The Second Cup Ltd.

Unaudited Condensed Interim Financial Statements

For the 13 and 39 weeks ended September 26, 2015 and September 27, 2014

Notice to Reader

The management of The Second Cup Ltd. ("Second Cup" or the "Company") is responsible for the preparation of the accompanying condensed interim financial statements. The condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards and are considered by management to present fairly the financial position, financial performance and cash flows of Second Cup.

These condensed interim financial statements have not been reviewed by an auditor. These condensed interim financial statements are unaudited and include all adjustments, consisting of normal and recurring items that management considers necessary for a fair presentation of the financial position, financial performance and cash flows.

(Signed)

Alix Box
President and Chief Executive Officer, The Second Cup Ltd.

(Signed)

Barbara Mallon
Chief Financial Officer, The Second Cup Ltd.

October 30th, 2015

The Second Cup Ltd.

Condensed Interim Statements of Financial Position

(Unaudited, expressed in thousands of Canadian dollars)

	September 26, 2015	December 27, 2014
ASSETS		
Current assets		
Cash and cash equivalents	$ 9,161	$ 10,918
Restricted cash (note 11)	651	-
Trade and other receivables	2,643	4,026
Notes and leases receivable	85	81
Inventories	272	221
Prepaid expenses and other assets	444	485
Income taxes recoverable	43	699
	13,299	16,430
Non-current assets		
Notes and leases receivable	242	302
Property and equipment	4,285	4,380
Intangible assets	32,591	32,337
Total assets	$ 50,417	$ 53,449
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 5,295	$ 6,011
Provisions	1,852	1,937
Other liabilities	514	512
Gift card liability	2,907	3,727
Deposits from franchisees	621	378
Current portion of long-term debt (note 5)	-	11,119
	11,189	23,684
Non-current liabilities		
Provisions	1,108	1,133
Other liabilities	329	368
Long-term debt (note 5)	11,158	-
Deferred income taxes	2,827	3,270
Total liabilities	26,611	28,455
SHAREHOLDERS' EQUITY	23,806	24,994
Total liabilities and shareholders' equity	$ 50,417	$ 53,449

Contingencies, commitments and guarantees (note 12).
See accompanying notes to the unaudited condensed interim financial statements.

Approved by the Directors October 30th, 2015

Michael Bregman, Director Rael Merson, Director

The Second Cup Ltd.

Condensed Interim Statements of Loss and Comprehensive Loss

(Unaudited, expressed in thousands of Canadian dollars, except per share amounts)

	13 weeks ended		39 weeks ended	
	September 26, 2015	September 27, 2014	September 26, 2015	September 27, 2014
Revenue (note 6)				
Company-owned cafés and product sales	$ 5,703	$ 2,666	$ 16,576	$ 6,479
Franchise revenue	3,567	4,020	11,129	13,266
	9,270	6,686	27,705	19,745
Operating costs and expenses (note 7)				
Company-owned cafés and cost of product sales	5,841	2,637	16,687	7,040
Franchise	3,104	2,735	7,009	5,887
General and administrative	1,203	1,475	4,222	6,686
Loss (gain) on disposal of assets	45	(2)	(43)	(90)
Depreciation and amortization	387	347	1,078	890
Asset impairment charges	-	29,708	-	29,708
	10,580	36,900	28,953	50,121
Loss from operations	(1,310)	(30,214)	(1,248)	(30,376)
Interest and financing costs (note 8)	137	116	385	372
Loss before income taxes	(1,447)	(30,330)	(1,633)	(30,748)
Recovery of income taxes	(348)	(4,100)	(386)	(4,184)
Net loss and comprehensive loss for the period	$ (1,099)	$ (26,230)	$ (1,247)	$ (26,564)
Basic and diluted loss per share (note 9)	$ (0.09)	$ (2.65)	$ (0.10)	$ (2.68)

See accompanying notes to the unaudited condensed interim financial statements.

The Second Cup Ltd.

Condensed Interim Statements of Changes in Shareholders' Equity

(Unaudited, expressed in thousands of Canadian dollars)

	Share Capital	Contributed Surplus	Deficit	Total
Balance - December 28, 2013	$ 1,000	$ 61,557	$ (16,593)	$ 45,964
Net loss for the period	-	-	(26,564)	(26,564)
Dividends to shareholders	-	-	(1,684)	(1,684)
Stock option plan expense	-	57	-	57
Balance - September 27, 2014	$ 1,000	$ 61,614	$ (44,841)	$ 17,773
Balance - December 27, 2014	$ 8,652	$ 61,649	$ (45,309)	$ 24,992
Net loss for the period	-	-	(1,247)	(1,247)
Stock option plan expense	-	61	-	61
Balance - September 26, 2015	$ 8,652	$ 61,710	$ (46,556)	$ 23,806

See accompanying notes to the unaudited condensed interim financial statements.

The Second Cup Ltd.

Condensed Interim Statements of Cash Flows

(Unaudited, expressed in thousands of Canadian dollars)

	13 weeks ended		39 weeks ended	
	September 26, 2015	September 27, 2014	September 26, 2015	September 27, 2014
CASH PROVIDED BY (USED IN)				
Operating activities				
Net loss for the period	$ (1,099)	$ (26,230)	$ (1,247)	$ (26,564)
Items not involving cash				
Depreciation of property and equipment	267	254	807	645
Amortization of intangible assets	119	94	270	244
Share-based compensation expense	24	37	61	57
Deferred income taxes	(348)	(4,100)	(443)	(4,046)
Loss (gain) on disposal of assets	45	(2)	(43)	(90)
Movement in fair value of interest rate swap	(6)	(9)	32	15
Impairment charges	-	29,708	-	29,708
Other	33	(8)	(7)	(23)
Changes in non-cash working capital	894	(531)	617	(223)
Cash provided by (used in) operating activities	(71)	(787)	47	(277)
Investing activities				
Proceeds from disposal of capital related items	77	87	305	312
Cash payments for capital expenditures	(331)	(159)	(964)	(650)
Cash payments for intangible assets	(167)	(35)	(581)	(717)
Proceeds from repayment of leases receivable	42	-	72	-
Proceeds from repayment of notes receivable	8	-	15	-
Cash used in investing activities	(371)	(107)	(1,153)	(1,055)
Financing activities				
Dividends paid to shareholders	-	-	-	(1,684)
Cash used in financing activities	-	-	-	(1,684)
Decrease in cash and cash equivalents during the period	(442)	(894)	(1,106)	(3,016)
Cash and cash equivalents - Beginning of period	10,254	4,379	10,918	6,501
Cash and cash equivalents - End of period	$ 9,812	$ 3,485	$ 9,812	$ 3,485
Restricted cash	$ 651	$ -	$ 651	$ -
Cash and cash equivalents	$ 9,161	$ 3,485	$ 9,161	$ 3,485

See accompanying notes to the unaudited condensed interim financial statements. Supplemental cash flow information is provided in note 10.

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1. Organization and nature of business

The Second Cup Ltd. ("Second Cup" or "the Company") is a Canadian specialty coffee retailer with 327 cafés operating under the trade name, Second Cup™, in Canada, of which 42 are Company-operated and the balance are operated by franchisees.

Second Cup owns the trademarks, trade names, operating procedures and systems and other intellectual property used in connection with the operation of Second Cup cafés only in Canada.

Second Cup was incorporated under the Business Corporations Act (Ontario) in 2011 and is domiciled in Canada. The address of its registered office is 6303 Airport Road, 2nd Floor, Mississauga, Ontario, L4V 1R8. The Company hereinafter refers to its head office activities as "Coffee Central". The Company's website is www.secondcup.com. The common shares of the Company are listed on the Toronto Stock Exchange under the symbol "SCU".

2. Summary of significant accounting policies

a. Basis of preparation

These unaudited condensed interim financial statements for the 13 and 39 weeks ended September 26, 2015 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as applicable to condensed interim financial statements including International Accounting Standard (IAS) 34, Interim Financial Reporting ("IAS 34"), and should be read in conjunction with the Company's audited annual financial statements for the year ended December 27, 2014, which have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board.

The accounting policies applied in these unaudited condensed interim financial statements are consistent with those of the previous financial year. The accounting policies are based on IFRS issued and outstanding as at October 30, 2015, the date the Board of Directors approved the unaudited condensed interim financial statements.

Second Cup's fiscal year is such that each quarter will consist of 13 weeks and will end on the Saturday closest to the calendar quarter end. The fiscal year is made up of 52 or 53-week periods ending on the last Saturday of December.

b. Segmented information and reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer. The Company substantially operates and is managed as one reportable segment. Operating revenues are comprised of royalties, the sale of goods from Company-operated cafés, the sale of goods through retail and other ancillary channels, and other service fees.

c. Comparative figures

Certain comparative figures have been reclassified to conform to the current period's condensed interim financial statement presentation. Management determined that reclassification better captures the substance of the balances.

3. Changes in accounting policies

The accounting policies adopted in the preparation of these condensed interim consolidated financial statements are consistent with those followed in the preparation of the Company's audited financial statements for the year ended December 27, 2014. There was no significant impact on the Company's condensed interim consolidated financial statements as a result of new standards that became effective during fiscal 2015.

4. Provisions

Provisions for café leases are estimates for costs to be incurred by the Company as a result of closure of cafés and franchisee failure to make payment of occupancy costs.

An expense of $844 (2014 – expense of $1,255) was recognized in the 39 weeks ended September 26, 2015 and was reflected in the franchise operating costs and expenses line on the condensed interim statements of operations and comprehensive loss.

(Unaudited, expressed in thousands of Canadian dollars, except per share amounts)

5. Long term debt

	September 26, 2015	December 27, 2014
Face value of borrowings	$ 11,000	$ 11,000
Fair value of interest rate swap	175	143
Unamortized transaction costs	(17)	(24)
	$ 11,158	$ 11,119

The credit facility comprise an $11,000 non-revolving term credit facility, fully drawn. The term credit facility is collateralized by substantially all the assets of the Company. The credit facility matures on September 30, 2016.

Pursuant to the terms of the Company's term loan, the Company is subject to certain financial and other customary covenants. The Company is required to maintain certain covenants, which are defined in the agreements:

- a ratio of senior debt to EBITDA ratio ("Leverage Ratio");
- a fixed charge coverage ratio both of which are based on a trailing four-quarter basis; and
- a maximum amount of permitted distributions and purchases of the Company's own stock based on a trailing cumulative EBITDA, plus a carry-forward legacy surplus of permitted distributions.

In 2014, as a result of the Company's restructuring, certain one-time costs and the decision to acquire a number of cafés, the fixed coverage and leverage ratios were negatively impacted resulting in non-compliance with these covenants. As a result, the debt was classified as current as at December 27, 2014.

Subsequent to year-end, the Company received a waiver of this non-compliance from its lender as well as an amendment to its banking agreement, which reset certain covenants for the next twelve months.

Under the amendment, the Company must maintain a leverage ratio, adjusted for permitted cash balances up to $5,000, maintained on account with the lender, of less than 1.75 to 1 and also a fixed charge ratio of greater than 1 for fiscal 2015, after which time, the covenants revert back to the original leverage ratio of less than 1.75 to 1 and a fixed charge ratio of greater than 1.5.

The Company's facility matures on September 30th, 2016 and bears interest at the bankers' acceptance ("BA") plus a margin range of 2.25% to 3.25% based on the Company's leverage ratio. As at September 26th, 2015, the applicable margin pertaining to the aforementioned range is 3.25%.

In Q3 2015, as a result of the Company's decision to take back additional cafes, the fixed coverage and leverage ratios were negatively impacted resulting in non-compliance with these covenants as at September 26th, 2015. Prior to quarter end, the Company received a waiver of this non-compliance from its lender for the current quarter. The Company is currently finalizing terms with the lender to revise the credit agreement.

(Unaudited, expressed in thousands of Canadian dollars, except per share amounts)

The Company believes that there is sufficient cash on hand of $9,161 and working capital to meet ongoing cash requirements. As a result, the Company agreed to eliminate the $2,000 undrawn revolving operating credit facility prior to quarter end.

The Company has an interest rate swap agreement with a notional value of $11,000 that expires on September 30, 2016. The swap fixes the interest rate on the Company's non-revolving term credit facility at 2.07% per annum plus the margin noted above, which results in a fixed effective interest rate of 5.32%.

As at September 26, 2015, there was an interest rate swap liability of $175 recorded in the condensed interim statements of financial position.

6. Revenue

	13 weeks ended		39 weeks ended	
	September 26, 2015	September 27, 2014	September 26, 2015	September 27, 2014
Franchise revenue				
Royalties	$ 2,464	$ 2,805	$ 7,671	$ 9,283
Services and other	1,103	1,215	3,458	3,983
	3,567	4,020	11,129	13,266
Company-owned cafés and product sales	5,703	2,666	16,576	6,479
	$ 9,270	$ 6,686	$ 27,705	$ 19,745

Royalties
Royalty revenue from franchised cafés is based on agreed percentage royalty rates of the franchise location sales. Revenue is recognized on an accrual basis in accordance with the substance of the relevant agreement, provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably.

Services and other
Services and other consist of initial franchise fees, renewal fees, transfer fees earned on the sale of cafés from one franchisee to another, construction administration fees, purchasing coordination fees, and other ancillary fees (such as IT support and training fees).

Company-owned cafés and product sales
Company owned cafés and product sales revenue includes the sale of goods from Company owned cafés, as well as products sold in grocery stores through wholesale distribution channels and third party licensing agreements.

(Unaudited, expressed in thousands of Canadian dollars, except per share amounts)

7. Operating expenses

	13 weeks ended		39 weeks ended	
	September 26, 2015	September 27, 2014	September 26, 2015	September 27, 2014
Company owned cafés and cost of product sales				
Cost of product sales	$ 2,297	$ 1,096	$ 6,401	$ 3,107
Labour and related expenses	1,895	752	5,540	1,836
Occupancy and other	1,649	788	4,746	2,097
Depreciation of property and equipment	94	37	301	109
(Gain) loss on disposal of assets	45	(2)	(43)	(90)
	5,980	2,671	16,945	7,059
Franchise				
Labour and related expenses	1,115	630	3,049	2,330
Travel and franchisee meetings	114	85	738	407
Business development initiatives	71	22	613	110
Professional fees and other	1,804	1,998	2,609	3,040
	3,104	2,735	7,009	5,887
General and administrative				
Labour and related expenses	431	790	1,995	4,617
Professional fees and other	664	578	1,897	1,743
Occupancy	109	108	330	326
Depreciation and amortization	292	310	777	781
	1,496	1,786	4,999	7,467
Asset impairment charge	-	29,708	-	29,708
	$ 10,580	$ 36,900	$ 28,953	$ 50,121

(Unaudited, expressed in thousands of Canadian dollars, except per share amounts)

8. Interest and financing

	13 weeks ended		39 weeks ended	
	September 26, 2015	September 27, 2014	September 26, 2015	September 27, 2014
Interest expense	$ 160	$ 125	$ 471	$ 421
Amortization of deferred financing costs	5	6	17	20
Interest income	(28)	(15)	(103)	(69)
	$ 137	$ 116	$ 385	$ 372

9. Basic and diluted loss per share

Loss per share is based on the weighted average number of shares outstanding during the period. Basic and diluted loss per share is determined as follows:

	13 weeks ended		39 weeks ended	
	September 26, 2015	September 27, 2014	September 26, 2015	September 27, 2014
Net loss	$ (1,099)	$ (26,230)	$ (1,247)	$ (26,564)
Weighted average number of shares issued and outstanding	12,830,945	9,903,045	12,830,945	9,903,045
Basic and diluted loss per share	$ (0.09)	$ (2.65)	$ (0.10)	$ (2.68)

(Unaudited, expressed in thousands of Canadian dollars, except per share amounts)

10. Supplemental cash flow information

	13 weeks ended		39 weeks ended	
	September 26, 2015	September 27, 2014	September 26, 2015	September 27, 2014
Changes in non-cash working capital (inflow (outflow)):				
Trade and other receivables	$ (379)	$ (690)	$ 1,383	$ 999
Notes and leases receivable	(33)	(48)	(32)	65
Inventories	(6)	(11)	(51)	(3)
Prepaid expenses and other assets	(141)	(229)	41	(192)
Accounts payable and accrued liabilities	615	506	(716)	(107)
Provisions	962	490	(77)	1,325
Other liabilities	(154)	(66)	(10)	(123)
Gift card liability	(113)	(180)	(820)	(1,045)
Deposits from franchisees	94	(296)	243	(430)
Income taxes	49	(7)	656	(712)
	$ 894	$ (531)	$ 617	$ (223)
Cash payments for capital expenditures				
Purchase of property and equipment	$ (331)	$ (159)	$ (964)	$ (650)
Purchase of intangible assets	(167)	(35)	(581)	(717)
	$ (498)	$ (194)	$ (1,545)	$ (1,367)
Supplementary information				
Interest paid	$ 95	$ 136	$ 410	406
Income taxes paid	$ -	$ 7	$ -	666

11. Restricted cash

The Company has established certain accounts that have been classified restricted cash primarily representing a) deposits from franchisees for the cost of constructing a new café or the renovation of an existing café, and b) funds contributed for use in advertising and promotional programs where the Company is acting as an agent on behalf of the co-operative fund.

(Unaudited, expressed in thousands of Canadian dollars, except per share amounts)

12. Contingencies, commitments and guarantees

The Company has lease commitments for Company-operated cafés and acts as the head tenant on most leases, which it in turn 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. The Company's lease commitments at September 26, 2015 are as follows:

		Head lease commitments		Sublease to franchisees		Net
September 24, 2016	$	19,317	$	15,973	$	3,344
September 30, 2017		17,344		14,138		3,206
September 29, 2018		15,399		12,334		3,065
September 28, 2019		13,690		10,726		2,964
September 26, 2020		11,062		8,372		2,690
Thereafter		28,586		20,909		7,677
	$	105,398	$	82,452	$	22,946

The Company believes it will have sufficient resources to meet the net commitment of $22,946.

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.

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 $2,990 USD (September 27, 2014 – $5,093 USD). The coffee purchase commitment comprises three components: unapplied futures commitment contracts, fixed price physical contracts and flat price physical contracts.

Due to the Company acting as the primary coordinator of café construction costs on behalf of its franchisees and for Company-operated cafés, there is $1,865 ($726 for Company-owned cafés and $1,139 on behalf of Franchisees) of contractual commitments pertaining to construction costs for new locations and renovations as at the end of the quarter. Construction costs financed for franchise projects are from deposits received from franchisees and for corporate projects from the Company's cash flows.

13. Related parties

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

For the 13 and 39 weeks ended September 26, 2015, one of the Company's vendors purchased $806 and $1,816, respectively, of product in the ordinary course of business, on behalf of the Company and its franchisees from a company previously controlled by a board member.