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 February 19, 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") and 52 weeks (the "Year") ended December 26, 2015, and should be read in conjunction with the Audited Financial Statements of the Company, accompanying notes 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, EBITDA, Adjusted EBITDA, and Adjusted earnings per share that are discussed in the "Definitions and discussion of certain non-GAAP financial measures" in this MD&A.

TABLE OF CONTENTS

CORE BUSINESS, STRATEGY, AND PERFORMANCE DRIVERS

Core business

Second Cup is a Canadian specialty coffee retailer with 310 cafés operating under the trade name Second Cup™ in Canada, of which 32 are Company-operated and the balance is 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 in Canada, excluding the Territory of Nunavut.

The Company was incorporated under the Business Corporations Act (Ontario) in 2011. The address of its registered office is 6303 Airport Road, 2nd Floor, Mississauga, Ontario, L4V 1R8. The website is www.secondcup.com. The common shares are listed on the Toronto Stock Exchange under the symbol "SCU".

The fiscal year follows the method, 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. Fiscal year 2015 consists of 52 weeks.

As at December 26, 2015, the issued share capital consisted of 12,830,945 common shares.

Additional information including the Annual Information Form is on SEDAR at www.sedar.com.

As a franchisor, Second Cup opens, acquires, closes and refranchises individual café locations in the normal course of business.

CORE BUSINESS, STRATEGY, AND PERFORMANCE DRIVERS

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".

Work to transform Second Cup Coffee Co. progressed this year with the rollout of the "café of the future", introduction of premium quality, innovative products including a fresh, local bakery program and the launch of the Rewards program.

While much remains to be done to strengthen our network, drive same store sales and improve profitability, results from the first year of the transformational plan are encouraging. Progress continues to be made with franchising corporate stores to strong operators, returning the Company to an asset light business model and improving profitability.

CAPABILITIES

This section documents factors that affect the 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 Second Cup brand

In conjunction with the official unveiling of the “café of the future”, the Company launched its new logo and branding in December of 2014. The updated brand -- Second Cup Coffee Co.™ -- reflects a new independent spirit, a commitment to deliver the world's finest coffee, and the Company's vision to be the coffee brand most passionately committed to quality and innovation. The new logo is designed to convey the elevated premium status of the brand, and all touch points both inside and outside of the café have been modernized.
A proud Canadian company since 1975 with 310 cafés across Canada, Second Cup Coffee Co.™ is a specialty coffee retailer. The Company maintains its commitment to the communities it operates in, celebrating the franchisees local ownership and its focus on providing quality and friendly service to each customer in every café.

The “Café of the Future”

The new design revolves around the Company's brand pillars of superior quality, optimism, collaboration, creativity and community, and focuses on the individual customer experience. Features of the new café include a Slow Bar, where customers can interact with baristas and taste coffees made from new brewing technologies, an expanded portfolio of coffees, baked goods hand-crafted in local bakeries, modern layout and architectural design, built-in charging stations for electronic devices, custom music program, community wall mural created by local artists that reflects and celebrates the neighborhood, and a stylish new employee dress code.

The people

The franchise network consists of approximately 3,500 team members. Team members range from baristas, managers, and franchisees at the cafés, and support personnel employed at Coffee Central (head office). Baristas and franchisees complete extensive training and certification to deliver a quality product to our customers. Franchisees and baristas are subject to operational quality checks to monitor performance.

Product

The Company has a strategic partnership with an independent roaster of coffees. The Company has also partnered with Swiss Water Decaffeinated Coffee Company Inc. to decaffeinate its coffee. This process is 100% chemical-free, unlike other decaffeination methods that use methylene chloride or ethyl acetate to remove the caffeine. This decaffeination process gently removes 99.9% of the caffeine while maintaining the unique taste characteristics of the coffee. The process reflects Second Cup’s commitment to natural and healthy products.

The coffee portfolio currently contains 24 varieties of coffee, including eight single-origin and estate coffees as well as proprietary blends like Paradiso® and Espresso Forte. The cafés offer a wide variety of hand crafted espresso-based beverages including espressos, cappuccinos, lattes and the ever popular Vanilla Bean Latte and Moccaccino. Second Cup is committed to developing and introducing new drinks, an example of which is the Flat White, an internationally popular espresso based drink which Second Cup was the first to market nationally in Canada. The Company has a long history of partnering with coffee producers, and buying direct from farm or mill, and has Canadian exclusivity to sell San Agustin, Fazenda Vista Alegre, and La Minita Tarrazú; La Minita is considered by many to be the most carefully processed coffee in the world. In 2014, the Company introduced single serve capsules in a variety of roasts for at home consumption.

Second Cup prides itself that virtually all of its coffee, espresso and tea beverages are certified by third parties such as Rainforest Alliance Certified™ as environmentally sustainable products. The Company offers a fair-trade and organic certified blend of coffee entitled Cuzco®.

In addition to coffee-based products and other beverages, cafés carry a variety of complementary products, including pastries, sandwiches, muffins, cookies, coffee accessories and coffee-related gift items.

Liquidity, capital resources and management of capital

The Company's objectives relating to the management of its capital structure are to:

- safeguard its ability to continue as a going concern;
- maintain financial flexibility in order to preserve its ability to meet financial obligations;
- maintain a capital structure that provides financing options to the Company when the need arises to access capital; and
- deploy capital to provide an adequate return to its shareholders.

The Company's primary uses of capital are to finance increases in non-cash working capital and capital expenditures. The Company determines the appropriate level of debt in the context of its cash flows and overall business risks. On August 5, 2014, the Company suspended its dividend in order to retain cash resources for redeployment into investments that will maximize long-term growth in share value.

On December 15, 2015, the Company announced that it reduced its long-term debt by $5,000,000, improving its capital structure and saving over $200,000 in interest expense annually. The new capital structure includes a $6,000,000 non-revolving term loan and includes approximately $3,000,000 of cash.

The term loan is collateralized by substantially all the assets of the Company and matures on January 1, 2017. Pursuant to the terms of the Company's amended term loan, the Company is subject to certain financial and other customary covenants. The Company has requirements to maintain certain covenants, which are defined in the agreements:

- a minimum EBITDA amount for each of the four quarters; and
- a fixed charge coverage ratio both of which are based on a trailing four-quarter basis.

The company is in compliance with the amended covenants as at December 26th 2015. 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 amended facility matures on January 1, 2017 and bears interest at a 2.25% to 3.25% margin based on the current covenant ratios. As at December 26, 2015, the applicable margin pertaining to the aforementioned range was 3.25% (December 27, 2014 – 3.25%).

The Company has an interest rate swap agreement with a notional value of $6,000 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 December 26, 2015, there was an interest rate swap liability of $77 recorded in the statements of financial position (December 27, 2014 - $143).

Competition

The Canadian specialty coffee market is highly competitive and highly fragmented, with few barriers to entry. There are national, regional and local coffee retailers who are speciality coffee providers or quick serve restaurants with broad menus.

Technology

Second Cup relies heavily on information technology network infrastructure including point of sale system ("POS") hardware and software in cafés, gift and loyalty card transactions, and head office financial and administrative functions. The ability to manage operations effectively and efficiently depends on the reliability and capacity of these technology systems, most of which are administered by third party suppliers. The Company has made significant investments in POS systems across its store network as it relies on the POS system to help analysis for both marketing initiatives and royalty calculations.

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 Audited Financial Statements of the Company for the 52 weeks ended December 26, 2015.

	13 weeks ended		**52 weeks ended**	
(In thousands of Canadian dollars, except same café sales, number of cafés, per share amounts, and number of common shares.)	**December 26, 2015**	**December 27, 2014**	**December 26, 2015**	**December 27, 2014**
System sales of cafés[1]	$46,900	$49,427	$174,866	$182,782
Same café sales[1]	0.2%	(3.9%)	(1.4%)	(4.7%)
Number of cafés - end of period	310	347	310	347
Total revenue	$9,636	$8,427	$37,341	$28,172
Operating costs and expenses	$9,469	$8,948	$38,422	$59,069
Operating income (loss) [1]	$167	($521)	($1,081)	($30,897)
EBITDA[1]	$554	($139)	$384	($29,625)
Net income (loss) and comprehensive income (loss)	$94	($469)	($1,153)	($27,032)
Basic and diluted earnings (loss) per share as reported	$0.01	($0.04)	($0.09)	($2.66)
Total assets - end of period	$46,485	$53,449	$46,485	$53,449
Number of weighted average common shares issued and outstanding	12,830,945	10,879,012	12,830,945	10,151,716

[1]See the section "Definitions and discussion on certain non-GAAP measures" for further analysis.
[2]Earnings per share is calculated using the weighted average number of common shares outstanding

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

	13 weeks ended		52 weeks ended	
	December 26, 2015	December 27, 2014	December 26, 2015	December 27, 2014
Number of cafés - beginning of period	327	349	347	356
Cafés opened	1	1	3	9
Cafés closed	(18)	(3)	(40)	(18)
Number of cafés - end of period	310	347	310	347

The Company ended the Year with 32 (2014 – 35) Company-operated cafés.

Fourth Quarter

System sales of cafés

System sales of cafés for the 13 weeks ended December 26, 2015 were $46,900 compared to $49,427 for the 13 weeks ended December 27, 2014 representing a decrease of $2,527 or 5.1%. The decrease is attributable to the reduced store count.

Same café sales

During the Quarter, same café sales increased by 0.2%, compared to a decline of 3.9% in the comparable Quarter of 2014.

Analysis of revenue

Total revenue for the Quarter was $9,636 (2014 - $8,427) 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 $5,506 (2014 - $3,947). The increase in revenue of $1,559 is attributable to additional Company-owned cafés.

Franchise revenue was $4,130 for the Quarter (2014 - $4,480). The decrease in franchise revenue of $350 is primarily driven by a lower café count, as well as an increase in Company-owned cafés.

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 $9,469 (2014 - $8,948), an increase of $521.

Company-owned cafés and product sales

Company-owned cafés and product related expenses for the Quarter were $5,695 (2014 - $4,239), an increase of $1,456. This increase in costs is caused by additional Company-owned cafés.

Franchise

The Company incurred franchise related expenses of $1,800 (2014 - $2,234). The prior year expenses were impacted by provisions for café closure costs.

General and administrative

General and administrative expenses were $1,565 for the Quarter (2014 - $1,643). The $78 decrease is due to reduced labour expenses.

Gain and loss on disposal of assets

A loss on disposal of $22 was recognized in the Quarter (2014 - $450). The prior year loss of $450 includes the loss on transaction to acquire certain cafés.

Depreciation and amortization

Depreciation and amortization expense was $388 (2014 - $382).

EBITDA

EBITDA for the quarter was $554, compared to a loss of $139 last year.

Net income (loss)

The Company's net income for the Quarter was $94 or $0.01 per share, compared to a net loss of $469 or $0.04 loss per share in 2014. The increase in net income of $563 or $0.05 per share was mainly due to closed café and operational provisions taken in 2014 and improved operations.

A reconciliation of net income (loss) to Adjusted EBITDA is provided in the section "Definitions and discussion of certain non-GAAP financial measures".

Year

System sales of cafés

System sales of cafés for the Year were $174,866 compared to $182,782 for 2014, representing a decrease of $7,916 or 4.3%. The decrease is attributable to decreased same café sales and to the reduced store count.

Same café sales

For the Year, there was a decline of 1.4% compared to a decline of 4.7% in 2014.

Analysis of revenue

Total revenue for the Year was $37,341 (2014 - $28,172).

Company-owned cafés and product sales were $22,082 (2014 - $10,426). The increase of $11,656 is attributable to additional Company-owned cafés on an annualized basis.

Franchise revenue was $15,259 for the Year (2014 - $17,746). The decrease in revenue of $2,487 is primarily driven by a lower café count as well as the increase in Company-owned cafés on an annualized basis.

Operating costs and expenses

Total operating expenses for the year to date were $38,422 (2014 - $59,069), a decrease of $20,647. The decrease is primarily due to the impairment charge recorded in 2014 and offset by the increase in Company-owned cafés on an annualized basis.

Company-owned cafés and product sales

Company-owned cafés and product related expenses for the year to date were $22,382 (2014 - $11,279), an increase of $11,103. This increase in costs is caused by additional Company-owned cafés on an annualized basis.

Franchise

Franchise related expenses of $8,809 were incurred for the Year (2014 - $8,121). The increase of $688 relates to increased labour investment in the franchise segment.

General and administrative

General and administrative expenses were $5,787 for the Year (2014 - $8,329). The decrease of $2,542 is due to labour savings realized as a result of prior years' restructuring.

Gain and loss on disposal of assets

A gain on disposal of assets of $21 was recognized for the year (2014 - $360 loss). The gain relates to the resale of Company-owned cafés.

Depreciation and amortization

Depreciation and amortization expense was $1,465 (2014 - $1,272). The increase is due to amortization of our Loyalty program and completed renovations at our Company-owned cafés.

EBITDA

EBITDA for the year was $384, compared to a loss of $29,625 last year.

Net loss

The Company's net loss for the Year was $1,153 or $0.09 loss per share, compared to a net loss of $27,032 or $2.66 loss per share in 2014. The favorable change in net loss of $25,879 or $2.57 per share was mainly due to impairment charges that occurred in 2014.

A reconciliation of net loss to adjusted EBITDA is provided in the section "Definitions and discussion of certain non-GAAP financial measures".

SELECTED QUARTERLY INFORMATION

(in thousands of Canadian dollars, except Number of cafés, Same café sales, and per share amounts)	Q4 2015[2]	Q3 2015	Q2 2015	Q1 2015
System sales of cafés[1]	$46,900	$41,087	$43,715	$43,174
Same café sales[1]	0.2%	(2.9%)	(3.2%)	(1.1%)
Number of cafés - end of period	310	327	339	344
Total revenue	$9,636	$9,270	$9,421	$9,014
Operating income (loss)[1]	$167	($1,310)	($6)	$68
EBITDA[1]	$554	($924)	$334	$419
Net income (loss) for the period	$94	($1,099)	($72)	($76)
Basic and diluted earnings (loss) per share	$0.01	($0.09)	($0.01)	($0.01)
Dividends declared per share	-	-	-	-
	Q4 2014[2]	**Q3 2014**	**Q2 2014**	**Q1 2014**
System sales of cafés[1]	$49,427	$43,596	$45,829	$43,930
Same café sales[1]	(3.9%)	(3.3%)	(5.0%)	(6.9%)
Number of cafés - end of period	347	349	357	357
Total revenue	$8,427	$6,686	$6,435	$6,624
Operating (loss) income[1]	($521)	($30,214)	($388)	$226
EBITDA[1]	($139)	($26,866)	($113)	$493
Net (loss) income for the period	($469)	($26,230)	($390)	$56
Basic and diluted (loss) earnings per share	($0.04)	($2.65)	($0.04)	$0.01
Dividends declared per share	-	-	-	$0.085

[1]See the section "Definitions and discussion on certain non-GAAP financial measures" for further analysis.
[2]The 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).

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. The performance of Second Cup franchisees and Company-operated cafés could impact the ability of the Company to declare and pay dividends to its shareholders. 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		52 weeks ended	
	December 26, 2015	**December 27, 2014**	**December 26, 2015**	**December 27, 2014**
Cash flows provided by operating activities	$ 118	$ 729	$ 165	$ 452
Cash flows provided used in investing activities	(1,780)	(805)	(2,933)	(1,860)
Cash flows (used in) provided by financing activities	(5,070)	7,509	(5,070)	5,825
Increase (decrease) in cash and cash equivalents during the period	$ (6,732)	$ 7,433	$ (7,838)	$ 4,417

Fourth Quarter

Cash generated by operating activities was $118 for the Quarter compared to $729 for the same Quarter in 2014. The reduction in cash provided of $611 is primarily due to corporate cafés and lower café count.

During the Quarter, cash used in investing activities was $1,780 compared to cash used of $805 for the same Quarter in 2014.

Cash used in financing activities was $5,070 (2014 – cash generated of $7,509). The decrease in cash provided of $12,579 was due to the issuance of common shares in 2014 and the repayment of $5,000 of the term loan in the current quarter.

Year

Cash generated by operating activities was $165 for the Year compared to $452 for the same period last year. The reduction of $287 was caused by higher corporate café and lower total café count on an annualized basis.

During the Year, cash used in investing activities was $2,933 compared to cash used of $1,860 for the same period in 2014. The decrease in cash flows of $1,073 was primarily the result of new renovation projects for corporate cafés and the classification of restricted cash.

Financing activities resulted in a cash usage of $5,070 (2014 – cash generated of $5,825). The decrease in cash flow of $10,894 was a result of the common share issuance in 2014, the suspension of dividends, and the $5,000 term loan repayment.

Working capital as at

		December 26, 2015		December 27, 2014
Current assets	$	8,817	$	16,430
Current liabilities		11,804		23,684
Working capital	$	(2,987)	$	(7,254)

The Company's working capital deficit of $2,987 as at December 26, 2015 improved by $4,267 from December 27, 2014 as a result of the reclassification of long-term debt from current, which was partly offset by the cash repayment of the term loan. The Company operates in the franchise industry, in which a working capital deficit is normal.

The Company had cash and cash equivalents of $3,080 as at December 26, 2015 (December 27, 2014 - $10,918). The decrease was primarily due to the repayment of the term loan. 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**
Financial assets	
Cash and cash equivalents	Credit and interest rate
Restricted cash	Credit and interest rate
Trade and other receivables	Credit
Notes and leases receivable	Credit
Financial liabilities	
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.

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
December 31, 2016	$ 18,736	$ 15,858	$ 2,878
December 30, 2017	16,840	14,126	2,714
December 29, 2018	14,962	12,316	2,646
December 28, 2019	13,313	10,703	2,610
December 26, 2020	10,710	8,268	2,442
Thereafter	27,803	20,489	7,314
	$ 102,364	$ 81,760	$ 20,604

The Company believes it has sufficient resources to meet the net commitment of $20,604 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 $2,464 USD (2014 - $2,965 USD) for the subsequent 12 months. 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 its franchisees and for Company-operated cafés, there is $265 (2014 - $302) 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:

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 October 30, 2015, 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 December 26, 2015, 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 December 26, 2015 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 October 30, 2015, 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 December 26, 2015, 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 December 26, 2015 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 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;
- 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 Audited Financial Statements:

(i) Impairment charges
Impairment analysis is an area involving management judgement requiring assessment as to whether the carrying value of assets is recoverable. Fair value less cost to sell is determined by estimating the net present value of future cash flows derived from such assets using cash flow projections that have been discounted at an appropriate rate and based on a market participant's view. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters including:

- Growth in total revenue;
- Change and timing of cash flows such as the increase or decrease of expenditures;
- Selection of discount rates to reflect the risks involved; and
- Applying judgement in cash flows specific to cash generating units.

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.

(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.

(v) Gift card breakage
Gift card breakage is based on the likelihood of gift cards not being redeemed by the customer. Management's determination of the gift card breakage rate is based upon Company-specific historical loads and redemption patterns.

(vi) 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 amount 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. Potential risks include the following:

The specialty coffee industry is characterized by intense competition with respect to price, location, coffee and food quality, and numerous factors affecting discretionary consumer spending. Competitors include national and regional chains, independent cafés, all restaurants and food service outlets that serve coffee, and supermarkets that compete in the whole bean and roast and ground segments.

Growth of the café network depends on Second Cup's ability to secure and build desirable locations and find high calibre, qualified franchisees to operate them. Credit markets may affect the ability of franchisees to obtain new credit or refinance existing credit on economically reasonable terms.

Second Cup faces competition for café locations and franchisees from its competitors and from franchisors and operators of other businesses. The success of franchisees is significantly influenced by the location of their cafés. There can be no assurance that current café locations will continue to be attractive, or that additional café sites can be located and secured as demographic and traffic patterns change. Also, there is no guarantee that the property leases in respect of the cafés will be renewed or suitable alternative locations will be obtained and, in such event, cafés could be closed. It is possible that the current locations or economic conditions where cafés are located could decline in the future, resulting in reduced sales in those locations. There is no assurance that future sites will produce the same results as past sites. There is also no assurance that a franchisee will continue to pay rental obligations in a timely manner, which could result in Second Cup being obligated to pay the rental obligations pursuant to its head lease commitment, which would adversely affect the profitability of the business.

The Canadian specialty coffee industry is also affected by changes in discretionary spending patterns, which are in turn dependent on consumer confidence, disposable consumer income and general economic conditions. Factors such as changes in general economic conditions, recessionary or inflationary trends, job security and unemployment, equity market levels, consumer credit availability and overall consumer confidence levels may affect their business. The specialty coffee industry is also affected by demographic trends, traffic and weather patterns, as well competing cafés.

Business could be adversely affected by increased concerns about food safety in general or other unusual events. On May 28, 2015, the government of Ontario enacted the Making Healthy Choices Act, 2015. The Act will come into force on January 1, 2017. Restaurant chains and other food service providers with 20 or more locations operating under the same (or substantially the same) name in Ontario will need to make changes to the information they display on menus, menu boards and displays. The potential impact of this legislation is undetermined.

Partnerships to distribute whole bean and roast and ground coffees requires significant investments of non-refundable listing fees. The TASSIMO self-serve product has achieved positive results and the Company will continue to evaluate this area of potential growth, including consideration of adding additional products. The Company also offers whole bean and ground coffees as a complementary but different product line in comparison to self-serve.

Second Cup relies heavily on information technology (IT) network infrastructure. The ability to manage operations effectively and efficiently depends on the reliability and capacity of these IT systems, most of which are administered by third party suppliers. The Company relies on POS for system sales for both marketing trends and royalty calculations. Cafés rely on IT network infrastructure to order goods and process credit, debit and café card transactions. Coffee Central financial and administrative functions rely on IT infrastructure for accurate and reliable information. The failure of these systems to operate effectively, or problems with upgrading or replacing systems, could cause a material negative financial result. The Company is continually reviewing its systems and procedures to minimize risk.

The company's cash flow can also be impacted by underperformance of its franchise network through reduced royalties, higher lease exit provisions or the increase in the number of corporate stores. Reduced earnings could impact the company's ability to comply with its bank covenants and renewal of its bank facility in 2017.

The loss of key personnel and/or a shortage of experienced management and hourly employees could have an adverse impact on operations and cafés.

A more detailed discussion of the risks and uncertainties affecting Second Cup is set out in the Second Cup's Annual Information Form, which is available at www.sedar.com.

OUTLOOK

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

The company has updated its 3-year plan to 2018 and key financial targets include:

- Grow system wide sales to exceed $250 million
- Earnings per share targeted to exceed $0.50
- Significant increase in average store sales
- Significant free cash flow generation

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), EBITDA, adjusted EBITDA and adjusted earnings per share.

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 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, 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.

Impairment charges, if incurred, are a reconciling item in the calculation of adjusted EBITDA as its nature is non-cash and management interprets this measure to be similar in substance to depreciation and amortization. This interpretation by management is consistently applied regardless of whether impairment charges are or are expected to be recurring.

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

	13 weeks ended		52 weeks ended	
	December 26, 2015	December 27, 2014	December 26, 2015	December 27, 2014
Net income (loss)	$ 94	$ (469)	$ (1,153)	$ (27,032)
Interest and financing	72	106	457	478
Income taxes (recovery)	-	(159)	(385)	(4,343)
Depreciation of property and equipment	284	288	1,091	933
Amortization of intangible assets	104	95	374	339
EBITDA	554	(139)	384	(29,625)
Impairment charges	-	-	-	29,708
Adjusted EBITDA	$ 554	$ (139)	$ 384	$ 83

Adjusted basic and diluted earnings per share

Adjusted earnings per share represent earnings per share excluding any impairment charges. Impairment charges are non-cash, but material items that are adjusted as management concluded that this is not a direct measure of the Company's focus on day-to-day operations, is not indicative of future operating results, and thus better evaluates the underlying business of the Company.

A reconciliation of adjusted basic and diluted earnings per share is provided below:

	13 weeks ended		52 weeks ended	
	December 26, 2015	December 27, 2014	December 26, 2015	December 27, 2014
Net income (loss)	$ 94	$ (469)	$ (1,153)	$ (27,032)
Impairment charges	-	-	-	29,708
Tax effect of adjusting items	-	-	-	(3,934)
Adjusted earnings (loss)	94	(469)	(1,153)	(1,258)
Weighted average number of shares issued and outstanding (unrounded)	12,830,945	10,879,012	12,830,945	10,151,716
Adjusted basic and diluted earnings (loss) per share	$ 0.01	$ (0.04)	$ (0.09)	$ (0.12)

For the 13 and 52 weeks ended December 26, 2015, there were 715,000 outstanding share option awards (13 and 52 weeks ended December 27, 2014 – 535,000).