

The Second Cup Ltd.

Management's Discussion and Analysis

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Management's Discussion and Analysis ("MD&A") may constitute forward-looking statements within the meaning of applicable securities legislation. The terms the "Company", "Second Cup", "we", "us", or "our" refer to The Second Cup Ltd. Forward-looking statements include words such as "may", "will", "should", "expect", "anticipate", "believe", "plan", "intend" and other similar words. These statements reflect current expectations regarding future events and financial performance and speak only as of the date of this MD&A. The MD&A should not be read as a guarantee of future performance or results and will not necessarily be an accurate indication of whether or not those results will be achieved. Forward-looking statements are based on a number of assumptions and are subject to known and unknown risks, uncertainties and other factors, many of which are beyond Second Cup's control that may cause Second Cup's actual results, performance or achievements, or those of Second Cup cafés, or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The following are some of the factors that could cause actual results to differ materially from those expressed in the underlying forward-looking statements: competition; availability of premium quality coffee beans; the ability to attract qualified franchisees; the location of Second Cup cafés; the closure of Second Cup cafés; loss of key personnel; compliance with government regulations; potential litigation; the ability to exploit and protect the Second Cup trademarks; changing consumer preferences and discretionary spending patterns including, but not restricted to, the impact of weather and economic conditions on such patterns; reporting of system sales by franchisees; and the financial performance and financial condition of Second Cup. The foregoing list of factors is not exhaustive, and investors should refer to the risks described under "Risks and Uncertainties" below and in Second Cup's Annual Information Form, which is available at www.sedar.com.

Although the forward-looking statements contained in this MD&A are based on what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements and, as a result, the forward-looking statements may prove to be incorrect.

As these forward-looking statements are made as of the date of this MD&A, Second Cup does not undertake to update any such forward-looking statements whether as a result of new information, future events or otherwise. Additional information about these assumptions and risks and uncertainties is contained in the Company's filings with securities regulators. These filings are also available on the Company's website at www.secondcup.com.

INTRODUCTION

The following MD&A has been prepared as of November 2, 2017 and is intended to assist in understanding the financial performance and financial condition of The Second Cup Ltd. ("Second Cup" or the "Company") for the 13 weeks (the "Quarter") and 39 weeks ended September 30, 2017, and should be read in conjunction with the Unaudited Condensed Interim Financial Statements of the Company for the 13 and 39 weeks ended September 30, 2017 and September 24, 2016, the Audited Financial Statements of the Company for the 53 weeks ended December 31, 2016, and the Annual Information Form, which are available at www.sedar.com. Past performance may not be indicative of future performance. All amounts are presented in thousands of Canadian dollars, except number of cafés, per share amounts or unless otherwise indicated and have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company also reports certain non-IFRS measures such as system sales of cafés, same café sales, operating income (loss), EBITDA, adjusted EBITDA, adjusted net income (loss) and adjusted net income (loss) per share that are discussed in the "Definitions and Discussion of Certain non-GAAP Financial Measures" in this MD&A.

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CORE BUSINESS, STRATEGIC IMPERATIVES, AND KEY PERFORMANCE DRIVERS

Core business

Second Cup is a Canadian specialty coffee retailer with 289 cafés operating under the trade name Second Cup™ in Canada, of which 15 are Company owned and the balance are operated by franchisees. Further discussion of the Company's core business was described in the 2016 annual MD&A.

Strategic imperatives and key performance drivers

Second Cup's vision of being the coffee brand most passionately committed to quality and innovation will drive management's strategies and actions going forward. Coffee will be at the core of the offering supported by ongoing food and beverage innovation.

As the Canadian specialty coffee company, bringing the best coffees in the world to customers is at the core of the brand and fundamental to redefining Second Cup as the coffee brand most passionately committed to quality and innovation. Second Cup reinforced its position as The Canadian Specialty Coffee Company with the September 2016 launch of their Second to None coffee campaign featuring in-house Coffee Expert Chris Sonnen. The campaign showcases the significant enhancements made in every step of the coffee process from farm to cup resulting in superior coffee taste that is "better, not bitter".

The Company is encouraged by its progress in franchising corporate stores to strong operators, returning to an asset light business model, and expects to make further reductions in the number of Company-owned cafés in 2017.

CAPABILITIES

This section documents factors that affect the Company's capabilities to execute strategies, manage key performance drivers and deliver results. This section is qualified by the section "Caution Regarding Forward-Looking Statements" at the beginning of this MD&A.

The Company's capabilities specific to the Second Cup brand, café of the future, our people, product, locations, competition and technology were discussed in the 2016 annual MD&A.

Liquidity, capital resources and management of capital

On August 10, 2017 ("Issuance Date"), the Company issued 4,210,528 common shares and 300,000 warrants of Second Cup to the four shareholders of SPE Finance LLC (SPE), an affiliate of Serruya Private Equity. The Company also extinguished its \$8,000 debt to SPE, cancelled 600,000 of old warrants and became debt free. These transactions resulted in one-time, non-cash financing charges of \$3,290. These charges consist of the difference between the share price of \$2.60 on the Issuance Date and the agreed-to share price of \$1.90, and the write-off of the unamortized portion of deferred transaction costs related to the debt.

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FINANCIAL HIGHLIGHTS

The following table sets out selected IFRS and certain non-GAAP financial measures of the Company and should be read in conjunction with the Unaudited Condensed Interim Financial Statements of the Company for the 13 and 39 weeks ended September 30, 2017 and September 24, 2016.

(In thousands of Canadian dollars, except same café sales, number of cafés, per share amounts, and number of common shares.)	13 weeks ended		39 weeks ended	
	September 30, 2017	September 24, 2016	September 30, 2017	September 24, 2016
System sales of cafés ¹	\$37,014	\$37,717	\$112,827	\$116,995
Same café sales ¹	0.0%	(1.2%)	0.1%	(1.2%)
Number of cafés - end of period	289	298	289	298
Total revenue	\$5,339	\$7,656	\$17,551	\$22,851
Operating costs and expenses	\$4,903	\$7,681	\$17,568	\$24,137
Operating income (loss) ¹	\$436	(\$25)	(\$17)	(\$1,286)
EBITDA ¹	\$805	\$357	\$1,095	(\$103)
Adjusted EBITDA ¹	\$805	\$357	\$1,382	(\$103)
Net income (loss) and comprehensive income (loss)	(\$2,962)	(\$75)	(\$3,752)	(\$1,122)
Adjusted net income (loss) and comprehensive income (loss) ¹	\$245	(\$75)	(\$545)	(\$1,122)
Basic and diluted earnings (loss) per share as reported	(\$0.19)	(\$0.01)	(\$0.28)	(\$0.09)
Adjusted Basic and diluted earnings (loss) per share ¹	\$0.02	(\$0.01)	(\$0.04)	(\$0.09)
Total assets - end of period	\$42,631	\$42,812	\$42,631	\$42,812
Number of weighted average common shares issued and outstanding	15,236,961	12,830,945	13,632,950	12,830,945

¹See the section "Definitions and Discussion on Certain non-GAAP Financial Measures" for further analysis.

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OPERATIONAL REVIEW

Seasonality of system sales of cafés

The following table shows the percentage of annual system sales of cafés achieved, on average, in each fiscal reporting quarter over the last three years:

<i>% of annual system sales of cafés</i>	2014	2015	2016	Average
First Quarter	24.0	24.7	23.9	24.2
Second Quarter	25.1	25.0	24.6	24.9
Third Quarter	23.9	23.5	23.0	23.5
Fourth Quarter	27.0	26.8	28.5	27.4
	100.0	100.0	100.0	100.0

Historically, system sales of cafés have been higher in the fourth quarter, which includes the holiday sales periods of November and December. In 2016, Fourth Quarter contains one extra week, for a total of 14 weeks.

Café network

	13 weeks ended		39 weeks ended	
	September 30, 2017	September 24, 2016	September 30, 2017	September 24, 2016
Number of cafés - beginning of period	291	304	294	310
Cafés opened	1	-	2	2
Cafés closed	(3)	(6)	(7)	(14)
Number of cafés - end of period	289	298	289	298

The Company ended the Quarter with 15 (September 24, 2016 – 26) Company-owned cafés. Café closures are mainly attributable to leases that are not renewed on expiration, under-performing locations and landlord re-development of specific sites.

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Third Quarter

System sales of cafés

System sales of cafés for the 13 weeks ended September 30, 2017 were \$37,014 compared to \$37,717 for the 13 weeks ended September 24, 2016 representing a decrease of \$703 or 1.9%. The decrease is primarily driven by the reduction in store count.

Same café sales

During the Quarter, same café sales were flat, compared to a decline of 1.2% in the same Quarter of 2016. Excluding Alberta, same café sales during the Quarter were 0.9%. In addition, the timing of Canada Day this year had a negative impact of approximately 0.3% on the Quarter. The success of the Company's Better For You Menu, launched in January and Flash Cold Brew launched in April have contributed to the improvement in same café sales.

Analysis of revenue

Total revenue for the Quarter was \$5,339 (September 24, 2016 - \$7,656) consisting of Company-owned café and product sales, royalty revenue, franchise fees and other revenue.

Company-owned cafés and product sales for the Quarter were \$1,692 (September 24, 2016 - \$3,629). The decrease in revenue of \$1,937 is attributable to the reduced Company-owned cafés count from 26 last year to 15 this year and lower Company-branded consumer product sales. Reducing Company-owned cafés is consistent with the Company's strategy of returning to an asset light business model.

Franchise revenue was \$3,647 for the Quarter (September 24, 2016 - \$4,027). The decrease in franchise revenue of \$380 in the Quarter is primarily due to lower fees (renewal and coordination), partially offset by an increase in licensing fees and royalty income.

Operating costs and expenses

Operating costs and expenses include the costs of Company-owned cafés and product sales, franchise-related expenses, general and administrative expenses, loss/gain on disposal of assets, and depreciation and amortization. Total operating costs and expenses for the Quarter were \$4,903 (September 24, 2016 - \$7,681), a decrease of \$2,778.

Company-owned cafés and product related expenses for the Quarter were \$1,902 (September 24, 2016 - \$3,857), a decrease of \$1,955. This decrease in costs is attributable to a lower number of Company-owned cafés and lower product sales as compared to the same Quarter in 2016.

The Company incurred franchise related expenses of \$1,131 in the Quarter (September 24, 2016 - \$1,888), a decrease of \$757. This decrease in expenses is primarily driven by operational efficiencies and reduction in remunerations.

General and administrative expenses were \$1,504 for the Quarter (September 24, 2016 - \$1,403), an increase of \$101, primarily driven by an increase in professional fees, partially offset by a reduction in remuneration.

A gain on disposal of assets of \$3 was recognized in the Quarter (September 24, 2016 – loss of \$151). Gain and loss on disposal of assets are primarily related to the franchising of Company-owned cafés to franchise partners.

Depreciation and amortization expense was \$369 (September 24, 2016 - \$382).

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EBITDA

EBITDA for the Quarter was \$805 compared to \$357 in the same Quarter of 2016. The increase of \$448 is primarily driven by the decrease in franchise related expenses, partially offset by the decrease in franchise revenue, as described above.

Interest and financing costs

Interest and financing costs for the Quarter were \$3,394 compared to \$62 in the same Quarter of 2016. The increase of \$3,332 is primarily driven by one-time, non-cash financing charges of \$3,290. These charges consist of the difference between the share price of \$2.60 on the Issuance Date and the agreed-to share price of \$1.90, and the write-off of the unamortized portion of deferred transaction costs related to the debt.

Net income (loss)

The Company's net loss for the Quarter was \$2,962 or \$0.19 per share, compared to a net loss of \$75 or \$0.01 per share in 2016. Adjusted for the after-tax fair value difference on shares issued and other costs of \$3,207 (\$0.21 per share), adjusted net income was \$245 or \$0.02 per share compared to an adjusted net loss of \$75 or \$0.01 per share in 2016.

Reconciliations of net income (loss) to EBITDA, adjusted EBITDA, adjusted net income (loss) and adjusted net income (loss) per share are provided in the section "Definitions and Discussion of Certain non-GAAP Financial Measures".

Year to date

System sales of cafés

System sales of cafés for the 39 weeks ended September 30, 2017 were \$112,827 compared to \$116,995 for the 39 weeks ended September 24, 2016 representing a decrease of \$4,168 or 3.6%. The decrease is primarily driven by the reduction in store count.

Same café sales

Year to date same café sales growth was 0.1%, compared to a decline of 1.2% in the same period of 2016. The success of the Company's Better For You Menu, launched in January and Flash Cold Brew launched in April have contributed to the improvement in same café sales.

Analysis of revenue

Year to date total revenue was \$17,551 (September 24, 2016 - \$22,851) consisting of Company-owned café and product sales, royalty revenue, franchise fees and other revenue.

Year to date Company-owned cafés and product sales were \$6,849 (September 24, 2016 - \$11,453). The decrease in revenue of \$4,604 is primarily due to the reduction in Company-owned cafés this year and lower Company-branded consumer product sales. Reducing Company-owned cafés is consistent with the Company's strategy of returning to an asset light business model.

Year to date franchise revenue was \$10,702 (September 24, 2016 - \$11,398). The decrease in franchise revenue of \$696 is primarily due to lower fees (coordination, renewal and franchise-to-franchise resale), partially offset by licensing fees.

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Operating costs and expenses

Operating costs and expenses include the costs of Company-owned cafés and product sales, franchise-related expenses, general and administrative expenses, loss/gain on disposal of assets, and depreciation and amortization. Year to date total operating costs and expenses were \$17,568 (September 24, 2016 - \$24,137), a decrease of \$6,569.

Year to date, Company-owned cafés and product related expenses were \$7,531 (September 24, 2016 - \$12,272), a decrease of \$4,741. This decrease in costs is attributable to a lower number of Company-owned cafés and lower product sales as compared to the same period in 2016.

The Company incurred franchise related expenses year to date of \$4,023 (September 24, 2016 - \$6,097), a decrease of \$2,074. This decrease in expenses is primarily driven by an improvement in operational effectiveness and moving from a national franchisee convention format to regional meetings with franchisees this year.

General and administrative expenses were \$4,803 year to date (September 24, 2016 - \$4,276), an increase of \$527 primarily driven by an increase in professional fees related to legal matters and one-time transition costs.

Year to date, a loss on disposal of \$99 was recognized (September 24, 2016 – loss of \$309). Gain and loss on disposal of assets are primarily related to the franchising of Company-owned cafés to franchise partners.

Depreciation and amortization expense was \$1,112 (September 24, 2016 - \$1,183) year to date.

EBITDA

EBITDA for the year to date was \$1,095 compared to a loss of \$103 in the same period of 2016. Adjusted for one-time transition costs of \$287 incurred in the second quarter of 2017, adjusted EBITDA was \$1,382 compared to an adjusted EBITDA loss of \$103 in the same period 2016. The increase of \$1,485 is primarily driven by the reduction in franchise related expenses, partially offset by the decrease in franchise revenue, as described above.

Interest and financing costs

Interest and financing costs for the year to date was \$3,902 compared to \$159 in the same period of 2016. The increase of \$3,743 is primarily driven by one-time, non-cash financing charges of \$3,290. These charges consist of the difference between the share price of \$2.60 on the Issuance Date and the agreed-to share price of \$1.90, and the write-off of the unamortized portion of deferred transaction costs related to the debt.

Net income (loss)

The Company's net loss year to date was \$3,752 or \$0.28 per share, compared to a net loss of \$1,122 or \$0.09 per share in 2016. Adjusted for the after-tax expense on fair market value difference on issuance of shares of \$3,207 (\$0.24 per share), adjusted net loss was \$545 or \$0.04 per share compared to an adjusted net loss of \$1,112 or \$0.09 per share in 2016.

Reconciliations of net income (loss) to EBITDA, adjusted EBITDA, adjusted net income (loss) and adjusted net income (loss) per share are provided in the section "Definitions and Discussion of Certain non-GAAP Financial Measures".

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SELECTED QUARTERLY INFORMATION

(in thousands of Canadian dollars, except
Number of cafés, Same café sales, and per
share amounts)

	Q3 2017	Q2 2017	Q1 2017	Q4 2016²
System sales of cafés ¹	\$37,014	\$37,898	\$37,915	\$46,743
Same café sales ¹	0.0%	0.7%	(0.2%)	(1.0%)
Number of cafés - end of period	289	291	293	294
Total revenue	\$5,339	\$6,237	\$5,975	\$7,500
Operating income (loss) ¹	\$436	(\$138)	(\$315)	\$301
EBITDA ¹	\$805	\$230	\$60	\$667
Adjusted EBITDA ¹	\$805	\$517	\$60	\$667
Net income (loss) for the period	(\$2,962)	(\$315)	(\$475)	\$147
Adjusted net income (loss) for the period ¹	\$245	(\$315)	(\$475)	\$147
Basic and diluted earnings (loss) per share	(\$0.19)	(\$0.02)	(\$0.04)	\$0.01
Adjusted basic and diluted earnings (loss) per share ¹	\$0.02	(\$0.02)	(\$0.04)	\$0.01
	Q3 2016	Q2 2016	Q1 2016	Q4 2015²
System sales of cafés ¹	\$37,717	\$40,207	\$39,071	\$46,900
Same café sales ¹	(1.2%)	(1.3%)	(1.1%)	0.2%
Number of cafés - end of period	298	304	307	310
Total revenue	\$7,656	\$7,761	\$7,434	\$9,636
Operating income (loss) ¹	(\$25)	(\$528)	(\$733)	\$167
EBITDA ¹	\$357	(\$128)	(\$332)	\$554
Adjusted EBITDA ¹	\$357	(\$128)	(\$332)	\$554
Net (loss) income for the period	(\$75)	(\$441)	(\$606)	\$94
Adjusted net income (loss) for the period ¹	(\$75)	(\$441)	(\$606)	\$94
Basic and diluted (loss) earnings per share	(\$0.01)	(\$0.03)	(\$0.05)	\$0.01
Adjusted basic and diluted earnings (loss) per share ¹	(\$0.01)	(\$0.03)	(\$0.05)	\$0.01

¹See the section "Definitions and Discussion on Certain non-GAAP Financial Measures" for further analysis.

²The Company's fourth quarter System sales of cafés are higher than other quarters due to the seasonality of the business (see "Seasonality of System sales of cafés" above).

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The system sales decreases quarter over quarter are primarily related to the reduction in total network café count and to a lesser extent to the changes in same café sales.

Seasonal factors and the timing of holidays cause the Company's revenue to fluctuate from quarter to quarter. Revenue decreases quarter over quarter are primarily related to the reduction of Company-owned cafés count and reduction in café count.

LIQUIDITY AND CAPITAL RESOURCES

Second Cup collects royalties based on the franchisees' portion of System sales of cafés, franchise fees, and other amounts from its franchisees and also generates revenues from its Company-owned cafés. For a more detailed discussion of the risks and uncertainties affecting the Company's liquidity, see the general risks outlined below and the "Capabilities" section above.

Summary of cash flows

	13 weeks ended		39 weeks ended	
	September 30, 2017	September 24, 2016	September 30, 2017	September 24, 2016
Cash flows provided by (used in) operating activities	\$515	\$265	\$279	(\$755)
Cash flows provided by (used in) investing activities	(20)	(81)	154	(365)
Cash flows used in financing activities	(141)	-	(173)	-
Increase (decrease) in cash and cash equivalents during the period	\$354	\$184	\$260	(\$1,120)

Third Quarter

Cash provided by operating activities was \$515 for the Quarter compared to \$265 for the same Quarter in 2016, an increase of \$250. The increase is primarily due to tax recoveries.

During the Quarter, cash used in investing activities was \$20 compared to cash used of \$81 for the same Quarter in 2016 primarily due to higher proceeds from disposal of capital related items, lower cash payments for capital expenditures and lower cash payments for intangible assets.

The change in the restricted cash balance in the previous year cash flow has been reclassified from investing activities to operating activities. This reclassification has been made to enhance the presentation of the company's activities and the financial statements.

Cash used in financing activities was \$141 (September 24, 2016 – \$Nil), due to transactions related to the shares issued.

Year to date

Cash provided by operating activities was \$279 for the year to date compared to cash used of \$755 for the same period in 2016. The change in cash from operating activities of \$1,034 is primarily due to changes in non-cash working capital and tax recoveries.

Year to date, cash provided by investing activities was \$154 compared to cash used of \$365 for the same year to date in 2016 primarily due to higher proceeds from disposal of capital related items, lower cash payments for capital expenditures and lower cash payments for intangible assets.

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The change in the restricted cash balance in the previous year cash flow has been reclassified from investing activities to operating activities. This reclassification has been made to enhance the presentation of the company's activities and the financial statements.

Cash used in financing activities was \$173 (September 24, 2016 – \$Nil), primarily due to transactions related to the shares issued.

Working capital as at

	September 30, 2017	December 31, 2016
Current assets	\$ 7,714	\$ 9,096
Current liabilities	<u>8,784</u>	<u>10,242</u>
Working capital deficiency	<u>\$ (1,070)</u>	<u>\$ (1,146)</u>

The Company's working capital deficit of \$1,070 as at September 30, 2017 decreased by \$76 from December 31, 2016, primarily as a result of a reduction in accrued liabilities. Gift card liability ended the Quarter at \$2,768, a decrease of \$716 compared to the end of 2016. Based on the historical redemption patterns, the Company believes that it has sufficient financial resources to cover the gift card liability. The Company operates in the franchise industry, in which a working capital deficit is typical.

The Company had cash and cash equivalents of \$3,264 as at September 30, 2017 (December 31, 2016 - \$3,004). The Company continues to believe it has sufficient financial resources to meet its obligations as they come due.

Financial instruments

The following summarizes the nature of certain risks applicable to the Company's financial instruments:

Financial instrument	Risks
<i>Financial assets</i>	
Cash and cash equivalents	Credit and interest rate
Restricted cash	Credit and interest rate
Trade and other receivables	Credit
Notes and leases receivable	Credit
<i>Financial liabilities</i>	
Interest rate swap	Credit, liquidity and interest rate
Accounts payable and accrued liabilities	Liquidity, currency and commodity
Gift card liability	Liquidity
Deposits from franchisees	Liquidity

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(i) Credit risk

Cash and cash equivalents, restricted cash and interest rate swap

Credit risk associated with cash and cash equivalents, restricted cash and the interest rate swap is managed by ensuring these assets are placed with institutions of high creditworthiness.

Trade and other receivables, and notes and leases receivable

Trade and other receivables, and notes and leases receivable primarily comprise amounts due from franchisees. Credit risk associated with these receivables is mitigated as a result of the review and evaluation of franchisee account balances beyond a particular age. Prior to accepting a franchisee, the Company undertakes a detailed screening process, which includes the requirement that a franchisee have sufficient capital and financing. The risk is further mitigated due to a broad franchisee base that is spread across the country, which limits the concentration of credit risk.

Other receivables may include amounts owing from large organizations where often those organizations have a simultaneous vendor relationship with the Company's franchisees. Credit risk is mitigated as a result of the Company directing and maintaining certain controls over the vendor relationship with the franchisees.

(ii) Liquidity risk

Liquidity risk is managed through regular monitoring of forecasts and actual cash flows, monitoring maturity dates of financial assets and liabilities, and also the management of capital structure and debt covenants as outlined above. The main source of income is royalty receipts from franchisees.

(iii) Interest rate risk

Financial instruments exposed to interest rate risk earn and bear interest at floating rates. The option of entering into an interest rate swap agreement to minimize risk on long-term debt is available to the Company, as needed.

(iv) Currency and commodity risk

Transactions occur with a small number of vendors that operate in foreign currencies. The Company believes that due to low volumes of transactions, low number of vendors, and low magnitude of spend, the impact of currency risk is not material.

The Company is directly and indirectly exposed to changes in coffee commodity prices given it is a material input for the Company's product offerings. The direct exposure is mitigated given the ability to adjust its sales price as commodity prices change. Risk is mitigated by entering fixed price forward purchase commitments and by adjusting selling prices.

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Contingencies, commitments and guarantees

Contractual Obligations	Payments Due by Period				
	Total	1 year	2 - 3 years	4 - 5 years	After 5 years
Obligations from Operating Leases	\$10,292	\$1,490	\$2,949	\$2,551	\$3,302
Purchase Obligations	2,971	2,971	Nil	Nil	Nil
Total Contractual Obligations	\$13,263	\$4,461	\$2,949	\$2,551	\$3,302

Obligations from Operating Leases

Second Cup has lease commitments for Company-owned cafés and also acts as the head tenant on most leases, which in turn it subleases to franchisees. To the extent the Company may be required to make rent payments due to head lease commitments, a provision has been recognized.

	Head lease commitments	Sublease to franchisees	Net
September 29, 2018	\$ 15,993	\$ 14,503	\$ 1,490
September 28, 2019	14,268	12,729	1,539
September 26, 2020	12,051	10,641	1,410
September 25, 2021	10,148	8,847	1,301
September 24, 2022	8,985	7,735	1,250
Thereafter	22,527	19,225	3,302
	<u>\$ 83,972</u>	<u>\$ 73,680</u>	<u>\$ 10,292</u>

The Company believes it has sufficient resources to meet the net commitment of \$10,292 over the term of the leases.

Purchase Obligations

Contracts are in place with third party companies to purchase the coffee that is sold in all cafés. In terms of these supply agreements, there is a guaranteed minimum volume of coffee purchases of \$2,417 (September 24, 2016 - \$927) for the subsequent 12 months. The coffee purchase commitment is comprised of two components: unapplied futures commitment contracts and fixed price physical contracts.

Due to the Company acting as the primary coordinator of café construction costs on behalf its franchisees and for Company-owned cafés, there is \$554 (September 24, 2016 - \$526) of contractual commitments pertaining to construction costs for new locations and renovations as at the end of the Quarter. Construction costs for franchise projects are paid from deposits received from franchisees and for corporate projects from the Company's cash flows.

Other Obligations

The Company is involved in litigation and other claims arising in the normal course of business. Judgment must be used to determine whether or not a claim has any merit, the amount of the claim and whether to record a provision, which is dependent on the potential success of the claim. It is believed that no significant losses or expenses will be incurred with such claims. However, there can be no assurance that unforeseen circumstances will not result in significant costs. The outcome of these actions is not determinable at this time, and adjustments, if any, will be recorded in the period of settlement.

Related parties

Related parties are identified as key management, members of the Board of Directors, and shareholders that effectively exercise significant influence on the Company. Such related parties include any entities acting with or on behalf of the aforementioned parties.

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EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") must acknowledge they are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting ("ICFR") for the Company. The control framework used by the CEO and CFO to design the Company's ICFR is Internal Control over Financial Reporting - Guidance for Smaller Public Companies as issued by COSO. In addition, in respect of:

Disclosure controls and procedures

The CEO and CFO must certify they have designed the disclosure controls and procedures, or caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the Company is made known to them in a timely manner and that information required under securities legislation is recorded, processed, summarized and reported in a timely manner.

As at November 2, 2017, the Company's management, under the supervision of, and with the participation of, the Interim CEO and CFO, evaluated the design of the disclosure controls and procedures. Based on this evaluation, the Interim CEO and CFO have concluded that, as at September 30, 2017, the Company's disclosure controls and procedures were appropriately designed.

Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls and procedures should not exceed their expected benefits. As such, the Company's disclosure controls and procedures can only provide reasonable, and not absolute, assurance that the objectives of such controls and procedures are met.

During the 13 weeks ended September 30, 2017 and up to the date of the approval of the Unaudited Condensed Interim Financial Statements and MD&A, there has been no change that has materially affected, or is reasonably likely to materially affect the Company's disclosure controls and procedures.

Internal controls over financial reporting

The CEO and CFO must certify they have designed such internal controls over financial reporting, or caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Unaudited Condensed Interim Financial Statements for external purposes in accordance with IFRS.

As at November 2, 2017, the Company's management, under the supervision of, and with the participation of, the Interim CEO and CFO, evaluated the design of the controls over financial reporting. No material weaknesses in the design of these controls over financial reporting were identified. Based on this evaluation, the Interim CEO and CFO have concluded that, as at November 2, 2017, the Company's controls over financial reporting were appropriately designed and were operating effectively.

Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. As such, the Company's internal controls over financial reporting can only provide reasonable, and not absolute, assurance that the objectives of such controls are met.

During the 13 weeks ended September 30, 2017 and up to the date of the approval of the Unaudited Condensed Interim Financial Statements and MD&A, there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

The Second Cup Ltd.

Management's Discussion and Analysis

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Audited Financial Statements requires management to make estimates, assumptions, and use judgement in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgements are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The accounting estimates will, by definition, seldom equal the related actual results.

Estimates

The following are examples of estimates and assumptions the Company makes:

- the recoverability of tangible and intangible assets subject to depreciation, amortization, or with indefinite lives;
- the derivation of income tax assets and liabilities;
- the estimated useful lives of assets;
- café lease provisions and restructuring charges; and
- the allowance for doubtful accounts.

Use of judgement

The following discusses the most significant accounting judgements and estimates that the Company has made in the preparation of the Audited Financial Statements:

(i) Impairment charges

Management is required to use judgment in determining the grouping of assets to identify their cash generating units ("CGUs") for the purposes of testing intangible assets and property and equipment for impairment. In addition, management uses judgment to determine whether a triggering event has occurred requiring an impairment test to be completed. In determining the net recoverable amount of a CGU, the Company uses a fair value less costs to sell model using assumptions such as projected future sales, earnings, capital investments and discount rates. These assumptions are highly uncertain at the time the estimate is made. Changing the assumptions selected by management, in particular the discount rate and the growth rate assumptions used in the cash flow projections, could significantly affect the impairment evaluations and recoverable amounts. Projected future sales and earnings are consistent with the strategic plans provided to and approved by the Company's Board of Directors.

(ii) Deferred income taxes

The timing of reversal of temporary differences and the expected income allocation to various tax jurisdictions within Canada affect the effective income tax rate used to compute the deferred income taxes. Management estimates the reversals and income allocation based on historical and budgeted operating results and income tax laws existing at the Statements of Financial Position dates. In addition, management occasionally estimates the current or future deductibility of certain expenditures, affecting current or deferred income tax balances and expenses.

(iii) Estimated useful lives

Estimates for the useful lives of property and equipment are based on the period during which the assets are expected to be available-for-use. The amounts and timing of recorded expenses for depreciation of property and equipment for any period are affected by these estimated useful lives. It is possible that changes in these factors may cause significant changes in the estimated useful lives of property and equipment in the future.

(iv) Café lease provisions

Café lease provisions require judgement to evaluate the likelihood and measurement of settlements, temporary payouts or subleasing. Management works with landlords and franchises and uses previous experience to obtain adequate information needed to make applicable judgements.

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Management's Discussion and Analysis

(v) Allowance for doubtful accounts

The allowance for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in expenses in the statement of income. When an account is deemed uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognized as a recovery in expenses in the statement of income.

RISKS AND UNCERTAINTIES

This section is qualified by the section "Caution Regarding Forward-Looking Statements" at the beginning of this MD&A.

The performance of Second Cup is primarily dependent on its ability to maintain and increase the sales of existing cafés, add new profitable cafés to the network and redevelop and modernize cafés as their leases come due. System sales of the café network are affected by various external factors that can affect the specialty coffee industry as a whole.

A more detailed discussion of the risks and uncertainties affecting Second Cup is set out in the Company's MD&A for the year ended December 31, 2016 and Second Cup's 2016 Annual Information Form, which is available at www.sedar.com.

CHANGES IN ACCOUNTING POLICIES

In May 2014, the International Accounting Standards Board ("IASB") issued IFRS 15, a new comprehensive model for entities to use accounting for revenue arising from contracts with customers. In September 2015, the IASB deferred adoption of the new standard by one year. Several updates have been issued since to clarify the implementation guidance. The new guidance supersedes the most current revenue recognition guidance, including industry-specific guidance, enhances revenue recognition disclosures, and is now effective commencing in 2018. The guidance allows for either a full retrospective or modified retrospective transition method. We currently expect to apply the modified retrospective transition method.

We are performing a preliminary analysis of the impact of the new revenue recognition guidance and are developing a comprehensive plan for implementation. The project plan includes analyzing the impact on our current revenue streams, comparing our historical accounting policies to the new guidance, and identifying potential differences from applying the requirements of the new guidance to our contracts. Under current accounting guidance, we recognize initial franchise fees when we have performed all material obligations and services, which generally occurs when the franchised café opens. As required under the new guidance, we anticipate deferring the initial franchise fees and recognizing revenue over the term of the related franchise agreement.

We anticipate that the new guidance will also change our reporting of the Co-op Fund contributions from franchisees and the related advertising and promotional expenditures, which are currently reported on a net basis in our Statements of Financial Position. Under the new guidance, Co-op Fund contributions from franchisees and advertising and promotional expenditures will be reported on a gross basis.

In addition, we anticipate that the estimated breakage income on gift cards will be recognized as gift cards are utilized instead of our current policy of recognizing on a pro rata basis based on historical gift card redemption patterns.

We do not believe this guidance will materially impact our recognition of revenue from Company-owned cafes and product sales or our recognition of franchise revenue.

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In January 2016, the IASB issued an amendment to IAS 7, Statement of Cash Flows (“IAS 7”). The amendment requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Other than the aforementioned additional disclosures, which will be included in the 2017 annual financial statements, the application of the amendments to IAS 7 did not result in any changes to the presentation of the unaudited condensed interim statements of cash flows.

In February 2016, the IASB issued an amendment to IAS 12, Income Taxes – Deferred Tax. The amendment clarifies the requirements for recognizing deferred tax assets on unrealized losses. Further, the amendment clarifies the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Certain other aspects of accounting for deferred tax assets are also clarified. The adoption of this standard had no impact on the unaudited condensed interim financial statements.

OUTLOOK

This section is qualified by the section “Caution Regarding Forward-Looking Statements” at the beginning of this MD&A.

In September, the Second Cup initiated the roll out of Pinkberry premium frozen yogurt following strong test market results. The program is currently in 15 Second Cup cafés, in five provinces across the country. Pinkberry has been a strong contributor to overall sales and transaction growth. Expansion is continuing.

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Management's Discussion and Analysis

DEFINITIONS AND DISCUSSION ON CERTAIN NON-GAAP FINANCIAL MEASURES

In this MD&A, the Company reports certain non-GAAP financial measures such as system sales of cafés, same café sales, operating income (loss), EBITDA, adjusted EBITDA, adjusted net income (loss) and adjusted net income (loss) per share. Non-GAAP measures are not defined under IFRS and are not necessarily comparable to similarly titled measures reported by other issuers.

System sales of cafés

System sales of cafés comprise the net revenue reported to Second Cup by franchisees of Second Cup cafés and by Company-owned cafés. This measure is useful in assessing the operating performance of the entire Company network, such as capturing the net change of the overall café network.

Changes in system sales of cafés result from the number of cafés and same café sales (as described below). The primary factors influencing the number of cafés within the network include the availability of quality locations and the availability of qualified franchisees.

Same café sales

Same café sales represent the percentage change, on average, in sales at cafés operating system-wide that have been open for more than 12 months. It is one of the key metrics the Company uses to assess its performance as an indicator of appeal to customers. Two principal factors that affect same café sales are changes in customer count and changes in average transaction size.

Operating income (loss)

Operating income (loss) represents revenue, less cost of goods sold, less operating expenses, and less impairment charges. This measure is not defined under IFRS, although the measure is derived from input figures in accordance with IFRS. Management views this as an indicator of financial performance that excludes costs pertaining to interest and financing, and income taxes.

EBITDA and adjusted EBITDA

EBITDA represents earnings before interest and financing, income taxes, and depreciation and amortization. Adjustments to EBITDA are for items that are not necessarily reflective of the Company's underlying operating performance. As there is no generally accepted method of calculating EBITDA, this measure is not necessarily comparable to similarly titled measures reported by other issuers. EBITDA is presented as management believes it is a useful indicator of the Company's ability to meet debt service and capital expenditure requirements, and evaluate liquidity. Management interprets trends in EBITDA as an indicator of relative financial performance. EBITDA should not be considered by an investor as an alternative to net income or cash flows as determined in accordance with IFRS.

Adjusted net income (loss) and adjusted net income (loss) per share

Adjustments to net earnings (loss) and net earnings (loss) per share are for items that are not necessarily reflective of the Company's underlying operating performance. These measures are not defined under IFRS, although the measures are derived from input figures in accordance with IFRS. Management views these as indicators of financial performance.

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Management's Discussion and Analysis

Reconciliations of net income (loss) to operating income (loss), EBITDA, adjusted EBITDA, adjusted net income (loss) and adjusted net income (loss) per share are provided below:

	13 weeks ended		39 weeks ended	
	September 30, 2017	September 24, 2016	September 30, 2017	September 24, 2016
Net income (loss)	\$ (2,962)	\$ (75)	\$ (3,752)	\$ (1,122)
Income taxes (recovery)	4	(12)	(167)	(323)
Interest and financing costs	3,394	62	3,902	159
Operating income (loss)	<u>\$ 436</u>	<u>\$ (25)</u>	<u>\$ (17)</u>	<u>\$ (1,286)</u>

	13 weeks ended		39 weeks ended	
	September 30, 2017	September 24, 2016	September 30, 2017	September 24, 2016
Net income (loss)	\$ (2,962)	\$ (75)	\$ (3,752)	\$ (1,122)
Income taxes (recovery)	4	(12)	(167)	(323)
Interest and financing costs	3,394	62	3,902	159
Depreciation of property and equipment	255	281	774	877
Amortization of intangible assets	114	101	338	306
EBITDA	<u>805</u>	<u>357</u>	<u>1,095</u>	<u>(103)</u>
Add (deduct) impact of the following:				
One-time transition costs	-	-	287	-
Adjusted EBITDA	<u>\$ 805</u>	<u>\$ 357</u>	<u>\$ 1,382</u>	<u>\$ (103)</u>

	13 weeks ended		39 weeks ended	
	September 30, 2017	September 24, 2016	September 30, 2017	September 24, 2016
Net income (loss)	\$ (2,962)	\$ (75)	\$ (3,752)	\$ (1,122)
Add (deduct) impact of the following:				
After-tax fair value difference on shares issued and other costs	3,207	-	3,207	-
Adjusted net income (loss)	<u>\$ 245</u>	<u>\$ (75)</u>	<u>\$ (545)</u>	<u>\$ (1,122)</u>

	13 weeks ended		39 weeks ended	
	September 30, 2017	September 24, 2016	September 30, 2017	September 24, 2016
Net income (loss) per share	\$ (0.19)	\$ (0.01)	\$ (0.28)	\$ (0.09)
Add (deduct) impact of the following:				
After-tax fair value difference on shares issued and other costs	0.21	-	0.24	-
Adjusted net income (loss) per share	<u>\$ 0.02</u>	<u>\$ (0.01)</u>	<u>\$ (0.04)</u>	<u>\$ (0.09)</u>