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 franchise partners; the location of Second Cup cafés; the closure of Second Cup cafés; loss of key personnel; compliance with government regulations; food safety; 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 franchise partners; 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, except as required by securities legislation. 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 October 27, 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 39 weeks ended September 24, 2016, and should be read in conjunction with the Unaudited Condensed Interim Financial Statements of the Company for the 13 and 39 weeks ended September 24, 2016 and September 26, 2015, 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.

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CORE BUSINESS, STRATEGY AND PERFORMANCE DRIVERS

Core business

Second Cup is a Canadian specialty coffee retailer with 298 cafés operating under the trade name Second Cup™, in Canada, of which 26 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".

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 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 it's progress in returning to an asset light business model and expects to make further reductions in Corporately-owned cafés by the end of the year.

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's credit facility of $5,996,000 matures on January 1, 2017 and as a result has been classified as a current liability. Based on expected cash flows from operations, the Company will not generate sufficient funds from operations to repay the debt on January 1, 2017 and will need to generate funds from other sources as well as continue to comply with required bank covenants for the existing debt on a quarterly basis.

In recognition of these circumstances, the Company continues to evaluate its options for replacing or renewing the Company's credit facility of $5,990,000, which is scheduled to mature in January, including negotiating an extension with its current lender, obtaining financing with other lenders, financing from significant shareholders or a private placement with certain shareholders, or other strategic alternatives. Management plans to secure the necessary financing to replace the maturing debt through a combination of the above initiatives, nevertheless, there is no assurance that these initiatives will be successful. The Board has formed a special committee to review the options presented and will make an announcement when a decision is made.

The Company is in compliance with the amended covenants as at September 24, 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.

FINANCIAL HIGHLIGHTS

The following table sets out selected IFRS and certain non-GAAP financial measures of the Company and should be read in conjunction with the Unaudited Condensed Interim Financial Statements of the Company for the 13 and 39 weeks ended September 24, 2016 and September 26, 2015.

(in thousands of Canadian dollars, except same café sales, number of cafés, per share amounts, and number of common shares.)	**13 weeks ended**		**39 weeks ended**	
	September 24, 2016	**September 26, 2015**	**September 24, 2016**	**September 26, 2015**
System sales of cafés[1]	$37,717	$41,087	$116,995	$127,966
Same café sales[1]	(1.2%)	(2.9%)	(1.2%)	(2.3%)
Number of cafés - end of period	298	327	298	327
Total revenue	$7,656	$9,270	$22,851	$27,705
Operating costs and expenses	$7,681	$10,580	$24,137	$28,953
Operating (loss)[1]	($25)	($1,310)	($1,286)	($1,248)
EBITDA[1]	$357	($924)	($103)	($171)
Net loss and comprehensive loss	($75)	($1,099)	($1,122)	($1,247)
Basic and diluted loss per share as reported	($0.01)	($0.09)	($0.09)	($0.10)
Total assets - end of period	$42,812	$50,417	$42,812	$50,417
Number of common shares issued and outstanding - end of period	12,830,945	12,830,945	12,830,945	12,830,945

[1]See the section "Definitions and discussion of certain non-GAAP financial 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	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		39 weeks ended	
	September 24, 2016	September 26, 2015	September 24, 2016	September 26, 2015
Number of cafés - beginning of period	304	339	310	347
Cafés opened	-	-	2	2
Cafés closed	(6)	(12)	(14)	(22)
Number of cafés - end of period	298	327	298	327

The Company ended the Quarter with 26 (September 26, 2015 - 42) Company-operated cafés. Café closures are mainly attributable to lease expiration for under-performing locations and landlord re-development of specific sites.

Third Quarter

System sales of cafés

System sales of cafés for the 13 weeks ended September 24, 2016 were $37,717 compared to $41,087 for the 13 weeks ended September 26, 2015, representing a decrease of $3,370 or 8.2%. The decrease is attributable to the reduced store network from 327 cafés to 298 cafés and to a lesser extent the 1.2% decrease in same café sales.

Same café sales

During the quarter, same café sales declined by 1.2%, compared to a decline of 2.9% in the comparable quarter of 2015. Alberta's ongoing economic downturn continued to negatively impact overall same store sales by approximately 1.3% in the quarter.

Analysis of revenue
Total revenue for the Quarter was $7,656 (2015 - $9,270), consisting of Company-owned café and product sales, royalty revenue, and franchise fees and other revenue.

Company-owned cafés and product sales for the Quarter were $3,629 (2015 - $5,703). The decrease in revenue of $2,074 is attributable to the reduced Company-owned café count from 42 last year to 26 at the end of the most recent quarter. Reducing Company-owned cafés is consistent with the Company's strategy of returning to an asset light business model.

Franchise revenue was $4,027 for the Quarter (2015 - $3,567). The increase in franchise revenue of $460 was mainly due to fee revenue from corporate café resales and franchisee to franchisee resales.

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 $7,681 (2015 - $10,580), a decrease of $2,899.

Company-owned cafés and product sales
Company-owned cafés and product related expenses for the Quarter were $3,857 (2015 - $5,841), a decrease of $1,984. The decrease in costs is mainly attributable to lower café operating expenses due to the reduction of corporate cafés from 42 to 26. Non café labour reductions relating to the management of Company-owned cafés and product sales decreased by $112 versus the same period last year.

Franchise
The Company incurred franchise related expenses of $1,888 (2015 - $3,101). This represents a decrease of $1,216. $915 and $210 of the reduction is attributable to rent related and inventory expenses recorded during the same period last year, respectively.

General and administrative
General and administrative expenses were $1,403 for the Quarter (2015 - $1,203). This represents an increase of $200. The increase is mainly due to a $161 one-time recovery relating to a note receivable deemed uncollectable and subsequently recovered the same period last year.

Gain and loss on disposal
A loss on disposal of $151 was recognized in the Quarter (2015 - $45 loss). The loss related to the resale of three Company-owned cafés.

Depreciation and amortization
Depreciation and amortization expense was $382 (2015 - $387).

EBITDA
EBITDA for the Quarter was $357, compared to a loss of $924 last year. The difference of $1,281 is mainly attributable to the improved inventory and rent related expenses that accrued in the same period last year and the reduced Company-owned café count from 42 last year to 26.

Net loss

The Company's net loss for the Quarter was $75 or $0.01 per share, compared to a net loss of $1,099 or $0.09 per share in 2015. A reconciliation of net loss to EBITDA is provided in the section "Definitions and discussion of certain non-GAAP financial measures".

Year to date

System sales of cafés

System sales of cafés for the 39 weeks ended September 24, 2016 were $116,995 compared to $127,966 for the 39 weeks ended September 26, 2015, representing a decrease of $10,971 or 8.6%. The decrease is mainly attributable to the smaller store network and to a lesser extent the 1.2% decrease in same café sales.

Same café sales

Same café sales declined by 1.2% for the 39 weeks ended September 24, 2016, compared to a decline of 2.3% for the 39 weeks ended September 26, 2015. Alberta's ongoing economic downturn continued to negatively impact overall same store sales by approximately 1.2% year to date.

Analysis of revenue

The analysis of revenue includes revenue outlined above in the quarterly comments. Total revenue for the year to date was $22,851 (2015 - $27,705). The decrease of $4,854 is mainly attributable to the reduction in Company-owned cafes discussed below.

Company-owned cafés and product sales were $11,453 (2015 - $16,576). The decrease of $5,123 is mainly attributable to reduced Company-owned cafés. As at the end of the 39 weeks ended September 24, 2016 the Company-owned café count was 26 versus 42 during the same period last year. Reducing Company-owned cafés is consistent with the Company's strategy of returning to an asset light business model.

Franchise revenue was $11,398 for the year to date (2015 - $11,129). The increase in revenue of $269 is primarily a result of fee revenue from corporate café resales and franchisee to franchisee resales.

Operating costs and expenses

Operating expenses include the costs outlined above in the quarterly comments. Total operating expenses for the year to date were $24,137 (2015 - $28,953), a decrease of $4,816.

Company-owned cafés and product sales

Company-owned cafés and product related expenses for the year to date were $12,272 (2015 - $16,687), a decrease of $4,415. The decrease in costs is mainly related to less café level operating expenses associated with the reduction of Company-owned cafés.

Franchise

Franchise related expenses of $6,097 were incurred year to date (2015 - $7,009), representing a decrease of $912. The reduction in expenses is mainly attributable to the reduced rent related expenses discussed in the quarterly comments outlined above.

General and administrative

General and administrative expenses were $4,276 for the year to date (2015 - $4,222). The increase of $54 relates to IT expenses and is primarily attributable to the upgrade of our POS System.

Gain and loss on disposal

A loss on disposal of $309 was recognized for the year to date (2015 - $43 gain). The loss related to the resale of nine Company-owned cafés.

Depreciation and amortization

Depreciation and amortization expense was $1,183 (2015 - $1,078).

EBITDA

EBITDA for the year to date was a loss of $103, compared to a loss of $171 last year.

Net loss

The Company's net loss for the year to date is $1,122 or $0.09 per share, compared to a net loss of $1,247 or $0.10 per share in 2015.

SELECTED QUARTERLY INFORMATION

(in thousands of Canadian dollars, except Number of cafés, Same café sales and per share amounts)	Q3 2016	Q2 2016	Q1 2016	Q4 2015[2]
System sales of cafés[1]	$37,717	$40,207	$39,071	$46,900
Same café sales[1]	(1.2%)	(1.3%)	(1.1%)	0.2%
Number of cafés - end of period	298	304	307	310
Total revenue	$7,656	$7,761	$7,434	$9,636
Operating income (loss)[1]	($25)	($528)	($733)	$167
EBITDA[1]	$357	($128)	($327)	$554
Net income (loss) for the period	($75)	($441)	($606)	$94
Basic and diluted earnings (loss) per share	($0.01)	($0.03)	($0.05)	$0.01

	Q3 2015	Q2 2015	Q1 2015	Q4 2014[2]
System sales of cafés[1]	$41,087	$43,715	$43,174	$49,427
Same café sales[1]	(2.9%)	(3.2%)	(1.1%)	(3.9%)
Number of cafés - end of period	327	339	344	347
Total revenue	$9,270	$9,421	$9,014	$8,427
Operating income (loss)[1]	($1,310)	($6)	$68	($521)
EBITDA[1]	($924)	$334	$419	($139)
Net loss for the period	($1,099)	($72)	($76)	($469)
Basic and diluted loss per share	($0.09)	($0.01)	($0.01)	($0.04)

[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).

Seasonal factors and the timing of holidays cause the Company's revenue to fluctuate from quarter to quarter. Revenue per cafe is typically slightly lower in the third quarter.

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.

Revenue decreases quarter over quarter are primarily related to the reduction of Company-owned cafés count and reduction in total network café count.

Operating losses decreases quarter over quarter are primarily a result of the Company's strategic decision to take back under performing cafes and increase the Company-owned café count in the short term.

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 general risks outlined below and the "Capabilities" section.

Summary of cash flows	**13 weeks ended**		**39 weeks ended**	
	September 24, 2016	**September 26, 2015**	**September 24, 2016**	**September 26, 2015**
Cash flows provided by (used in) operating activities	$268	($71)	($774)	$47
Cash flows used in investing activities	(84)	(371)	(346)	(1,153)
Cash flows used in financing activities	-	-	-	-
Increase (decrease) in cash and cash equivalents during the period	$184	($442)	($1,120)	($1,106)

Third Quarter

Cash provided by operating activities was $268 for the Quarter compared to cash used of $71 for the same Quarter in 2015. The improvement is primarily attributable to the collection of income taxes recoverable.

During the Quarter, cash used in investing activities was $84 compared to cash used of $371 for the same Quarter in 2015.

We did not have any financing activities for the 13 weeks ended September 24, 2016 (2015 - $ nil).

Year to date

Cash used in operating activities was $774 for the year to date compared to cash provided of $47 for the same year to date period in 2015.

Year to date cash used in investing activities was $346 compared to cash used of $1,153 for the same period in 2015.

We did not have any financing activities for the 39 weeks ended September 24, 2016 (2015 - $ nil).

Working capital as at

	September 24, 2016	**December 26, 2015**
Current assets	$ 6,294	$ 8,817
Current liabilities	15,857	11,804
Working capital deficiency	$ (9,563)	$ (2,987)

The Company's working capital deficit of $9,563 as at September 24, 2016 increased by $6,576 from December 26, 2015 as a result of the reclassification of debt to current from long-term. The working capital deficit is mainly due to the $5,996 term loan and $2,831 of gift card liabilities. As discussed in the above section, the Company is actively pursuing numerous options to secure financing for the debt and is encouraged with it's progress. 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 $1,960 as at September 24, 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.

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 franchise partners	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

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Debt	$6,000	$6,000	$Nil	$Nil	$Nil
Obligations from Operating Leases	18,092	2,828	5,107	4,465	5,692
Purchase Obligations	1,425	1,425	Nil	Nil	Nil
Total Contractual Obligations	$25,517	$10,253	$5,107	$4,465	$5,692

Debt
The Company's credit facility in the gross amount of $6,000 matures on January 1, 2017. Based on expected cash flows from operations, the Company will not generate sufficient funds from operations to repay the debt on January 1, 2017 and will need to generate funds from other sources.

In recognition of these circumstances, the Company is actively pursuing alternative forms of financing to repay this debt including obtaining financing with other lenders, financing from significant shareholders or a private placement with certain shareholders by year end. Management plans to secure the necessary financing to replace the maturing debt through a combination of the above initiatives, nevertheless, there is no assurance that these initiatives will be successful.

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

	Headlease commitments	Sublease to franchisees	Net
September 30, 2017	$ 18,467	$ 15,639	$ 2,828
September 29, 2018	16,534	13,985	2,549
September 28, 2019	14,686	12,128	2,558
September 26, 2020	12,477	10,094	2,383
September 25, 2021	10,082	8,000	2,082
Thereafter	27,748	22,056	5,692
	$ 99,994	$ 81,902	$ 18,092

The Company believes it has sufficient resources to meet the net commitment of $18,092 over the term of the leases.

Purchase Obligations
Contracts are in place with third party companies to purchase the coffee that is sold in all cafés. In terms of these supply agreements, there is a guaranteed minimum volume of coffee purchases of $713USD (September 26 , 2015 - $2,990 USD) for the subsequent 12 months. The coffee purchase commitment is comprised of two components: unapplied futures commitment contracts and fixed price physical contracts.

Due to the Company acting as the primary coordinator of café construction costs on behalf of its franchisees and for Company-operated cafés, there is $526 (September 26, 2015 - $1,865) 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 over the Company. Such related parties include any entities acting with or on behalf of the aforementioned parties. There were no related party transactions in the reporting period.

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 27, 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 September 24, 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 September 24, 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 October 27, 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 September 24, 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 September 24, 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, and assumptions, and use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments 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 judgment
The following discusses the most significant accounting judgments 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 judgment 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 judgments.

(iv) 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. Projected future sales and earnings are consistent with the strategic plans provided to and approved by the Company's Board of Directors.

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.

OUTLOOK

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

As previously communicated in the Company's 2015 MD&A, the key financial targets included in the Company's three-year plan to 2018 were:

- 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

The material assumptions underlying these targets were the addition of between 75 and 85 new cafes during the three-year period, annual same-store sales growth of between 5% and 9.5% during this period and the renovation of 30 to 40 stores per year during this period.

The key assumption underlying the system-wide sales target was the addition of between 75 and 85 new cafes over the three-year forecasted period. By the end of 2016, the Company will have added a total of five new stores and we do not anticipate adding a further 70 to 80 stores by 2018. As a result, the Company no longer expects to achieve its previously forecasted targets by 2018 and withdraws its previously-disclosed forward-looking information.

DEFINITIONS AND DISCUSSION OF 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 flow, net debt, loyalty sales, operating income (loss), and EBITDA. 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-operated cafés. Net revenue comprises of gross sales minus discounts. 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 it's loyal customer base.

Operating income (loss)

Operating income (loss) represents revenue, less cost of goods sold, less operating expenses and less impairment charges. 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 (loss) or cash flows as determined in accordance with IFRS.

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

	13 weeks ended		39 weeks ended	
	September 24, 2016	September 26, 2015	September 24, 2016	September 26, 2015
Net loss	$ (75)	$ (1,099)	$ (1,122)	$ (1,247)
Interest and financing	62	137	159	385
Income taxes (recovery)	(12)	(348)	(323)	(386)
Depreciation of property and equipment	281	267	877	807
Amortization of intangible assets	101	119	306	270
EBITDA	$ 357	$ (924)	$ (103)	$ (171)