franchise partners from operating our stores and affect our image and reputation and our ability to attract franchise partners in the future, which could materially adversely affect our business, financial condition and results of operations. See also “– We may engage in litigation with our franchise partners”.

It is possible that, in a challenging economic environment, some franchise partners could file for bankruptcy or become delinquent in their payments to us, which could have significant adverse impacts on our business due to the loss or delay in payments of royalty and other fees. A franchise partner bankruptcy could have a substantial negative impact on our ability to collect payments due under such franchise partner’s franchise arrangements. In a franchise partner bankruptcy, the bankruptcy trustee may reject its franchise arrangements pursuant to Section 365 under the United States Bankruptcy Code, in which case there would be no further royalty payments from such franchise partner, and there can be no assurance as to the proceeds, if any, that may ultimately be recovered in a bankruptcy proceeding of such franchise partner in connection with a damage claim resulting from such rejection. In Canada, if the franchise partner becomes bankrupt, the trustee in bankruptcy may choose to assign the franchise agreement under Section 84.1 of the BIA, subject to obtaining court approval, or take no action with respect to the franchise agreement. If no action is taken, presumably no further royalty payments would be received. While we would be entitled to make a claim in the bankruptcy proceeding for our damages, there may
not be any proceeds available to be distributed to us. Alternatively, an insolvent franchise partner may seek the protection of restructuring legislation in Canada pursuant to the CCAA or the proposal provisions of the BIA. In either case, it is possible for the franchise partner to disclaim the franchise agreement (under Section 65.11 of the BIA or under Section 32 of the CCAA). We would be entitled to file a claim in the insolvency proceeding for the damages resulting from such rejection but we might make little or no recovery in respect of our claim.

In addition, we have repurchased one of our franchises over the past two fiscal years. This type of acquisition involves numerous risks and uncertainties including increased costs, integration challenges, potential labour issues, the assumption of unexpected liabilities and distractions to senior management. The anticipated benefits of these types of buyback transactions may not be realized in full or at all, or may take longer than we expect.

**We have limited influence over the operations of our franchise partners and we require their cooperation.**

Our success relies in part on the financial success and cooperation of our franchise partners, yet we have limited influence over their operations. Our store margins arise primarily from franchised stores. Our franchise partners manage their businesses independently, and therefore are responsible for the day-to-day operation of their stores. The revenues we realize from franchised stores are largely dependent on the ability of our franchise partners to grow their sales or maintain existing sales. Our franchise partners may not experience sales growth or maintain existing sales, and our revenues and margins could be negatively affected as a result. If sales trends worsen for franchise partners, their financial results may deteriorate, which could result in, among other things, store closures or delayed or reduced royalty payments to us.

Our success also depends on the willingness and ability of our franchise partners to implement major initiatives, which may include financial investment, and to remain aligned with us on operating, promotional and capital-intensive reinvestment plans. The ability of our franchise partners to contribute to the achievement of our plans is dependent in large part on the availability of funding at reasonable interest rates and may be negatively impacted by the financial markets in general or by the individual franchise partner’s creditworthiness. Our operating performance could also be negatively affected if our franchise partners experience food safety or other operational problems or project a brand image inconsistent with our values, particularly if our contractual and other rights and remedies are limited, costly to exercise or subject to litigation. If franchise partners do not successfully operate stores in a manner consistent with our required standards, the brand’s image and reputation could be harmed, which in turn could hurt our business and results of operations.

Our ownership mix also affects our results and financial condition. The decision to own stores or to operate under franchise or license agreements is driven by many factors whose interrelationship is complex and changing. Our ability to achieve the benefits of our franchising strategy, which involves a shift to an even greater percentage of franchised stores, will depend on various factors, including our ability to identify franchise partners that meet our rigorous standards, the performance of our existing franchise partners and whether the resulting ownership mix supports our financial objectives.

**If we are unable to maintain good relationships with our franchise partners, revenues could decrease and we may be unable to expand our presence in certain markets.**

Our franchise partners pay us a franchise fee and certain other fees, such as a marketing deposit, royalties based on gross sales and a corporate advertising fee, pursuant to our franchise agreements. The viability of our franchise business depends on our ability to establish and maintain good relationships with our franchise partners. The value of our brand and the rapport that we maintain with our franchise partners are important factors for potential franchise partners considering doing business with us. If we are unable to maintain good relationships with franchise partners, we may be unable to renew franchise agreements and opportunities for developing new relationships with additional franchise partners may be adversely affected. This, in turn, could have an adverse effect on our results of operations.

Our franchise agreements require us and our franchise partners to comply with operational and performance conditions that are subject to interpretation and could result in disagreements. At any given time, we
may be in disputes with one or more of our franchise partners. An adverse result in any such dispute could adversely impact our results of operations and business.

The number of new franchised Freshii stores that actually open in the future may differ materially from the number of signed commitments from potential existing and new franchise partners.

The number of new franchised stores that actually open in the future may differ materially from the number of signed commitments from potential existing and new franchise partners. Based on our limited history of international store openings, we believe the termination rate of international commitments is likely to approximate the historic termination rate of North American commitments. The historic conversion rate of signed commitments to new locations may not be indicative of the conversion rates we will experience in the future and the total number of new franchise partner stores actually opened in the future may differ materially from the number of signed commitments disclosed at any point in time.

Changes to the current law with respect to the assignment of liabilities in the franchise business model could adversely impact our profitability.

One of the legal foundations fundamental to the franchise business model has been that, absent special circumstances, a franchisor is generally not responsible for the acts, omissions or liabilities of its franchise partners, including in the employment/labour relations area. However, in an August 2015 decision, NLRB v. Browning Ferris Industries, Inc. (now on appeal), the U.S. National Labor Relations Board jettisoned its long-standing “joint employer” standard, which required that an entity have “direct and immediate control” over the essential terms and conditions of employment of another’s employees (for example, hiring, firing, wages/benefits, discipline and supervision) in order to be held legally responsible potentially as a joint employer, in favor of a more expansive, fluid, and vague standard where direct or indirect control, or even an unexercised reserved right to control, the essential employment terms and conditions of another’s employees will suffice for joint employer liability. That decision, coupled with the U.S. Department of Labor Wage and Hour Division’s issuance in January 2016 of an Administrator’s Interpretation of the factors evidencing joint employment under the Fair Labor Standards Act of 1938 (“FLSA”) and other government agency initiatives, could, depending on how government regulators at various agencies and, eventually, the courts interpret these developments and apply them going-forward to the franchising method of distribution, significantly change the way we and other franchisors conduct business and adversely impact our profitability.

For example, a determination that we are a “joint employer” with our franchise partners or that franchise partners are part of one unified system with joint and several liability under the National Labor Relations Act of 1935, the FLSA, statutes administered by the U.S. Equal Employment Opportunity Commission and the U.S. Occupational Safety and Health Administration (“OSHA”), Ontario’s Labour Relations Act, 1995 and Employment Standards Act, 2000, regulations and other areas of labour and employment law could subject us and/or our franchise partners to liability for the unfair labour practices, wage-and-hour law violations, employment discrimination law violations, OSHA regulation violations, termination of employment payment obligations and other employment-related liabilities of one or more franchise partners. Furthermore, this change in the law could create an increased likelihood that certain franchised networks will be required to employ unionized labour, which could impact franchisors like us through, among other things, increased labour costs, increased menu prices to offset labour costs and difficulty in attracting new franchise partners. In addition, if these changes are expanded outside of the employment context, we could be held liable for other claims against franchise partners such as personal injury claims by customers at franchised restaurants. Therefore, any regulatory action or court decisions expanding the vicarious liability of franchisors could impact our ability or desire to grow our franchised base and have a material adverse effect on our results of operations.
Fluctuations in exchange rates affect our revenue.

We are subject to inherent risks attributed to operating in a global economy. All of our revenue, costs and debts are presented in U.S. dollars. However, sales made by franchise partners outside of the U.S. are denominated in the currency of that country and such currency could become less valuable prior to calculation of our royalty payments in U.S. dollars as a result of exchange rate fluctuations, particularly with respect to the Canadian dollar. As a result, unfavourable currency fluctuations could reduce our royalty revenue and in turn reduce our revenue.

Because a component of our strategy is to continue to grow our franchise business internationally, the risks of doing business internationally could lower our revenues, increase our costs, reduce our profits or disrupt our business.

As of December 25, 2016, 45 of our 278 franchised stores were located internationally and we expect to continue to expand our franchised stores internationally. As a result, we are and will be, on an increasing basis, subject to the risks of doing business internationally, including:

- changes in foreign currency exchange rates or currency restructurings and hyperinflation or deflation in the countries in which we operate;
- the imposition of restrictions on currency conversion or the transfer of funds or limitations on our ability to repatriate non-Canadian earnings in a tax effective manner;
- the presence and acceptance of varying levels of business corruption in international markets;
- the ability to comply with, or impact of complying with, complex and changing laws, regulations and policies of foreign governments that may affect investments or operations, including foreign ownership restrictions, import and export controls, tariffs, embargoes, intellectual property, licensing requirements and regulations, increase in taxes paid and other changes in applicable tax laws;
- the difficulties involved in managing an organization doing business in many different countries;
- the ability to comply with, or impact of complying with, complex and changing laws, regulations and economic political policies of the Canadian government, including Canadian laws and regulations relating to economic sanctions, export controls and anti-boycott requirements;
- the effect of disruptions caused by severe weather, natural disasters, outbreak of disease or other events that make travel to a particular region less attractive or more difficult; and
- political and economic stability.

Any or all of these factors may adversely affect the performance of and licensing fees we receive from our franchise stores located in international markets. There also is no assurance that international operations will be profitable or that international growth will continue. Our international franchised operations are subject to similar risks associated with our North American operations, as well as a number of additional risks. These include, among other things, international economic and political conditions, foreign currency fluctuations, and differing cultures and consumer preferences. Our international franchised stores operate in several regions that are subject to geopolitical and socio-political factors that pose risk to our business operations, such as the Middle East. In addition, the economy of any region in which our stores are located may be adversely affected to a greater degree than that of other areas of the country or the world by certain developments affecting industries concentrated in that region or country. While these factors and the impact of these factors are difficult to predict, any one or more of them could lower our revenues, increase our costs, reduce our profits or disrupt our business, and, as our international franchise operations increase, these risks will become more pronounced.

Because of our international franchise operations, we could be adversely affected by violations of anti-bribery and anti-kickback laws.

A portion of our franchised operations are located outside Canada. Anti-bribery and anti-kickback laws and regulations, generally prohibit companies and their intermediaries from making improper payments to non-
resident officers, employees or any other persons acting in an official capacity for any government entity to any
political party or official thereof or to any candidate for political office for the purpose of obtaining or retaining
business. While our franchise agreements mandate compliance with applicable law, we cannot assure you that we
will be successful in preventing our employees or other agents from taking actions in violation of these laws or
regulations. Such violations, or allegations of such violations, could disrupt our business and result in a material
adverse effect on our financial condition, results of operations and cash flows.

Our international franchised stores source most of their core ingredients locally. If this international supply chain
is interrupted, our international franchise operations could encounter supply shortages and incur higher costs,
which could negatively affect our business, financial condition and results of operations.

Our international franchised stores source most of their ingredients locally. When an international franchise
partner opens a store in a new market, a member of our supply chain team will approve the ingredients that the
international franchise partner wishes to source. If there is a perishable ingredient that they cannot find locally, we
will provide them with an approved recipe to make the item in-house or remove it from the menu. This local
sourcing will result in different flavour profiles and specifications, which may negatively impact our business,
financial condition and results of operations.

Due to the long lead time, sporadic growth and general volatility in the supply chain, it is not feasible for us
at this time to contract the global distribution of our products in most of our international markets. Though we ask
to receive notification of any product changes, there is risk that franchise partners will use supplies that have not
been approved or whose food quality specifications change over time.

If our international franchised stores are unable to obtain ingredients in the necessary amounts in a timely
fashion as a result of logistics issues, sanctions or other challenges, it could harm their respective businesses and
adversely affect the franchising fees we receive from our international franchise partners, which could adversely
impact our business, financial condition and results of operations. Furthermore, if one of our international
franchise partners were to experience a food safety issue, we would rely on that franchise partner to follow the
Freshii recall procedures. Though we would be able to assist them in their recall efforts, there is a risk that it would
take a longer amount of time to eliminate the product from this international supply chain, which could have a
negative impact on our business, financial condition and results of operations.

The impact of negative economic factors, including the availability of credit, on our and our franchise partners’
landlords and surrounding tenants could negatively affect our financial results.

Negative effects on our and our franchise partners’ existing and potential landlords due to the inaccessibility
of credit and other unfavourable economic factors may, in turn, adversely affect our business and results of
operations. If our and our franchise partners’ landlords are unable to obtain financing or remain in good standing
under their existing financing arrangements, they may be unable to provide construction contributions, or to
satisfy other lease covenants to us and our franchise partners, and may also be subject to foreclosure proceedings
by mortgagees. In addition, if our and our franchise partners’ landlords are unable to obtain sufficient credit to
continue to properly manage their retail sites, we and our franchise partners may experience a drop in the level of
quality of such retail centres. Our and our franchise partners’ development of new stores may also be adversely
affected by the negative financial situations of developers and potential landlords. Landlords may try to delay or
cancel recent development projects (as well as renovations of existing projects) due to the instability in the credit
markets and recent declines in consumer spending, which could reduce the number of appropriate locations
available that we would consider for our new stores. Furthermore, the failure of landlords to obtain licenses or
permits for development projects on a timely basis, which is beyond our control, may negatively impact our ability
to implement our development plan.
Fluctuations in our tax obligations and effective tax rate and realization of our deferred tax assets may result in volatility of our results of operations.

We are subject to income taxes in various Canadian and foreign jurisdictions. We record tax expense based on our estimates of future payments, which may include reserves for uncertain tax positions in multiple tax jurisdictions, and estimates concerning the probability of utilizing deferred tax assets. At any one time, many tax years may be subject to audit by various taxing jurisdictions. The results of these audits and negotiations with taxing authorities may affect the ultimate settlement of these issues. We expect that throughout the year there could be ongoing variability in our quarterly tax rates as events occur and exposures are evaluated.

In addition, our effective tax rate in a given financial statement period may be materially impacted by a variety of factors including but not limited to changes in the mix and level of earnings, varying tax rates in the different jurisdictions in which we operate, or by changes to existing accounting rules or regulations. Further, tax legislation may be enacted in the future which could negatively impact our current or future tax structure and effective tax rates.

Federal, state, provincial, municipal and local tax rules may adversely impact our results of operations and financial position.

We are subject to federal, state, provincial, municipal and local taxes in North America. If the Internal Revenue Service or the Canada Revenue Agency or other taxing authority disagrees with the positions we have taken on our tax returns, we could face additional tax liability, including interest and penalties. If material, payment of such additional amounts upon final adjudication of any disputes could have a material impact on our results of operations and financial position. In addition, complying with new tax rules, laws or regulations could impact our financial condition, and increases to federal or state statutory tax rates and other changes in tax laws, rules or regulations may increase our effective tax rate. Any increase in our effective tax rate could have a material impact on our financial results.

We could be treated as a passive foreign investment company for U.S. federal income tax purposes. If we are a passive foreign investment company, our shareholders in the U.S. are likely subject to adverse U.S. tax consequences.

Under U.S. federal income tax laws, if a company is a passive foreign investment company (“PFIC”) for any year, it could have adverse U.S. federal income tax consequences to a U.S. shareholder that could affect the timing, amount and character of income recognized by a U.S. shareholder with respect to its investment in our shares. We earn significant royalty and franchise revenue which may be treated as passive income unless the royalty and franchise revenue is derived in the active conduct of a trade or business. Assessing whether royalty or franchise revenue received by us and our subsidiaries is derived in the active conduct of a trade or business involves substantial factual and legal ambiguity. Therefore, whether we are a PFIC is unclear, and we believe there is a significant risk that we will be considered a PFIC currently or in the future. We have not yet made a determination as to whether to treat ourselves as a PFIC, and even if we were to make determinations of our PFIC status, there can be no assurances that the U.S. Internal Revenue Service will agree with such determinations. Furthermore, because PFIC determinations are made annually, it is possible that we will meet the requirements to be treated as a PFIC in one or more years, but not meet such requirements in other years. U.S. shareholders should consult their own tax advisors regarding the potential adverse tax consequences to owning PFIC stock, and whether they are able to and should make any elections or take other actions to mitigate such potential adverse tax consequences.
The dual class structure that will be contained in our Articles has the effect of concentrating voting control and the ability to influence corporate matters with Matthew Corrin, our Chairman and Chief Executive Officer.

Our Class B multiple voting shares have 10 votes per share and our Class A subordinate voting shares have one vote per share. Jaxii, the corporation controlled by our Chairman and Chief Executive Officer, holds all of our Class B multiple voting shares and holds approximately 67.5% of the voting power of our outstanding Shares and therefore has significant influence over our management and affairs and over all matters requiring shareholder approval, including election of directors and significant corporate transactions.

In addition, because of the 10:1 voting ratio between our Class B multiple voting shares and Class A subordinate voting shares, the holder of our Class B multiple voting shares will continue to control a majority of the combined voting power of our voting shares, even where the Class B multiple voting shares represent a substantially reduced percentage of our total outstanding Shares. The concentrated voting control of the holder of our Class B multiple voting shares will limit the ability of the holders of our Class A subordinate voting shares to influence corporate matters for the foreseeable future, including the election of directors as well as with respect to decisions regarding amendments of our share capital, creating and issuing additional classes of shares, making significant acquisitions, selling significant assets or parts of our business, merging with other companies and undertaking other significant transactions. As a result, the holder of Class B multiple voting shares will have the ability to influence many matters affecting us and actions may be taken that our holders of Class A subordinate voting shares may not view as beneficial. The market price of our Class A subordinate voting shares could be adversely affected due to the significant influence and voting power of the holder of Class B multiple voting shares. Additionally, the significant voting interest of the holder of Class B multiple voting shares may discourage transactions involving a change of control, including transactions in which an investor, as a holder of the Class A subordinate voting shares, might otherwise receive a premium for the Class A subordinate voting shares over the then-current market price, or discourage competing proposals if a going private transaction is proposed by the holder of Class B multiple voting shares.

If Jaxii retains a significant portion of its holdings of Class B multiple voting shares for an extended period of time, it could, in the future, control a significant percentage of the combined voting power of our Class A subordinate voting shares and Class B multiple voting shares. Each of our directors and officers owes a fiduciary duty to Freshii and must act honestly and in good faith with a view to the best interests of Freshii. However, any director and/or officer that is a shareholder, even a controlling shareholder, is entitled to vote its shares in its own interests, which may not always be in the interests of our shareholders generally. The concentration of voting power in Jaxii may also have an adverse effect on the price of our Class A subordinate voting shares. We may also take actions that our other shareholders do not view as beneficial, which may adversely affect our results of operations and financial condition and cause the value of your investment to decline.

Pursuant to our Articles, holders of Class A subordinate voting shares and Class B multiple voting shares will be treated equally and identically, on a per share basis, in certain change of control transactions that require approval of our shareholders under the OBCA, unless different treatment of the shares of each such class is approved by a majority of the votes cast by the holders of our Class A subordinate voting shares and Class B multiple voting shares, each voting separately as a class.

Dilution

The issuance of additional Class A subordinate voting shares may have a dilutive effect on the interests of shareholders of the Company. The Class A subordinate voting shares that the Company is authorized to issue is unlimited. The Company may, in its sole discretion, subject to applicable law and the rules of the TSX, issue additional Class A subordinate voting shares from time to time (including pursuant to the Company’s equity-based compensation plans), and the interests of shareholders may be diluted thereby.
Securities Analysts’ Research or Reports Could Impact Price of Class A Subordinate Voting Shares

The trading market for the Class A subordinate voting shares will rely in part on the research and reports that industry or financial analysts publish about the Company or the Company’s business. If one or more of the analysts covering the Company’s business downgrade their evaluations of the Company’s shares or share price, the price of the Class A subordinate voting shares could decline. If one or more of these analysts cease to cover the Company’s Class A subordinate voting shares, the Company could lose visibility in the market for its shares, which in turn could cause the Class A subordinate voting shares price to decline.

The forward-looking statements contained in this AIF may prove to be incorrect

The forward-looking statements relating to, among other things, future results, performance, achievements, prospects or opportunities of the Company or the Canadian or U.S. restaurant segments included in this AIF is based on opinions, assumptions and estimates made by the Company in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors the Company believes are appropriate and reasonable in the circumstances. However, there can be no assurance that such estimates and assumptions will prove to be correct. Actual results of the Company in the future may vary significantly from the historical and estimated results and those variations may be material. There is no representation by the Company that actual results achieved by the Company in the future will be the same, in whole or in part, as those included in this AIF.

PROMOTER

Matthew Corrin, the Chairman and Chief Executive Officer of the Company, may be considered a promoter of the Company within the meaning of Canadian securities legislation. As at the date of this AIF, Matthew Corrin, indirectly through Jaxii, beneficially owned, or controlled or directed, 5,248,017 Class B multiple voting shares, representing 100% of issued and outstanding Class B multiple voting shares and no Class A subordinate voting shares. Matthew Corrin also held 500,000 RSUs and 756,361 options exercisable to acquire Class A subordinate voting shares.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

The Company is, from time to time, involved in legal proceedings of a nature considered normal to its business. We believe that none of the litigation in which we are currently involved, or have been involved since the beginning of the most recently completed financial year, individually or in the aggregate, is material to our consolidated financial condition and results of operations.

Lettuce Holdit Ltd., Lettuce Eatery Development Inc. and Freshii (together, the “Defendants”) have been served with a statement of claim in the Federal Court (Canada), issued June 30, 2016, brought by International Franchise Inc., Yogurt’s Yogurt Inc. and Yogen Früz Canada Inc. (together, the “Plaintiffs”). In their claim, the Plaintiffs allege that the Defendants infringed or otherwise improperly used certain of the Plaintiffs’ trademarks contrary to the Trade-marks Act, including by publishing an open letter in which the frozen yogurt restaurant concept is discussed and in which one of the Plaintiffs’ trademarks appears. The Plaintiffs have also advanced a claim that the Defendants made misleading representations to the public contrary to section 52 of the Competition Act. The Plaintiffs seek an interim, interlocutory and permanent injunction restraining Freshii from using the Plaintiffs’ trademarks in any manner including in a manner that likely depreciates the goodwill attached to them, passing off the Plaintiffs’ goods as those of the Defendants or making false or misleading representations to the public for the purpose of promoting any of the Defendants’ business interests. The Plaintiffs also seek an order to deliver up or destroy any material that might offend the court orders that the Plaintiffs seek and an order requiring the Defendants to publish a retraction of the open letter in which the Plaintiffs’ trademark appears. The Plaintiffs
seek $10,000,000 in damages or an accounting of the Defendants’ profits at the Plaintiffs’ election and ask for their costs. The Defendants deny the Plaintiffs’ allegations have any merit and intend to vigorously defend the Plaintiffs’ claim. The Defendants brought a counterclaim against the Plaintiffs seeking an order expunging certain of the Plaintiffs’ trademarks pursuant to ss. 57 and 58 of the Trade-Marks Act.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as described elsewhere in this AIF, there are no material interests, direct or indirect, of any of our directors or executive officers, any shareholder that beneficially owns, or controls or directs (directly or indirectly), more than 10% of any class or series of our outstanding voting securities, or any associate or affiliate of any of the foregoing persons, in any transaction within the three years before the date hereof that has materially affected or is reasonably expected to materially affect the Company or any of its subsidiaries.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Class A subordinate voting shares and the Class B multiple voting shares is TSX Trust Company at its principal office in Toronto, Ontario.

MATERIAL CONTRACTS

The following are material contracts of the Company that are in effect as at the date of this AIF (other than certain agreements entered into in the ordinary course of business):

- the Coattail Agreement;
- the Underwriting Agreement dated January 25, 2017 in respect of the IPO;
- the Foodservice Distribution Agreement dated November 1, 2015 among the Company and DMA; and
- the Supplemental Agreement for Distribution Services in Canada dated May 9, 2016 among the Company and GFS.

Copies of the foregoing documents are available on SEDAR.

INTERESTS OF EXPERTS

PricewaterhouseCoopers LLP, Chartered Professional Accountants is the Company’s auditor and has confirmed that it is independent of the Company within the meaning of the Code of Professional Conduct of Chartered Professional Accountants of Ontario.

ADDITIONAL INFORMATION

Additional information relating to the Company may be found on SEDAR at www.sedar.com.
APPENDIX A: AUDIT COMMITTEE CHARTER

A. RESPONSIBILITY

The Audit Committee is responsible for assisting the Board of Directors (the “Board”) of Freshii Inc. (the “Corporation”) in fulfilling its oversight responsibilities in relation to:

(a) the integrity of the Corporation’s financial statements;
(b) the Corporation’s compliance with legal and regulatory requirements related to financial reporting;
(c) the qualifications, independence and performance of the Corporation’s auditor;
(d) the design, implementation and maintenance of internal controls and disclosure controls; and
(e) any additional matters delegated to the Audit Committee by the Board.

B. MEMBERS

The Board must appoint a minimum of three directors to be members of the Audit Committee. The members of the Audit Committee will be selected by the Board on the recommendation of the Nomination and Governance Committee.

All of the members of the Audit Committee will be “independent directors” (“Independent Directors”) as defined in National Instrument 52-110 - Audit Committees, as amended from time to time (“NI 52-110”). In addition, every member of the Audit Committee will be “financially literate” as defined in NI 52-110.

C. DUTIES

The Audit Committee is responsible for performing the duties set out below as well as any other duties that are otherwise required by law or delegated to the Audit Committee by the Board.

1. Appointment and Review of the Auditor

The auditor is ultimately accountable to the Audit Committee and reports directly to the Audit Committee. Accordingly, the Audit Committee will evaluate and be responsible for the Corporation’s relationship with the auditor. Specifically, the Audit Committee will:

(a) select, evaluate and nominate the auditor to be proposed for appointment or reappointment, as the case may be, by the shareholders;
(b) review and approve the auditor’s engagement letter;
(c) review the independence, experience, qualifications and performance of the auditor, including the engagement and lead partners, in recommending its appointment or reappointment, including considering whether the auditor’s provision of any permitted non-audit services is compatible with maintaining its independence;
(d) resolve any disagreements between senior management and the auditor regarding financial reporting;
(e) at least annually, obtain and review a report by the auditor describing:
(i) the auditor’s internal quality-control procedures, including with regard to safeguarding confidential information;
(ii) any material issues raised by the most recent internal quality control review, or peer review, of the auditor, or review by any independent oversight body, such as the Canadian Public Accountability Board, or governmental or professional authorities.
within the preceding five years respecting one or more independent audits carried out by the auditor, and the steps taken to deal with any issues raised in any such review; and

(f) where appropriate, terminate the auditor.

2. Confirmation of the Auditor’s Independence

At least annually, and before the auditor issues its report on the annual financial statements, the Audit Committee will:

(a) review a formal written statement from the auditor describing all of its relationships with the Corporation;
(b) discuss with the auditor any relationships or services that may affect its objectivity and independence;
(c) obtain written confirmation from the auditor that it is objective within the meaning of the Rules of Professional Conduct/Code of Ethics adopted by the provincial institute or order of Chartered Accountants to which it belongs and is an independent public accountant within the meaning of the Independence Standards of the Canadian Institute of Chartered Accountants; and
(d) confirm that the auditor has complied with applicable rules, if any, with respect to the rotation of certain members of the audit engagement team.

3. Pre-Approval of Non-Audit Services

The Audit Committee will pre-approve the appointment of the auditor for any non-audit service to be provided to the Corporation. Before the appointment of the auditor for any non-audit service, the Audit Committee will consider the compatibility of the service with the auditor’s independence. The Audit Committee may pre-approve the appointment of the auditor for any non-audit services by adopting specific policies and procedures, from time to time, for the engagement of the auditor for non-audit services. Such policies and procedures will be detailed as to the particular service, and the Audit Committee must be informed of each service, and the procedures may not include delegation of the Audit Committee’s responsibilities to management. In addition, the Audit Committee may delegate to one or more members the authority to pre approve the appointment of the auditor for any non-audit service to the extent permitted by applicable law provided that any pre-approvals granted pursuant to such delegation shall be reported to the full Audit Committee at its next scheduled meeting.

4. Communications with the Auditor

The Audit Committee has the authority to communicate directly with the auditor and will meet privately with the auditor periodically to discuss any items of concern to the Audit Committee or the auditor, such as:

(a) the scope, planning and staffing of the audit;
(b) the auditor’s materiality threshold for the audit;
(c) the assessment by the auditor of significant audit risk;
(d) any material written communications between the auditor and senior management, such as any management letter or schedule of unadjusted differences;
(e) whether or not the auditor is satisfied with the quality and effectiveness of financial recording procedures and systems;
(f) the extent to which the auditor is satisfied with the nature and scope of its examination;
(g) whether or not the auditor has received the full co-operation of senior management and other employees of the Corporation;
(h) the auditor’s opinion of the competence and performance of the Chief Financial Officer and other key financial personnel;
(i) the items required to be communicated to the Audit Committee under the Canadian authoritative guidance;
(j) critical accounting policies and practices to be used by the Corporation;
(k) alternative treatments of financial information within generally accepted accounting principles that have been discussed with senior management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the auditor;
(l) any difficulties encountered in the course of the audit work, any restrictions imposed on the scope of activities or access to requested information, any significant disagreements with senior management and their response; and
(m) any illegal act that may have occurred and the discovery of which is required to be disclosed to the Audit Committee.

5. Review of the Audit Plan

The Audit Committee will discuss with the auditor the nature of an audit and the responsibility assumed by the auditor when conducting an audit under generally accepted auditing standards. The Audit Committee will review a summary of the auditor’s audit plan for each audit.

6. Review of Audit Fees

The Audit Committee will determine the auditor’s fee and the terms of the auditor’s engagement. In determining the auditor’s fee, the Audit Committee should consider, among other things, the number and nature of reports to be issued by the auditor, the quality of the internal controls of the Corporation, the size, complexity and financial condition of the Corporation and the extent of support to be provided to the auditor by the Corporation.

7. Review of Financial Statements

The Audit Committee will review and discuss with senior management and the auditor the annual audited financial statements, together with the auditor’s report thereon, and the interim financial statements, before recommending them for approval by the Board. The Audit Committee will also review and discuss with senior management and the auditor management’s discussion and analysis relating to the annual audited financial statements and interim financial statements. The Audit Committee will also engage the auditor to review the interim financial statements prior to the Audit Committee’s review of such financial statements.

Before recommending any financial statements to the Board for approval, the Audit Committee will satisfy itself that such financial statements, together with the other financial information included in the Corporation’s annual and interim filings, fairly present in all material respects the financial condition, results of operations and cash flows of the Corporation as of the relevant date and for the relevant periods.

In conducting its review of the financial statements and related management’s discussion and analysis, the Audit Committee will:

(a) consider the quality of, and not just the acceptability of, the accounting principles, the reasonableness of senior management’s judgments and estimates that have a significant effect upon the financial statements, and the clarity of the disclosures in the financial statements;
(b) discuss any analyses prepared by senior management or the auditor that set out significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of any alternative treatments of financial information that have been discussed with management and the ramification of their use and the auditor’s preferred treatment;
discuss the effect of off-balance sheet transactions, arrangements, obligations (including contingent liabilities) and other relationships with unconsolidated entities or other persons that may have a material current or future effect on the Corporation's financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenues and expenses;

consider any changes in accounting practices or policies and their impact on financial statements of the Corporation;

discuss with senior management, the auditor and, if necessary, legal counsel, a report from senior management describing any litigation, claim or other contingency, including tax assessments, that could have a material effect upon the financial position of the Corporation, and the manner in which these matters have been disclosed in the financial statements;

discuss with senior management and the auditor any correspondence with regulators or governmental agencies, employee complaints or published reports that raise material issues regarding the Corporation's financial statements or accounting policies;

discuss with the auditor any special audit steps taken in light of material weaknesses in internal control;

review the results of the audit, including any reservations or qualifications in the auditor's opinion;

discuss with the auditor any difficulties encountered in the course of the audit work, including any restrictions on the scope of their procedures and access to requested information, accounting adjustments proposed by the auditor but were “passed” (as immaterial or otherwise), and significant disagreements with senior management;

discuss with the auditor any issues on which the Corporation’s audit team consulted the auditor’s national office; and

consider any other matter which in its judgment should be taken into account in reaching its recommendation to the Board concerning the approval of the financial statements.

8. Review of Other Financial Information

The Audit Committee will review:

all earnings press releases and other press releases containing financial information, as well as financial information and earnings guidance provided to analysts and rating agencies. The Audit Committee will also review the use of “pro forma” or “adjusted” non-GAAP information in such press releases and financial information. Such review may consist of a general discussion of the types of information to be disclosed or the types of presentations to be made;

all other financial statements of the Corporation that require approval by the Board before they are released to the public;

the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Corporation's financial statements; and

disclosures made to the Audit Committee by the Chief Executive Officer and Chief Financial Officer during their certification process for applicable securities law filings about any significant deficiencies and material weaknesses in the design or operation of the Corporation’s internal control over financial reporting which are reasonably likely to adversely affect the Corporation’s ability to record, process, summarize and report financial information, and any fraud involving senior management or other employees who have a significant role in the Corporation’s internal control over financial reporting.
9. Relations with Senior Management and other Board Committees

The members will periodically meet privately with senior management to discuss any areas of concern to the Audit Committee or senior management. The Audit Committee will provide input to the Compensation Committee on the competence and performance of the Chief Financial Officer and will provide input to the Chief Financial Officer on the competence and performance of other key financial personnel. The Audit Committee will meet with the Board as reasonably required to ensure all public disclosure of financial information (including annual and interim financial statements and management’s discussion and analysis related thereto, and all news releases containing financial information) are approved by the Audit Committee prior to public disclosure. Members of the Audit Committee will also consult with the Board when requested in connection with making materiality determinations relating to the Corporation’s disclosure obligations.

10. Oversight of Internal Controls and Disclosure Controls

The Audit Committee will review with senior management the adequacy of the internal controls and procedures that have been adopted by the Corporation to safeguard assets from loss and unauthorized use and to verify the accuracy of the financial records. The Audit Committee will review any special audit steps adopted in light of material control deficiencies. The Audit Committee will review with senior management the controls and procedures that have been adopted by the Corporation to confirm that material information about the Corporation and its subsidiaries that is required to be disclosed under applicable law or stock exchange rules is disclosed.

11. Legal Compliance

The Audit Committee will review with legal counsel any legal matters that could have a significant effect on the Corporation’s financial statements. It will also review with legal counsel material inquiries received from regulators and governmental agencies and advise the Board accordingly.

12. Risk Management

The Audit Committee will oversee the Corporation’s risk assessment and management function and, on a quarterly basis, will review a report from senior management describing the major financial (including taxation matters), legal, operational and reputational risk exposures of the Corporation and the steps senior management has taken to monitor and control such exposures, including the Corporation’s policies with respect to monitoring risk assessment and managing and controlling risks. At least annually, the Audit Committee will meet separately with members of senior management and, if desired by the Audit Committee and/or the Corporation’s auditors, to assess the Corporation’s risk assessment and management policies and practices, including an assessment of the Corporation’s most significant areas of risk and the Corporation’s plans to monitor and manage those areas of risk (including the Corporation’s insurance relating thereto).

13. Taxation Matters

The Audit Committee will review with senior management the status of taxation matters of the Corporation. The Audit Committee will also review a report from senior management confirming that the Corporation has withheld or collected and remitted all amounts required to be withheld or collected and remitted by it in respect of any taxes, levies, assessments, reassessments and other charges payable to any governmental authority.

14. Employees of the Auditor

The Audit Committee will pre-approve the hiring by the Corporation of any partners or employees or former partners or employees of the auditor.
15. Conduct and Ethics

On a quarterly basis, the Audit Committee will review all expenses incurred by the Chief Executive Officer and will confirm that the Chief Executive Officer reviews all expenses incurred by the directors and senior management of the Corporation, respectively.

16. Complaints Procedure

The Audit Committee will review the procedures established by the Board for the receipt, retention and follow-up of complaints received by the Corporation regarding accounting, internal controls, disclosure controls or auditing matters and for the confidential, anonymous submission of concerns by employees of the Corporation regarding such matters.

17. Reporting

The Audit Committee will regularly report to the Board on:

(a) the auditor’s independence;
(b) the performance of the auditor and the Audit Committee’s recommendations regarding its reappointment or termination;
(c) the adequacy of the Corporation’s internal controls and disclosure controls;
(d) its recommendations regarding the annual and interim financial statements of the Corporation, including any issues with respect to the quality or integrity of the financial statements;
(e) its review of the annual and interim management’s discussion and analysis;
(f) the Corporation’s compliance with legal and regulatory requirements related to financial reporting;
(g) the Corporation’s risk assessment and management policies and practices; and
(h) all other significant matters it has addressed and with respect to such other matters that are within its responsibilities.

B. MEETINGS

Subject to the Corporation’s by-laws and articles and the requirements under the Business Corporations Act (Ontario):

1. Scheduling

The Audit Committee will meet at least four (4) times annually or more frequently as it determines is necessary to fulfill its responsibilities, which will be not less than four times a year. A meeting of the Audit Committee may be called by the Chair of the Audit Committee, the Chair of the Board, the Chief Executive Officer, the President, the Chief Financial Officer, any Audit Committee member or the Corporation’s auditor. Meetings will be held at a location determined by the Chair of the Audit Committee.

2. Notice

Notice of the time and place of each meeting will be given to each member either by telephone or other electronic means not less than 48 hours before the time of the meeting. Meetings may be held at any time without notice if all of the members have waived or are deemed to have waived notice of the meeting. A member participating in a meeting will be deemed to have waived notice of the meeting.
3. Agenda

The Chair of the Audit Committee will preside as Chair of each meeting and will establish the agenda for each meeting and lead discussion on meeting agenda items. The Chair shall instruct management to circulate properly prepared agenda materials to Committee members with sufficient time to review prior to scheduled meetings. Any member may propose the inclusion of items on the agenda, request the presence of or a report by any member of senior management, or at any meeting raise subjects that are not on the agenda for the meeting.

4. Distribution of Information

The Chair of the Audit Committee will distribute, or cause the Secretary to distribute, an agenda and meeting materials in advance of each meeting to allow members sufficient time to review and consider the matters to be discussed.

5. Attendance and Participation

Each member is expected to attend all meetings. A member who is unable to attend a meeting in person may participate by telephone or teleconference.

6. Quorum

A majority of members will constitute a quorum for any meeting of the Audit Committee.

7. Voting and Approval

At meetings of the Audit Committee, each member will be entitled to one vote and questions will be decided by a majority of votes. In case of an equality of votes, the Chair of the Audit Committee will not have a second or casting vote in addition to his or her original vote.

8. Procedures

Procedures for Audit Committee meetings will be determined by the Chair of the Audit Committee unless otherwise determined by the by-laws of the Corporation or a resolution of the Audit Committee or the Board.

9. Transaction of Business

The powers of the Audit Committee may be exercised at a meeting where a quorum is present in person or by telephone or other electronic means, or by resolution in writing signed by all members entitled to vote on that resolution at a meeting of the Audit Committee.

10. Absence of Chair

In the absence of the Chair of the Audit Committee at a meeting of the Audit Committee, the members in attendance must select one of them to act as chair of that meeting.

11. Secretary

The Audit Committee may appoint one of its members or any other person to act as secretary.
12. Minutes of Meetings

A person designated by the Chair of the Audit Committee at each meeting will keep minutes of the proceedings of the Audit Committee and the Chair will cause the Secretary to circulate copies of the minutes to each member on a timely basis.

A. CHAIR

Each year, the Board will appoint one member to be Chair of the Audit Committee. If, in any year, the Board does not appoint a Chair of the Audit Committee, the incumbent Chair of the Audit Committee will continue in office until a successor is appointed.

B. REMOVAL AND VACANCIES

Any member may be removed and replaced at any time by the Board, and will automatically cease to be a member as soon as the member ceases to meet the qualifications set out above. The Board will fill vacancies on the Audit Committee by appointment from among qualified members of the Board. If a vacancy exists on the Audit Committee, the remaining members will exercise all of its powers so long as a quorum remains in office.

C. ASSESSMENT

At least annually, the Nomination and Governance Committee will review the effectiveness of the Audit Committee in fulfilling its responsibilities and duties as set out in this Charter and in a manner consistent with the mandate adopted by the Board.

D. REVIEW AND DISCLOSURE

The Audit Committee will review this Charter at least annually and submit it to the Nomination and Governance Committee together with any proposed amendments.

E. ACCESS TO OUTSIDE ADVISORS AND RECORDS

The Audit Committee may retain any outside advisor at the expense of the Corporation at any time and has the authority to determine any such advisor’s fees and other retention terms.

The Audit Committee, and any outside advisors retained by it, will have access to all records and information relating to the Corporation which it deems relevant to the performance of its duties.