

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 May 5, 2016 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") ended March 26, 2016, and should be read in conjunction with the Unaudited Condensed Interim Financial Statements of the Company for the 13 weeks ended March 26, 2016, the Audited Financial Statements of the Company for the 52 weeks ended December 26, 2015, 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, and EBITDA that are discussed in the "Definitions and discussion of certain non-GAAP financial measures" in this MD&A.

The Second Cup Ltd.

Management's Discussion and Analysis

TABLE OF CONTENTS

CAUTION REGARDING FORWARD-LOOKING STATEMENTS.....	1
INTRODUCTION	1
CORE BUSINESS, STRATEGY, AND PERFORMANCE DRIVERS.....	3
CAPABILITIES.....	3
FINANCIAL HIGHLIGHTS	4
OPERATIONAL REVIEW	5
SELECTED QUARTERLY INFORMATION	7
LIQUIDITY AND CAPITAL RESOURCES.....	8
EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES.....	10
CRITICAL ACCOUNTING ESTIMATES	11
RISKS AND UNCERTAINTIES	12
OUTLOOK	13
DEFINITIONS AND DISCUSSION ON CERTAIN NON-GAAP FINANCIAL MEASURES.....	13

The Second Cup Ltd.

Management's Discussion and Analysis

CORE BUSINESS, STRATEGY, AND PERFORMANCE DRIVERS

Core business

Second Cup is a Canadian specialty coffee retailer with 307 cafés operating under the trade name Second Cup™ in Canada, of which 32 are Company-operated and the balance is operated by franchisees. Further discussion of the Company's core business was described in the 2015 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 and the brand will win customers' hearts through more "personalized experiences".

In February, the Company held an annual convention for several hundred franchisees and Coffee Central employees. Our franchisees are optimistic, feel the Company is heading in the right direction, and believe Second Cup is in a stronger position than it was a year ago.

As is the case with many retailers, the economic conditions in Alberta weighed on the Company's performance during the Quarter, negatively impacting overall same store sales by 1.5%.

Second Cup Coffee Co. Rewards has been instrumental in driving customer frequency and loyalty. Loyalty sales continue to increase and accounted for 20% of sales in the Quarter.

The high number of underperforming corporate stores is negatively impacting short term profitability but we expect to make a significant reduction by the second half of this year. The Company has not built an infrastructure to support corporate stores as it is not consistent with the strategy. Second Cup is focused returning to asset light.

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 2015 annual MD&A.

Liquidity, capital resources and management of capital

The Company is in compliance with the amended covenants as at March 26, 2016. While management believes the Company will be able to comply with all of the financial covenants for the foreseeable future, there is no assurance covenants in the future will be met. Non-compliance with covenants in the future could impact the Company's ability to further amend covenants or renew its facility.

The credit facility matures on January 1, 2017 and the Company will begin discussions on revisions to the terms of the credit facility in the second half of the year.

The Company believes that there is sufficient cash on hand of \$1,598 and working capital to meet ongoing cash requirements.

The Second Cup Ltd.

Management's Discussion and Analysis

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 weeks ended March 26, 2016.

(In thousands of Canadian dollars, except same café sales, number of cafés, per share amounts, and number of common shares.)	13 weeks ended March 26, 2016	13 weeks ended March 28, 2015
System sales of cafés ¹	\$39,071	\$43,174
Same café sales ¹	(1.1%)	(1.1%)
Number of cafés - end of period	307	344
Total revenue	\$7,434	\$9,014
Operating costs and expenses	\$8,167	\$8,946
Operating income (loss) ¹	(\$733)	\$68
EBITDA ¹	(\$327)	\$419
Net income (loss) and comprehensive income (loss)	(\$606)	(\$76)
Basic and diluted earnings (loss) per share as reported ²	(\$0.05)	(\$0.01)
Total assets - end of period	\$43,547	\$51,179
Number of weighted average common shares issued and outstanding	12,830,945	12,830,945

¹See the section "Definitions and discussion on certain non-GAAP measures" for further analysis.

²Earnings per share is calculated using the weighted average number of common shares outstanding

The Second Cup Ltd.

Management's Discussion and Analysis

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:

% of annual System sales of cafés	2013	2014	2015	Average
First Quarter	24.5	24.0	24.7	24.4
Second Quarter	24.9	25.1	25.0	25.0
Third Quarter	23.5	23.9	23.5	23.6
Fourth Quarter	27.1	27.0	26.8	27.0
	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.

Café network

	December 26, 2016	December 26, 2015
Number of cafés - beginning of period	310	347
Cafés opened	1	3
Cafés closed	(4)	(40)
Number of cafés - end of period	307	310

The Company ended the Quarter with 32 (March 28, 2015 – 41) Company-operated cafés.

First Quarter

System sales of cafés

System sales of cafés for the 13 weeks ended March 26, 2016 were \$39,071 compared to \$43,174 for the 13 weeks ended March 28, 2015 representing a decrease of \$4,103 or 9.5%. The decrease is attributable to the reduced store count.

Same café sales

During the Quarter, same café sales decreased by 1.1%, compared to a similar decline of 1.1% in the comparable Quarter of 2015.

Analysis of revenue

Total revenue for the Quarter was \$7,434 (March 28, 2015 - \$9,014) 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 \$3,929 (March 28, 2015 - \$5,239). The decrease in revenue of \$1,310 is attributable to the mix of Company-owned cafés and “every day” retail price changes on our wholesale business.

Franchise revenue was \$3,505 for the Quarter (March 28, 2015 - \$3,775). The decrease in franchise revenue of \$270 is primarily driven by a lower café count.

The Second Cup Ltd.

Management's Discussion and Analysis

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, the loss/gain on disposal of assets, and depreciation and amortization. Total operating costs and expenses for the Quarter were \$8,167 (March 28, 2015 - \$8,946), a decrease of \$779.

Company-owned cafés and product sales

Company-owned cafés and product related expenses for the Quarter were \$4,357 (March 28, 2015 - \$5,230). The \$873 decrease is primarily attributable to the change in mix of corporate cafés.

Franchise

The Company incurred franchise related expenses of \$2,018 (March 28, 2015 - \$1,931). The increase of \$87 is due to favorable lease exit costs that occurred in the first quarter of 2015, but did not repeat this year.

General and administrative

General and administrative expenses were \$1,382 for the Quarter (March 28, 2015 - \$1,434). The \$52 decrease is due to reduced labour expenses.

Gain and loss on disposal of assets

A loss on disposal of \$4 was recognized in the Quarter (March 28, 2015 - Nil).

Depreciation and amortization

Depreciation and amortization expense was \$406 (March 28, 2015 - \$351). The increase of \$55 is due to a total of 3 corporate cafés renovated to the new concept versus 1 last year.

EBITDA

EBITDA for the quarter was a loss of \$327, compared to a gain of \$419 last year.

Net income (loss)

The Company's net loss for the Quarter was \$606 or \$0.05 per share, compared to a net loss of \$76 or \$0.01 loss per share in the first Quarter of 2015. The increase in net loss of \$530 or \$0.04 per share was mainly due to Company-owned cafés. A reconciliation of net income (loss) to EBITDA is provided in the section "Definitions and discussion of certain non-GAAP financial measures".

The Second Cup Ltd.

Management's Discussion and Analysis

SELECTED QUARTERLY INFORMATION

(in thousands of Canadian dollars, except Number of cafés, Same café sales, and per share amounts)	Q1 2016	Q4 2015 ²	Q3 2015	Q2 2015
System sales of cafés ¹	\$39,071	\$46,900	\$41,087	\$43,715
Same café sales ¹	(1.1%)	0.2%	(2.9%)	(3.2%)
Number of cafés - end of period	307	310	327	339
Total revenue	\$7,434	\$9,636	\$9,270	\$9,421
Operating income (loss) ¹	(\$733)	\$167	(\$1,310)	(\$6)
EBITDA ¹	(\$327)	\$554	(\$924)	\$334
Net income (loss) for the period	(\$606)	\$94	(\$1,099)	(\$72)
Basic and diluted earnings (loss) per share	(\$0.05)	\$0.01	(\$0.09)	(\$0.01)
Dividends declared per share	-	-	-	-
	Q1 2015	Q4 2014 ²	Q3 2014	Q2 2014
System sales of cafés ¹	\$43,174	\$49,427	\$43,596	\$45,829
Same café sales ¹	(1.1%)	(3.9%)	(3.3%)	(5.0%)
Number of cafés - end of period	344	347	349	357
Total revenue	\$9,014	\$8,427	\$6,686	\$6,435
Operating (loss) income ¹	\$68	(\$521)	(\$30,214)	(\$388)
EBITDA ¹	\$419	(\$139)	(\$26,866)	(\$113)
Net (loss) income for the period	(\$76)	(\$469)	(\$26,230)	(\$390)
Basic and diluted (loss) earnings per share	(\$0.01)	(\$0.04)	(\$2.65)	(\$0.04)
Dividends declared per share	-	-	-	-

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).

The Second Cup Ltd.

Management's Discussion and Analysis

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-operated cafés. For a more detailed discussion of the risks and uncertainties affecting the Company's liquidity, see the "Risks and uncertainties" section below.

Summary of cash flows

	13 weeks ended March 26, 2016	13 weeks ended March 28, 2015
Cash flows provided by (used in) operating activities	\$ (1,603)	\$ (766)
Cash flows provided by (used in) investing activities	121	(476)
Cash flows provided by (used in) financing activities	<u>-</u>	<u>-</u>
Increase (decrease) in cash and cash equivalents during the period	\$ <u>(1,482)</u>	\$ <u>(1,242)</u>

First Quarter

Cash used by operating activities was \$1,603 for the Quarter compared to \$766 for the same Quarter in 2015. The reduction in cash provided of \$837 is primarily due to changes in non-cash working capital.

During the Quarter, cash generated by investing activities was \$121 compared to cash usage of \$476 for the same Quarter in 2015.

The Company did not have any financing activities for the 13 weeks ended March 26, 2016.

Working capital as at

	March 26, 2016	December 26, 2015
Current assets	\$ 6,247	\$ 8,817
Current liabilities	<u>15,824</u>	<u>11,804</u>
Working capital	\$ <u>(9,577)</u>	\$ <u>(2,987)</u>

The Company's working capital deficit of \$9,577 as at March 26, 2016 increased by \$6,590 from December 26, 2015 as a result of the reclassification of debt to current from long-term. The Company operates in the franchise industry, in which a working capital deficit is typical.

The Company had cash and cash equivalents of \$1,598 as at March 26, 2016 (December 26, 2015 - \$3,080). The decrease was primarily due to working capital requirements and the settlement of provisions. The Company continues to believe it has sufficient financial resources to meet its obligations as they come due.

The Second Cup Ltd.

Management's Discussion and Analysis

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
Term loan	Liquidity and interest rate

(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 Company entered into an interest rate swap agreement to minimize risk on its long-term debt.

(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.

The Second Cup Ltd.

Management's Discussion and Analysis

Contingencies, commitments and guarantees

Second Cup has lease commitments for Company-operated 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
March 25, 2017	\$ 18,190	\$ 14,944	\$ 3,246
March 31, 2018	15,833	12,771	3,062
March 30, 2019	13,906	10,876	3,030
March 28, 2020	11,371	8,530	2,841
March 27, 2021	9,426	6,817	2,609
Thereafter	23,252	17,458	5,794
	<u>\$ 91,978</u>	<u>\$ 71,396</u>	<u>\$ 20,582</u>

The Company believes it has sufficient resources to meet the net commitment of \$20,582 over the term of the leases.

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 \$1,780 USD (March 28, 2015 - \$3,587 USD) for the subsequent 12 months. The coffee purchase commitment comprises 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-operated cafés, there is \$496 (March 28, 2015 - \$25) of contractual commitments pertaining to construction costs for new locations and renovations as at the end of the fiscal year. Construction costs financed for franchise projects are from deposits received from franchisees and for corporate projects from the Company's cash flows.

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.

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:

The Second Cup Ltd.

Management's Discussion and Analysis

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 May 5, 2016, the Company's management, under the supervision of, and with the participation of, the CEO and CFO, evaluated the design of the disclosure controls and procedures. Based on this evaluation, the CEO and CFO have concluded that, as at March 26, 2016, 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 March 26, 2016 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 May 5, 2016, the Company's management, under the supervision of, and with the participation of, the 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 CEO and CFO have concluded that, as at March 26, 2016, 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 March 26, 2016 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.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Unaudited Condensed Interim 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

The Second Cup Ltd.

Management's Discussion and Analysis

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;
- gift card breakage; 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 Unaudited Condensed Interim Financial Statements:

(i) 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.

(ii) 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.

(iii) 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.

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 26, 2015 and Second Cup's 2015 Annual Information Form, which is available at www.sedar.com.

The Second Cup Ltd.

Management's Discussion and Analysis

OUTLOOK

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

The Company believes its renewed dedication to providing the ultimate coffee experience positions it well for creating long-term growth and value creation for its shareholders.

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. The company has taken its coffee to even higher levels of excellence by improving every step of the coffee process from farm to cup. Cafes have started to serve the enhanced coffees and beginning May 17th, Canadians can enjoy a new and unique blend called Batch49, perfect hot or cold for summer.

Food innovation continues as Second Cup prepares to launch a new premium quality breakfast program including 5 new breakfast sandwiches. The phased roll out begins in May.

The Company is aggressively working to reduce the number of corporate stores through franchising to strong operators and return to an asset light model. As of the date of this report the corporate café count has been reduced to 28.

The company is in compliance with the bank covenants as at March 26th 2016. While management believes the company will be able to comply with all of the financial covenants for the foreseeable future, there is no assurance covenants in the future will be met. Non-compliance with covenants in the future could impact the company's ability to further amend covenants or renew its facility.

DEFINITIONS AND DISCUSSION ON CERTAIN NON-GAAP FINANCIAL MEASURES

In this MD&A, the Company reports certain non-IFRS measures such as system sales of cafés, same café sales, operating income (loss), and EBITDA.

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-operated 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

The Second Cup Ltd.

Management's Discussion and Analysis

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

EBITDA represents earnings before interest, taxes, depreciation and amortization. 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.

A reconciliation of net income (loss) to EBITDA is provided below:

	13 weeks ended March 26, 2016	13 weeks ended March 28, 2015
Net income (loss)	\$ (606)	\$ (76)
Interest and financing	27	176
Income taxes (recovery)	(154)	(32)
Depreciation of property and equipment	303	273
Amortization of intangible assets	103	78
EBITDA	<u>(327)</u>	<u>419</u>