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 23, 2018 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 30, 2017, and should be read in conjunction with the Audited Financial Statements of the Company for the 52 weeks ended December 30, 2017, 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, operating income (loss), EBITDA, adjusted EBITDA, adjusted net income (loss) and adjusted net income (loss) per share that are discussed in the "Definitions and Discussion of Certain non-GAAP Financial Measures" in this MD&A.

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CORE BUSINESS, STRATEGIC IMPERATIVES, AND KEY PERFORMANCE DRIVERS

Core business

Second Cup is a Canadian specialty coffee retailer with 286 cafés operating under the trade name Second Cup™ in Canada, of which 12 are Company owned 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 2017 consists of 52 weeks.

As at December 30, 2017, the issued share capital consisted of 17,041,473 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.

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. In January 2018, Second Cup announced a move to Clean Label beverages, with a commitment to eliminate artificial colours and flavours, preservatives and high fructose corn syrup from all beverages on the menu.

In September 2017, Second Cup obtained category exclusive license right from Pinkberry Canada Inc. and began rolling out the Pinkberry Frozen Yogurt program in Second Cup cafés. As at December 30, 2017, Pinkberry was being served at 24 cafés across Canada.

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 2018.

CAPABILITIES

This section documents factors that affect the Company's ability 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

The brand – Second Cup Coffee Co.™ – reflects an 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. A proud Canadian company since 1975 with 286 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 their focus on providing quality and friendly service to each customer in every café.

The people

The franchise network consists of approximately 3,500 team members. Team members range from baristas, managers and franchisees at the cafés to 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

As of today, 27 beverages achieve the Clean Label standard, representing 70% of Second Cup's beverage menu. Clean Label beverages contain no artificial colours or flavours, no preservatives and no high fructose corn syrup. Second Cup will continue to reformulate other menu items to meet the Clean Label standard.

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.

Second Cup prides itself that all of its coffee and espresso beverages are certified by third parties such as Rainforest Alliance™ - certification that the coffee is grown and processed in a socially and environmentally responsible manner. The Company offers a fair-trade and organic certified blend of coffee called Cuzco®.

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

The Pinkberry brand is the leading premium brand in the frozen yogurt category. Launched in California in 2005, Pinkberry has developed a cult-like following and is made with high-quality fresh ingredients, fresh hand-cut fruit and premium toppings.

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; 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.

On August 10, 2017 ("Issuance Date"), the Company issued 4,210,528 common shares and 300,000 warrants of Second Cup to the four shareholders of SPE Finance LLC (SPE), an affiliate of Serruya Private Equity. The Company also extinguished its $8,000 debt to SPE, cancelled 600,000 of old warrants and became debt free. These transactions resulted in one-time, non-cash financing charges of $3,290. These charges consist of the difference between the share price of $2.60 on the Issuance Date and the agreed-to share price of $1.90, and the write-off of the unamortized portion of deferred transaction costs related to the debt.

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 specialty 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 30, 2017.

(In thousands of Canadian dollars, except same café sales, number of cafés, per share amounts, and number of common shares.)	**13 weeks ended December 30, 2017**	**14 weeks ended December 31, 2016**	**52 weeks ended December 30, 2017**	**53 weeks ended December 31, 2016**
System sales of cafés[1]	$41,326	$46,743	$154,153	$163,738
Same café sales[1]	(1.1%)	(1.0%)	(0.2%)	(1.1%)
Number of cafés - end of period	286	294	286	294
Total revenue	$6,085	$7,500	$23,636	$30,351
Operating costs and expenses	$5,092	$7,199	$22,660	$31,336
Operating income (loss) [1]	$993	$302	$976	($985)
EBITDA[1]	$1,339	$667	$2,434	$563
Adjusted EBITDA[1]	$1,339	$667	$2,721	$563
Net income (loss) and comprehensive income (loss)	$655	$147	($3,097)	($975)
Adjusted net income (loss) and comprehensive income (loss) [1]	$655	$147	$110	($975)
Basic and diluted earnings (loss) per share as reported	$0.04	$0.01	($0.21)	($0.08)
Adjusted basic and diluted earnings (loss) per share[1]	$0.04	$0.01	$0.01	($0.08)
Total assets – end of period	$44,700	$45,314	$44,700	$45,314
Number of weighted average common shares issued and outstanding	17,041,473	12,830,945	14,485,081	12,830,945

[1]See the section "Definitions and Discussion on 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	2015	2016	2017	Average
First Quarter	24.7	23.9	24.6	24.4
Second Quarter	25.0	24.6	24.6	24.7
Third Quarter	23.5	23.0	24.0	23.5
Fourth Quarter	26.8	28.5	26.8	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. The Company's comparative results take into account the inclusion of the additional selling week in 2016.

Café network

	13 weeks ended	14 weeks ended	52 weeks ended	53 weeks ended
	December 30, 2017	**December 31, 2016**	**December 30, 2017**	**December 31, 2016**
Number of cafés - beginning of period	289	298	294	310
Cafés opened	2	2	4	4
Cafés closed	(5)	(6)	(12)	(20)
Number of cafés - end of period	286	294	286	294

The Company ended the Year with 12 (2016 - 22) 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.

Fourth Quarter

Inclusion of an additional week in 2016 has a direct impact on the following analysis of the Fourth Quarter results.

System sales of cafés

System sales of cafés for the 13 weeks ended December 30, 2017 were $41,326 compared to $46,743 for the 14 weeks ended December 31, 2016 representing a decrease of $5,417 or 11.6%. The decrease in system sales of cafés is primarily due to the reduction in café count.

Same café sales

During the Quarter, same café sales declined 1.1%, compared to a decline of 1.0% in the comparable Quarter of 2016. The decline is primarily due to reduced transactions.

Analysis of revenue

Total revenue for the Quarter was $6,085 (2016 - $7,500), a decrease of $1,415, consisting of Company-owned café and product sales, royalty revenue, fees and other revenue.

Company-owned cafés and product sales were $1,713 (2016 - $3,210), a decrease of $1,497. The decrease in revenue is primarily due to the reduced Company-owned café count from 22 last year to 12 this Quarter. Reducing Company-owned is consistent with the Company's strategy of returning to an asset light business model.

Franchise revenue was $4,372 for the Quarter (2016 - $4,290), an increase of $82. The increase in franchise revenue in the Quarter is primarily driven by an increase in franchising fees, partially offset by a decrease in royalties and coordination fees.

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 $5,092 (2016 - $7,199), a decrease of $2,107.

Company-owned cafés and product sales related expenses for the Quarter were $1,772 (2016 - $3,410), a decrease of $1,638. The decrease in costs is due to the reduction in store count of Company-owned cafés and lower product sales as compared to the Quarter in 2016.

Franchise related expenses for the Quarter were $1,670 (2016 - $2,006), a decrease of $336. The decrease in franchise related expenses is primarily due to a lower provision for café leases and enhanced operating efficiencies.

General and administrative expenses were $1,206 for the Quarter (2016 - $1,502), a decrease of $296. This decrease in expenses is primarily due to a reduction in remunerations and directors' fees.

A loss on disposal of $98 was recognized in the Quarter (2016 - gain of $84). Gain and loss on disposal of assets are related to the franchising of Company-owned cafés to franchise partners.

Depreciation and amortization expense was $346 (2016 - $365), a decrease of $19.

EBITDA

EBITDA for the Quarter was $1,339 (2016 - $667), an increase of $672. The increase is primarily driven by the reduction in franchise related expenses and the increase in franchise revenue, as described.

Interest and financing costs

Interest and financing income for the Quarter was $5 compared to interest and financing costs of $96 in the same Quarter of 2016. The Company became debt-free in the third quarter this year.

Net income (loss)

The Company's net income for the Quarter was $655 or $0.04 per share, compared to a net income of $147 or $0.01 per share in 2016.

Reconciliations of net income (loss) to EBITDA, adjusted EBITDA, adjusted net income (loss) and adjusted net income (loss) per share are provide in the section "Definitions and Discussion of Certain non-GAAP Financial Measures".

Year

Inclusion of an additional week in 2016 has a direct impact on the following analysis of the Year.

System sales of cafés

System sales of cafés for the Year were $154,153 (2016 - $163,738), a decrease of $9,585 or 5.9%. The decrease is primarily due to the reduction in café count.

Same café sales

For the Year, same café sales declined by 0.2% compared to a decline of 1.1% in 2016. The decline in the Year was primarily due to the decline in the fourth quarter same café sales as described above.

Analysis of revenue

Total revenue for the Year was $23,636 (2016 - $30,351), a decrease of $6,715, consisting of Company-owned café and product sales, royalty revenue, fees and other revenue.

Company-owned cafés and product sales were $8,562 (2016 - $14,663), a decrease of $6,101. The decrease is due to the reduction of Company-owned café count from 22 to 12 this Year. Reducing Company-owned cafés count is consistent with the Company's strategy of returning to an asset light business model.

Franchise revenue was $15,074 for the Year (2016 - $15,688), a decrease of $614. The decrease in franchise revenue is primarily due to lower royalties and coordination fees as a result of lower café count.

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 Year were $22,660 (2016 - $31,336), a decrease of $8,676.

Company-owned cafés and product related expenses were $9,303 for the Year (2016 - $15,681), a decrease of $6,378. The decrease in costs is attributable to the reduction of Company-owned café count and lower product sales as compared to 2016.

Franchise related expenses were $5,693 for the Year (2016 - $8,103), a decrease of $2,410. This decrease in expenses is primarily due to a reduction in remuneration, an improvement in operational effectiveness and moving from a national franchisee convention format to regional meetings with franchisees this year.

General and administrative expenses were $6,009 for the Year (2016 - $5,779), an increase of $230. This increase is driven by higher professional fees related to legal matters and one-time transition costs, partially offset by a reduction in general and administrative remuneration.

A loss on disposal of assets of $197 was recognized for the Year (2016 - $225 loss). Gain and loss on disposal of assets are primarily related to the franchising of Company-owned cafés to franchise partners.

Depreciation and amortization expense was $1,458 (2016 - $1,548), a decrease of $90.

EBITDA

EBITDA was $2,434 for the Year (2016 - $563), an increase of $1,871. Adjusted for one-time transition costs of $287 incurred in the second quarter of 2017, adjusted EBITDA was $2,721 compared to an adjusted EBITDA of $563 in 2016. The increase of $2,158 is primarily driven by the reduction in franchise related expenses, lower corporate café operating loss, and lower provision for café leases, partially offset by the decrease in franchise revenue.

Interest and financing costs

Interest and financing costs was $3,897 for the Year (2016 - $255), an increase of $3,642. The increase is primarily driven by one-time, non-cash financing charges of $3,290. These charges consist of the difference between the share price of $2.60 on the Issuance Date and the agreed-to share price of $1.90, and the write-off of the unamortized portion of deferred transaction costs related to the debt.

Net income (loss)

The Company’s net loss for the Year was $3,097 or $0.21 loss per share, compared to a net loss of $975 or $0.08 loss per share in 2016. Adjusted for the after-tax expense on fair market value difference on issuance of shares of $3,207 ($0.22 per share), adjusted net income was $110 or $0.01 per share compared to an adjusted net loss of $975 or $0.08 loss per share in 2016.

Reconciliations of net income (loss) to EBITDA, adjusted EBITDA, adjusted net income (loss) and adjusted net income (loss) per share are provide 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 2017[2]	Q3 2017	Q2 2017	Q1 2017
System sales of cafés[1]	$41,326	$37,014	$37,898	$37,915
Same café sales[1]	(1.1%)	0.0%	0.7%	(0.2%)
Number of cafés - end of period	286	289	291	293
Total revenue	$6,085	$5,339	$6,237	$5,975
Operating income (loss)[1]	$993	$436	($138)	($315)
EBITDA[1]	$1,339	$805	$230	$60
Adjusted EBITDA[1]	$1,339	$805	$517	$60
Net income (loss) for the period	$655	($2,962)	($315)	($475)
Adjusted net income (loss) for the period[1]	$655	$245	($315)	($475)
Basic and diluted earnings (loss) per share	$0.04	($0.19)	($0.02)	($0.04)
Adjusted basic diluted earnings (loss) per share[1]	$0.04	$0.02	($0.02)	($0.04)
	Q4 2016[2]	**Q3 2016**	**Q2 2016**	**Q1 2016**
System sales of cafés[1]	$46,743	$37,717	$40,207	$39,071
Same café sales[1]	(1.0%)	(1.2%)	(1.3%)	(1.1%)
Number of cafés - end of period	294	298	304	307
Total revenue	$7,500	$7,656	$7,761	$7,434
Operating income (loss)[1]	$302	($25)	($528)	($733)
EBITDA[1]	$667	$357	($128)	($332)
Adjusted EBITDA[1]	$667	$357	($128)	($332)
Net income (loss) for the period	$147	($75)	($441)	($606)
Adjusted net income (loss) for the period[1]	$147	($75)	($441)	($606)
Basic and diluted earnings (loss) per share	$0.01	($0.01)	($0.03)	($0.05)
Adjusted basic diluted earnings (loss) per share[1]	$0.01	($0.01)	($0.03)	($0.05)

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 the 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, fees, and other amounts from its franchisees and also generates revenues from its Company-owned cafés and product sales. The performance of Second Cup franchisees and Company-owned 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 December 30, 2017	14 weeks ended December 31, 2016	52 weeks ended December 30, 2017	53 weeks ended December 31, 2016
Cash flows provided by (used in) operating activities	$ 1,583	$ (498)	$ 1,862	$ (1,253)
Cash flows provided by (used in) investing activities	(150)	-	4	(365)
Cash flows provided by (used in) financing activities	(124)	1,542	(297)	1,542
Increase (decrease) in cash and cash equivalents during the period	$ 1,309	$ 1,044	$ 1,569	$ (76)

Fourth Quarter

Cash provided by operating activities was $1,583 for the Quarter compared to cash used of $498 for the same Quarter in 2016. The increase in cash of $2,081 is primarily due to changes in non-cash working capital and higher profit.

During the Quarter, cash used in investing activities was $150 compared to cash used of nil for the same Quarter in 2016 due to purchases of capital expenditures and intangible assets in 2017.

Cash used in financing activities was $124 for the Quarter compared to cash provided by financing activities of $1,542 for the same Quarter in 2016. In 2016, the Company received net cash of $2,000 due to the new term loan. In 2017, the Company paid financing charges related to the issuance of shares.

Year

Cash provided by operating activities was $1,862 for the Year compared to cash used in operating activities of $1,253 for 2016. The increase in cash of $3,115 was primarily due to changes in non-cash working capital and higher profit.

During the Year, cash provided by investing activities was $4 compared to cash used of $365 for 2016. The change of $369 in cash was primarily due to lower payments for intangible assets and higher proceeds from disposal of capital items.

Cash used in financing activities was $297 for the Year compared to cash provided by financing activities of $1,542 in 2016. In 2016, the Company received net cash of $2,000 due to the new term loan. In 2017, the Company paid financing charges related to the issuance of shares.

Working capital as at

	December 30, 2017	December 31, 2016
Current assets	$ 10,122	$ 9,096
Current liabilities	9,869	10,242
Working capital (deficiency)	$ 253	$ (1,146)

The Company's working capital was $253 as at December 30, 2017 improved by $1,399 from December 31, 2016, primarily as a result of an increase in cash and cash equivalents and a reduction in accounts payable and accrued liabilities at the end of the Year. Gift card liability ended the Year at $3,432, a decrease of $52 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 considered normal.

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	
Accounts payable and accrued liabilities	Liquidity, currency and commodity
Gift card liability	Liquidity
Deposits from franchisees	Liquidity
Term credit facility	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 lease 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 has sufficient 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.

Specific bad debt provisions are accounted for when the expected recovery is less than the actual receivable.

(ii) Liquidity risk

Liquidity risk is managed through regular monitoring of forecast and actual cash flows, monitoring maturity dates of financial assets and liabilities, and also the management of the Company's capital structure. The Company's main source of income is royalty receipts from its franchisees, corporate café sales, and sales from goods and services.

(iii) Currency and commodity risk

The Company purchases certain products, such as coffee, in U.S. dollars, thereby exposing the company to risks associated with fluctuations in currency exchange rates. The Company is also directly and indirectly exposed to commodity market risk. The exposure relates to the changes in coffee commodity prices given it is a material input for product offerings. The direct exposure pertaining to the wholesale business is mitigated given that the Company has the ability to adjust its sales price if commodity prices rise over a threshold level. The indirect risk exists where franchisee profitability may be impacted, thus potentially resulting in an impeded ability to collect accounts receivable or the need for other concessions to be made to the franchisee. This risk is mitigated by entering fixed price purchase commitments through coffee commodity brokers and by having the ability to adjust retail selling prices.

Contingencies, commitments and guarantees

Contractual Obligations	Payments Due by Period				
	Total	1 year	2 - 3 years	4 - 5 years	After 5 years
Obligations from Operating Leases	$8,878	$1,488	$2,637	$2,128	$2,625
Purchase Obligations	2,286	2,286	Nil	Nil	Nil
Total Contractual Obligations	$11,164	$3,774	$2,637	$2,128	$2,625

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
December 29, 2018	$ 17,954	$ 16,466	$ 1,488
December 28, 2019	16,158	14,736	1,422
December 26, 2020	13,907	12,692	1,215
December 25, 2021	12,034	10,938	1,096
December 31, 2022	10,835	9,803	1,032
Thereafter	27,637	25,012	2,625
	$ 98,525	$ 89,647	$ 8,878

The Company believes it has sufficient resources to meet the net commitment of $8,878 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 $1,392 (2016 - $1,140) 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 $894 (2016 - $241) of contractual commitments pertaining to construction costs for new locations and renovations as at the end the 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 February 23, 2018, 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 30, 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 December 30, 2017 and up to the date of the approval of the Audited 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 February 23, 2018, 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 30, 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 December 30, 2017 and up to the date of the approval of the Audited 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

Impairment analysis is an area involving management judgement in determining the recoverable amount of an asset. The recoverable amount of a cash generating unit ("CGU") is calculated as the higher of the fair value less costs of disposal, and its value in use. Fair value 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 CGUs.

Changing the assumptions selected by management, in particular the discount rate and the growth rate used in the cash flow projections, could significantly affect the impairment evaluations and recoverable amounts.

The Company's impairment tests include key assumptions related to the scenarios discussed above.

(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.

CHANGES IN ACCOUNTING POLICIES

In accordance with the IFRS Interpretations Committee ("IFRIC") agenda decision addressing the expected manner of recovery of an intangible asset with an indefinite useful life for the purposes of measuring deferred tax in accordance with IAS 12, Income Taxes ("IAS 12"), the IFRIC noted that an intangible asset with an indefinite useful life does not mean infinite life, nor does it mean the expected manner of recovery of the carrying amount would result solely through sale. Therefore, in applying IAS 12, an entity must determine its expected manner of recovery of the carrying value of the intangible asset with an indefinite life and should reflect the tax consequences that follow from that expected manner of recovery. Previously, the Company measured deferred taxes on temporary differences arising from certain indefinite life intangible assets using capital gains rates on the basis that the assets will be recovered through its disposition. As a result of the IFRIC agenda decision, the Company has changed its accounting policy to measure deferred taxes at the income tax rate applicable to ordinary taxable income expected to apply in the years in which the temporary differences are expected to be recovered or settled. The Company adopted this change on a retrospective basis as an accounting policy change in accordance with IAS 8, "Accounting Policies, Changes to Accounting Estimates and Errors" and the impact on the financial statements was an increase to deferred tax liabilities at December 27, 2015 of $2,388, a corresponding adjustment to retained earnings (deficit) of $2,388.

Recent accounting pronouncements not yet effective

In May 2014, the IASB issued IFRS 15, a new comprehensive model for entities to use accounting for revenue arising from contracts with customers. In September 2015, the IASB deferred adoption of the new standard by one year. Several updates have been issued since to clarify the implementation guidance. The new guidance supersedes the most current revenue recognition guidance, including industry-specific guidance, enhances revenue recognition disclosures, and is now effective commencing in 2018. The guidance allows for either a full retrospective or modified retrospective transition method. We currently expect to apply the modified retrospective transition method.

Under current accounting guidance, we recognize initial franchise fees when we have performed all material obligations and services, which generally occurs when the franchised café opens. As required under the new guidance, we anticipate deferring the initial franchise fees and recognizing revenue over the term of the related franchise agreement (generally ten years).

We anticipate an increase in deficit as at December 31, 2017, the date of initial adoption and a corresponding increase in deferred revenue reflecting initial franchise fees previously recognized that are now recorded over the term.

We anticipate that the new guidance will also change our reporting of the Co-op Fund contributions from franchisees and the related advertising and promotional expenditures, which are currently reported on a net basis in our Statements of Financial Position. Under the new guidance, Co-op Fund contributions from franchisees and advertising and promotional expenditures will be reported on a gross basis.

In addition, we anticipate that the estimated breakage income on gift cards will be recognized as gift cards are utilized instead of our current policy of recognizing on a pro rata basis based on historical gift card redemption patterns.

We do not believe this guidance will materially impact our recognition of revenue from Company-owned cafes and product sales or our recognition of franchise royalties revenue.

IFRS 9 replaces the incurred loss model under IAS 39 with a model on expected credit losses. Under the new standard, expected credit losses will need to be recorded. Under our current accounting, losses are recognized when probable. We are currently assessing the impact of the new standard, however, the new standard will likely increase our allowance for doubtful account provision.

IFRS 16, Leases, sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, the customer ('lessee') and the supplier ('lessor'). This will replace IAS 17, Leases, and related Interpretations. IFRS 16 provides revised guidance on identifying a lease and for separating lease and non-lease components of a contract. IFRS 16 introduces a single accounting model for all leases and requires a lessee to recognize right-of-use assets and lease liabilities for leases with terms of more than 12 months, unless the underlying asset is of low value, and depreciation of lease assets separately from interest on lease liabilities on the Statements of Operations and Comprehensive Loss.

Under IFRS 16, lessor accounting for operating and finance leases will remain substantially unchanged. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15, Revenue from Contracts with Customers. The guidance allows for either a full retrospective or modified retrospective transition method. The Company currently expects to apply the modified retrospective transition method. Further, the Company currently expects to apply the practical expedients to i) grandfather the assessment of which transactions are leases; ii) recognition exemption of short-term leases; and iii) recognition exemption leases of low-value items.

The Company has completed a preliminary assessment of the potential impact on its financial statements, but has not yet completed its detailed assessment. So far, the most significant impact identified is that the Company will recognize new assets and liabilities for its subleases, operating leases of its head office and corporate cafés.

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 came 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 have made changes to the information they display on menus, menu boards and displays.

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 credit facility covenants.

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.

Second Cup continues to rollout Pinkberry premium frozen yogurt which is now in 30 cafés across the country. Response to this complimentary, premium offering has been very favourable with new customers attracted to the cafés, driving incremental sales. Pinkberry will be introduced to more cafés across the network in time for the peak frozen yogurt season.

In January, Second Cup led the Canadian coffee market with a move to Clean Label beverages which now represent over 70% of the beverage menu. Clean Label products contain no artificial colours, flavours, preservatives or high fructose corn syrup.

DEFINITIONS AND DISCUSSION ON CERTAIN NON-GAAP FINANCIAL MEASURES

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

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 and financing, income taxes, and depreciation and amortization. Adjustments to EBITDA are for items that are not necessarily reflective of the Company's underlying operating performance. 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.

Adjusted net income (loss) and adjusted net income (loss) per share

Adjustments to net earnings (loss) and net earnings (loss) per share are for items that are not necessarily reflective of the Company's underlying operating performance. These measures are not defined under IFRS, although the measures are derived from input figures in accordance with IFRS. Management views these as indicators of financial performance.

Reconciliations of net income (loss) to operating income (loss), EBITDA, adjusted EBITDA, adjusted net income (loss) and adjusted net income (loss) per share are provided below:

	13 weeks ended December 30, 2017	14 weeks ended December 31, 2016	52 weeks ended December 30, 2017	53 weeks ended December 31, 2016
Net income (loss)	$ 655	$ 147	$ (3,097)	$ (975)
Income taxes (recovery)	343	59	176	(265)
Interest and financing costs	(5)	96	3,897	255
Operating income (loss)	$ 993	$ 302	$ 976	$ (985)

	13 weeks ended December 30, 2017	14 weeks ended December 31, 2016	52 weeks ended December 30, 2017	53 weeks ended December 31, 2016
Net income (loss)	$ 655	$ 147	$ (3,097)	$ (975)
Income taxes (recovery)	343	59	176	(265)
Interest and financing costs	(5)	96	3,897	255
Depreciation of property and equipment	228	291	1,002	1,168
Amortization of intangible assets	118	74	456	380
EBITDA	1,339	667	2,434	563
Add (deduct) impact of the following:				
One-time transition costs	-	-	287	-
Adjusted EBITDA	$ 1,339	$ 667	$ 2,721	$ 563

	13 weeks ended December 30, 2017	14 weeks ended December 31, 2016	52 weeks ended December 30, 2017	53 weeks ended December 31, 2016
Net income (loss)	$ 655	$ 147	$ (3,097)	$ (975)
Add impact of the following:				
After-tax fair value difference on shares issued and other costs	-	-	3,207	-
Adjusted net income (loss)	$ 655	$ 147	$ 110	$ (975)

	13 weeks ended December 30, 2017	14 weeks ended December 31, 2016	52 weeks ended December 30, 2017	53 weeks ended December 31, 2016
Net income (loss) per share	$ 0.04	$ 0.01	$ (0.21)	$ (0.08)
Add impact of the following:				
After-tax fair value difference on shares issued and other costs	-	-	0.22	-
Adjusted net income (loss) per share	$ 0.04	$ 0.01	$ 0.01	$ (0.08)