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 11, 2017 and is intended to assist in understanding the financial performance and financial condition of The Second Cup Ltd. ("Second Cup" or the "Company") for the 13 weeks (the "Quarter") ended April 1, 2017, and should be read in conjunction with the Unaudited Condensed Interim Financial Statements of the Company for the 13 weeks ended April 1, 2017, the Audited Financial Statements of the Company for the 53 weeks ended December 31, 2016, and the Annual Information Form, which are available at www.sedar.com. Past performance may not be indicative of future performance. All amounts are presented in thousands of Canadian dollars, except number of cafés, per share amounts or unless otherwise indicated and have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company also reports certain non-IFRS measures such as System sales of cafés, Same café sales, Free cash flow, Net debt, Loyalty sales, Operating income, and EBITDA that are discussed in the "Definitions and discussion of certain non-GAAP financial measures" in this MD&A.

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CORE BUSINESS, STRATEGY, AND PERFORMANCE DRIVERS

Core business

Second Cup is a Canadian specialty coffee retailer with 293 cafés operating under the trade name Second Cup™ in Canada, of which 24 are Company owned and the balance is operated by franchisees. Further discussion of the Company's core business was described in the 2016 annual MD&A.

Strategic imperatives and key performance drivers

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

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

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

CAPABILITIES

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

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

Liquidity, capital resources and management of capital

On December 2, 2016, the Company replaced its credit facility with a new credit facility. The new credit facility has a face value of $8,000, is collateralized by substantially all the assets of the Company and matures on December 2, 2020 (with no principal payments prior to December 2, 2020).

The Company is in compliance with the covenants of the credit facility as at April 1, 2017. 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 can be remediated by additional cash injection but may also impact the Company's ability to amend covenants or renew its facility in the future.

The Company believes that there is sufficient cash on hand and working capital to meet ongoing cash requirements.

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 April 1, 2017 and 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 April 1, 2017**	**13 weeks ended March 26, 2016**
System sales of cafés[1]	$37,915	$39,071
Same café sales[1]	(0.2%)	(1.1%)
Number of cafés - end of period	293	307
Total revenue	$5,975	$7,434
Operating costs and expenses	$6,290	$8,167
Operating income (loss)[1]	($315)	($733)
EBITDA[1]	$60	($332)
Net income (loss) and comprehensive income (loss)	($475)	($606)
Basic and diluted earnings (loss) per share as reported	($0.04)	($0.05)
Total assets - end of period	$43,790	$43,547
Number of weighted average common shares issued and outstanding	12,830,945	12,830,945

[1]See the section "Definitions and discussion on certain non-GAAP measures" for further 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	2014	2015	2016	Average
First Quarter	24.0	24.7	23.9	24.2
Second Quarter	25.1	25.0	24.6	24.9
Third Quarter	23.9	23.5	23.0	23.5
Fourth Quarter	27.0	26.8	28.5	27.4
	100.0	100.0	100.0	100.0

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

Café network

	13 weeks ended April 1, 2017	13 weeks ended March 26, 2016
Number of cafés - beginning of period	294	310
Cafés opened	-	1
Cafés closed	(1)	(4)
Number of cafés - end of period	293	307

The Company ended the Quarter with 24 (March 26, 2016 – 32) Company-owned cafés. Café closures are mainly attributable to leases that are not renewed on expiration, under-performing locations and landlord re-development of specific sites.

First Quarter

System sales of cafés

System sales of cafés for the 13 weeks ended April 1, 2017 were $37,915 compared to $39,071 for the 13 weeks ended March 26, 2016 representing a decrease of $1,156 or 3.0%. The decrease is attributable mainly to the reduced store count.

Same café sales

During the Quarter, same café sales decreased by 0.2%, compared to a decrease of 1.1% in the same Quarter of 2016. Alberta's ongoing economic downturn continued to negatively impact overall same café sales by approximately 1.1% in the Quarter. Same café sales in Ontario, the Company's largest region, increased by 1.6% during the Quarter. The success of the Company's Better For You menu, launched in late January to meet growing customer demand for healthier options, has contributed to the improvement in same café sales.

Analysis of revenue

Total revenue for the Quarter was $5,975 (March 26, 2016 - $7,434) 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 $2,591 (March 26, 2016 - $3,929). The decrease in revenue of $1,338 is attributable to the reduced Company-owned cafés count from 32 last year to 24 this year and lower Company-branded consumer product sales. Reducing Company-owned cafés is consistent with the Company's strategy of returning to an asset light business model.

Franchise revenue was $3,384 for the Quarter (March 26, 2016 - $3,505). The decrease in franchise revenue of $121 in the Quarter is primarily due to a lower café count, offset by a slightly better blended royalty rate on higher average franchise café sales.

Operating costs and expenses
Operating costs and expenses include the costs of Company-owned cafés and product sales, franchise-related expenses, general and administrative expenses, loss/gain on disposal of assets, and depreciation and amortization. Total operating costs and expenses for the Quarter were $6,290 (March 26, 2016 - $8,167), a decrease of $1,877.

Company-owned cafés and product sales
Company-owned cafés and product related expenses for the Quarter were $2,896 (March 26, 2016 - $4,362), a decrease of $1,466. This decrease in costs is attributable to a lower number of Company-owned cafés and lower product sales as compared to the same Quarter in 2016.

Franchise
The Company incurred franchise related expenses of $1,536 in the Quarter (March 26, 2016 - $2,018), a decrease of $482. The decrease in expenses is attributable to moving from a national franchisee convention format to regional meetings with franchisees this year, plus other operational savings.

General and administrative
General and administrative expenses were $1,457 for the Quarter (March 26, 2016 - $1,382), an increase of $75.

Gain and loss on disposal of assets
A loss on disposal of $26 was recognized in the Quarter (March 26, 2016 – loss of $4). Gain and loss on disposal of assets are primarily related to the franchising of Company-owned cafés to franchise partners.

Depreciation and amortization
Depreciation and amortization expense was $375 (March 26, 2016 - $401).

EBITDA
EBITDA for the Quarter was $60 compared to a loss of $332 in the same Quarter of 2016. The increase of $392 is primarily due to higher earnings in the franchise segment.

Net income (loss)
The Company's net loss for the Quarter was $475 or $0.04 per share, compared to a net loss of $606 or $0.05 per share in 2016.

A reconciliation of net income (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)	Q1 2017	Q4 2016[2]	Q3 2016	Q2 2016
System sales of cafés[1]	$37,915	$46,743	$37,717	$40,207
Same café sales[1]	(0.2%)	(1.0%)	(1.2%)	(1.3%)
Number of cafés - end of period	293	294	298	304
Total revenue	$5,975	$7,500	$7,656	$7,761
Operating income (loss)[1]	($315)	$301	($25)	($528)
EBITDA[1]	$60	$667	$357	($128)
Net income (loss) for the period	($475)	$147	($75)	($441)
Basic and diluted earnings (loss) per share	($0.04)	$0.01	($0.01)	($0.03)

	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 (loss) income[1]	($733)	$167	($1,310)	($6)
EBITDA[1]	($332)	$554	($924)	$334
Net (loss) income for the period	($606)	$94	($1,099)	($72)
Basic and diluted (loss) earnings per share	($0.05)	$0.01	($0.09)	($0.01)

[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).

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

Summary of cash flows

		13 weeks ended April 1, 2017		13 weeks ended March 26, 2016
Cash flows provided by (used in) operating activities	$	(543)	$	(1,431)
Cash flows provided by (used in) investing activities		(81)		(51)
Cash flows provided by (used in) financing activities		(32)		-
Increase (decrease) in cash and cash equivalents during the period	$	(656)	$	(1,482)

First Quarter

Cash used in operating activities was $543 for the Quarter compared to cash used of $1,431 for the same Quarter in 2016. The reduction in cash use of $888 is primarily due to changes in non-cash working capital.

During the Quarter, cash used in investing activities was $81 compared to cash used of $51 for the same Quarter in 2016 due to higher payments for capital expenditures and intangible assets, offset by higher repayments of notes receivable.

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

Cash used in financing activities was $32 (March 26, 2016 – $Nil).

Working capital as at

		April 1, 2017		December 31, 2016
Current assets	$	7,862	$	9,096
Current liabilities		9,477		10,242
Working capital deficiency	$	(1,615)	$	(1,146)

The Company's working capital deficit of $1,615 as at April 1, 2017 increased by $469 from December 31, 2016, primarily as a result of a reduction in accounts receivable at the end of the Quarter. Gift card liability ended the Quarter at $2,974, a decrease of $510 compared to the end of 2016. Based on the historical redemption patterns, the Company believes that it has sufficient financial resources to cover the gift card liability. The Company operates in the franchise industry, in which a working capital deficit is typical.

The Company had cash and cash equivalents of $2,348 as at April 1, 2017 (December 31, 2016 - $3,004). On December 2, 2016, the Company replaced its credit facility with a new credit facility, which does not require principal payments prior to December 2, 2020. 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 option of entering into an interest rate swap agreement to minimize risk on long-term debt is available to the Company, as needed.

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

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

Contingencies, commitments and guarantees

Contractual Obligations	Payments Due by Period				
	Total	1 year	2 - 3 years	4 - 5 years	After 5 years
Debt	$8,000	$Nil	$Nil	$8,000	$Nil
Obligations from Operating Leases	15,700	2,301	4,373	3,627	5,399
Purchase Obligations	2,160	2,160	Nil	Nil	Nil
Total Contractual Obligations	$25,860	$4,461	$4,373	$11,627	$5,399

Debt

On December 2, 2016, the Company entered into a new credit facility which replaced its facility with the Bank of Nova Scotia. The new credit facility of $8,000 matures on December 2, 2020 (with no principal payments prior to December 2, 2020). As part of the agreement, the Company issued 600,000 warrants that granted the lender the right to purchase in respect of each warrant one Common Share, at a purchase price of $2.75 per Common Share, at any time up to December 2, 2020.

Obligations from Operating Leases

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

	Head lease commitments	Sublease to franchisees	Net
March 31, 2018	$ 18,309	$ 16,008	$ 2,301
March 30, 2019	16,629	14,376	2,253
March 28, 2020	14,671	12,551	2,120
March 27, 2021	12,428	10,545	1,883
March 26, 2022	10,783	9,039	1,744
Thereafter	30,535	25,136	5,399
	$ 103,355	$ 87,655	$ 15,700

The Company believes it has sufficient resources to meet the net commitment of $15,700 over the term of the leases.

Purchase Obligations

Contracts are in place with third party companies to purchase the coffee that is sold in all cafés. In terms of these supply agreements, there is a guaranteed minimum value of coffee purchases of $1,136 USD (March 26, 2016 - $1,780 USD) for the 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-owned cafés, there is $648 (March 26, 2016 - $496) 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.

Other Obligations

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

Related parties

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

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 May 11, 2017, the Company's management, under the supervision of, and with the participation of, the Interim CEO and CFO, evaluated the design of the disclosure controls and procedures. Based on this evaluation, the Interim CEO and CFO have concluded that, as at April 1, 2017, the Company's disclosure controls and procedures were appropriately designed.

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

During the 13 weeks ended April 1, 2017 and up to the date of the approval of the Unaudited Condensed Interim Financial Statements and MD&A, there has been no change that has materially affected, or is reasonably likely to materially affect the Company's disclosure controls and procedures.

Internal controls over financial reporting

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

As at May 11, 2017, the Company's management, under the supervision of, and with the participation of, the Interim CEO and CFO, evaluated the design of the controls over financial reporting. No material weaknesses in the design of these controls over financial reporting were identified. Based on this evaluation, the Interim CEO and CFO have concluded that, as at April 1, 2017, the Company's controls over financial reporting were appropriately designed and were operating effectively.

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

During the 13 weeks ended April 1, 2017 and up to the date of the approval of the Unaudited Condensed Interim Financial Statements and MD&A, there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

CRITICAL ACCOUNTING ESTIMATES

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

Estimates

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

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

Use of judgement

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

(i) Impairment charges

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

(ii) Deferred income taxes

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

(iii) Estimated useful lives

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

(iv) Café lease provisions

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

(v) Allowance for doubtful accounts

The allowance for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all 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.

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

OUTLOOK

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

The Company launched Flash Cold Brew, its latest innovation in the fastest growing segment in the coffee market. The unique brewing method produces superior taste for full flavour and incredible smoothness, available in Classic Black, Vanilla Bean and Mocca. To drive awareness and trial this summer, an aggressive grassroots marketing program includes sampling events and coffee bike street teams.

The Company continues to innovate and market test Better For You products and fresh lunch innovation to meet growing customer demand and has seen encouraging results for sales growth.

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, free cash flows, net debt, loyalty sales, operating income (loss), EBITDA, adjusted EBITDA and adjusted earnings per share. Non-GAAP measures are not defined under IFRS and are not necessarily comparable to similarly titled measures reported by other issuers.

System sales of cafés

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

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

Same café sales

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

Free cash flow

Free cash flow is calculated as operating cash flow minus capital expenditures. Free cash flow represents the cash that a company is able to generate after spending the money required to maintain or expand its asset base. Free cash flow is important because it allows the Company to pursue opportunities that enhance shareholder value.

Net Debt

Net debt refers to the total debt of the Company minus cash and cash equivalents. It does not include cash classified as restricted. Net debt is discussed at times as management believes it is a useful indicator of the Company's ability to meet debt service and evaluate liquidity.

Loyalty Sales

Loyalty sales refers to system sales that are transacted in café through or in association with the Company's loyalty program. Loyalty sales are defined as sales transactions through the Company's loyalty app or sales transactions that are accompanied by the Company's loyalty card. Management views this as useful indicator of its loyal customer base.

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

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 April 1, 2017	13 weeks ended March 26, 2016
Net income (loss)	$ (475)	$ (606)
Interest and financing	258	27
Income taxes (recovery)	(98)	(154)
Depreciation of property and equipment	266	298
Amortization of intangible assets	109	103
EBITDA	$ 60	$ (332)