



**The Second Cup Ltd.**

Unaudited Condensed Interim Financial Statements  
**For the 13 and 26 weeks ended July 1, 2017 and June 25, 2016**

**Notice to Reader**

The management of The Second Cup Ltd. (“Second Cup” or the “Company”) is responsible for the preparation of the accompanying condensed interim financial statements. The condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards and are considered by management to present fairly the financial position, financial performance and cash flows of Second Cup.

These condensed interim financial statements have not been reviewed by an auditor. These condensed interim financial statements are unaudited and include all adjustments, consisting of normal and recurring items that management considers necessary for a fair presentation of the financial position, financial performance and cash flows.

(Signed)

Garry Macdonald  
Interim President and Chief Executive Officer, The Second Cup Ltd.

(Signed)

Ba Linh Le  
Chief Financial Officer, The Second Cup Ltd.

August 3, 2017

# The Second Cup Ltd.

## Condensed Interim Statements of Financial Position (Unaudited, expressed in thousands of Canadian dollars)

	July 1, 2017	December 31, 2016
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 2,910	\$ 3,004
Restricted cash (note 11)	2,060	1,947
Trade and other receivables	1,942	3,023
Notes and leases receivable	75	139
Inventories	156	200
Prepaid expenses and other assets	455	251
Income tax receivable	445	532
	<u>8,043</u>	<u>9,096</u>
<b>Non-current assets</b>		
Notes and leases receivable	109	173
Property and equipment	2,601	3,434
Intangible assets	32,541	32,611
	<u>32,650</u>	<u>32,784</u>
<b>Total assets</b>	<u>\$ 43,294</u>	<u>\$ 45,314</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 3,812	\$ 3,700
Provisions	1,201	1,598
Other liabilities	327	217
Gift card liability	2,885	3,484
Deposits from franchisees	1,263	1,243
	<u>9,488</u>	<u>10,242</u>
<b>Non-current liabilities</b>		
Provisions	321	530
Other liabilities	216	267
Long-term debt (note 5)	7,264	7,181
Deferred income taxes	3,560	3,818
	<u>11,361</u>	<u>11,796</u>
<b>Total liabilities</b>	<u>20,849</u>	<u>22,038</u>
<b>SHAREHOLDERS' EQUITY</b>	<u>22,445</u>	<u>23,276</u>
<b>Total liabilities and shareholders' equity</b>	<u>\$ 43,294</u>	<u>\$ 45,314</u>

Contingencies, commitments and guarantees (note 12). Subsequent event (note 14).  
See accompanying notes to the unaudited condensed interim financial statements.

Approved by the Directors on August 3, 2017

Michael Bregman, Director

Rael Merson, Director

# The Second Cup Ltd.

## Condensed Interim Statements of Loss and Comprehensive Loss (Unaudited, expressed in thousands of Canadian dollars, except per share amounts)

	13 weeks ended		26 weeks ended	
	July 1, 2017	June 25, 2016	July 1, 2017	June 25, 2016
<b>Revenue (note 6)</b>				
Company-owned cafés and product sales	\$ 2,566	\$ 3,895	\$ 5,157	\$ 7,824
Franchise revenue	3,671	3,866	7,055	7,371
	<u>6,237</u>	<u>7,761</u>	<u>12,212</u>	<u>15,195</u>
<b>Operating costs and expenses (note 7)</b>				
Company-owned cafés and cost of product sales	2,733	4,052	5,629	8,415
Franchise	1,356	2,191	2,892	4,209
General and administrative	1,842	1,492	3,299	2,873
Loss on disposal of assets	76	154	102	158
Depreciation and amortization	368	400	743	801
	<u>6,375</u>	<u>8,289</u>	<u>12,665</u>	<u>16,456</u>
<b>Loss from operations</b>	<u>(138)</u>	<u>(528)</u>	<u>(453)</u>	<u>(1,261)</u>
Interest and financing costs (note 8)	250	70	508	97
<b>Loss before income taxes</b>	<u>(388)</u>	<u>(598)</u>	<u>(961)</u>	<u>(1,358)</u>
Recovery of income taxes	(73)	(157)	(171)	(311)
<b>Net loss and comprehensive loss for the period</b>	<u>\$ (315)</u>	<u>\$ (441)</u>	<u>\$ (790)</u>	<u>\$ (1,047)</u>
<b>Basic and diluted loss per share (note 9)</b>	<u>\$ (0.02)</u>	<u>\$ (0.03)</u>	<u>\$ (0.06)</u>	<u>\$ (0.08)</u>

See accompanying notes to the unaudited condensed interim financial statements.

## The Second Cup Ltd.

Condensed Interim Statements of Changes in Shareholders' Equity  
(Unaudited, expressed in thousands of Canadian dollars)

	Share Capital	Warrants	Contributed Surplus	Retained Earnings (Deficit)	Total
<b>Balance - December 26, 2015</b>	\$ 8,652	\$ -	\$ 61,736	\$ (46,461)	\$ 23,927
Net loss for the period	-	-	-	(1,047)	(1,047)
Stock option plan expense	-	-	32	-	32
<b>Balance – June 25, 2016</b>	\$ 8,652	\$ -	\$ 61,768	\$ (47,508)	\$ 22,912
<b>Balance - December 31, 2016</b>	\$ 8,652	\$ 271	\$ 61,789	\$ (47,436)	\$ 23,276
Net loss for the period	-	-	-	(790)	(790)
Stock option plan expense	-	-	(41)	-	(41)
<b>Balance – July 1, 2017</b>	\$ 8,652	\$ 271	\$ 61,748	\$ (48,226)	\$ 22,445

See accompanying notes to the unaudited condensed interim financial statements.

# The Second Cup Ltd.

## Condensed Interim Statements of Cash Flows

(Unaudited, expressed in thousands of Canadian dollars)

	13 weeks ended		26 weeks ended	
	July 1, 2017	June 25, 2016	July 1, 2017	June 25, 2016
<b>CASH PROVIDED BY (USED IN)</b>				
<b>Operating activities</b>				
Net loss for the period	\$ (315)	\$ (441)	\$ (790)	\$ (1,047)
Items not involving cash				
Depreciation of property and equipment	259	304	531	607
Amortization of intangible assets	115	102	224	205
Share-based compensation expense	(49)	17	(41)	32
Deferred income taxes	(116)	(157)	(258)	(311)
Loss on disposal of capital related items	77	154	103	158
Change in fair value of interest rate swap	-	(18)	-	(41)
Changes in non-cash working capital & other (note 10)	336	559	(5)	(514)
Cash provided by (used in) operating activities	<u>307</u>	<u>520</u>	<u>(236)</u>	<u>(911)</u>
<b>Investing activities</b>				
Proceeds from disposal of capital related items	325	80	325	82
Cash payments for capital expenditures (note 10)	(93)	(295)	(126)	(314)
Cash payments for intangible assets (note 10)	(13)	(150)	(153)	(213)
Notes receivable repayment	36	23	128	52
Cash provided by (used in) investing activities	<u>255</u>	<u>(342)</u>	<u>174</u>	<u>(393)</u>
<b>Financing activities</b>				
Transaction costs	-	-	(32)	-
Cash used in financing activities	<u>-</u>	<u>-</u>	<u>(32)</u>	<u>-</u>
<b>Increase (decrease) in cash and cash equivalents during the period</b>	562	178	(94)	(1,304)
<b>Cash and cash equivalents - Beginning of the period</b>	<u>2,348</u>	<u>1,598</u>	<u>3,004</u>	<u>3,080</u>
<b>Cash and cash equivalents - End of the period</b>	<u>\$ 2,910</u>	<u>\$ 1,776</u>	<u>\$ 2,910</u>	<u>\$ 1,776</u>

See accompanying notes to the unaudited condensed interim financial statements.  
Supplemental cash flow information is provided in note 10.

# The Second Cup Ltd.

## Notes to the Condensed Interim Financial Statements

July 1, 2017 and June 25, 2016

(Unaudited, expressed in thousands of Canadian dollars, except per share amounts)

---

### Table of Contents

	Page
<b>GENERAL APPLICATION</b>	
1. Organization and nature of business	5
2. Summary of significant accounting policies	6
3. Changes in accounting policies	6
<b>STATEMENTS OF LOSS AND COMPREHENSIVE LOSS FOCUSED</b>	
4. Provisions	7
5. Long-term debt	7
6. Revenue	8
7. Operating costs and expenses	9
8. Interest and financing costs	9
<b>OTHER</b>	
9. Basic and diluted loss per share	10
10. Supplemental cash flow information	10
11. Restricted cash	11
12. Contingencies, commitments and guarantees	12
13. Related parties	12
14. Subsequent event	13

## 1. Organization and nature of business

The Second Cup Ltd. (the “Company”) is a Canadian specialty coffee retailer with 291 cafés operating under the trade name, Second Cup™, in Canada, of which 19 are Company-operated and the balance are 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.

Second Cup was incorporated under the Business Corporations Act (Ontario) in 2011 and is domiciled in Canada. The address of its registered office is 6303 Airport Road, 2nd Floor, Mississauga, Ontario, L4V 1R8. The Company hereinafter refers to its head office activities as “Coffee Central”. The Company’s website is [www.secondcup.com](http://www.secondcup.com). The common shares of the Company are listed on the Toronto Stock Exchange under the symbol “SCU”.

# The Second Cup Ltd.

## Notes to the Condensed Interim Financial Statements

July 1, 2017 and June 25, 2016

(Unaudited, expressed in thousands of Canadian dollars, except per share amounts)

---

### 2. Summary of significant accounting policies

#### a. Basis of preparation

These unaudited condensed interim financial statements for the 13 and 26 weeks ended July 1, 2017 and June 25, 2016 have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as applicable to condensed interim financial reports including International Accounting Standard (IAS) 34, Interim Financial Reporting (“IAS 34”), and should be read in conjunction with the Company’s audited annual financial statements for the year ended December 31, 2016, which have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board (“IASB”).

The accounting policies applied in these unaudited condensed interim financial statements are consistent with those of the previous financial year. The accounting policies are based on IFRS issued and outstanding as at August 3, 2017, the date the Board of Directors approved the unaudited condensed interim financial statements.

Second Cup’s fiscal year is 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 2017 is a 52-week period (2016 – 53-week period).

#### b. Segmented information and reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer. The Company substantially operates and is managed as one reportable segment. Operating revenues are comprised of royalties, the sale of goods from Company-operated cafés, the sale of goods through retail and other ancillary channels, and other service fees.

#### c. Reclassification

Certain comparable figures have been reclassified to conform to the current period’s financial statement presentation. The change in the restricted cash balance in the previous year cash flow has been reclassified from investing activities to operating activities. This reclassification has been made to enhance the presentation of the company’s activities and the financial statements.

### 3. Changes in accounting policies

The accounting policies adopted in the preparation of these unaudited condensed interim financial statements are consistent with those followed in the preparation of the Company’s audited financial statements for the year ended December 31, 2016.

In January 2016, the IASB issued an amendment to IAS 7, Statement of Cash Flows (“IAS 7”). The amendment requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Other than the aforementioned additional disclosures, which will be included in the 2017 annual financial statements, the application of the amendments to IAS 7 did not result in any changes to the presentation of the unaudited condensed interim statements of cash flows.



# The Second Cup Ltd.

## Notes to the Condensed Interim Financial Statements

July 1, 2017 and June 25, 2016

(Unaudited, expressed in thousands of Canadian dollars, except per share amounts)

---

In February 2016, the IASB issued an amendment to IAS 12, Income Taxes – Deferred Tax. The amendment clarifies the requirements for recognizing deferred tax assets on unrealized losses. Further, the amendment clarifies the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Certain other aspects of accounting for deferred tax assets are also clarified. The adoption of this standard had no impact on the unaudited condensed interim financial statements.

### 4. Provisions

Provisions for café leases are estimates for costs to be incurred by the Company as a result of closure of cafés and franchisee failure to make payment of occupancy costs.

An expense of \$96 (June 25, 2016 – expense of \$200) was recognized in the 26 weeks ended July 1, 2017 and was reflected in the franchise operating costs and expenses line on the unaudited condensed interim statements of loss and comprehensive loss.

### 5. Long-term debt

	July 1, 2017	December 31, 2016
Face value of borrowings	\$ 8,000	\$ 8,000
Unamortized transaction costs	(736)	(819)
	<u>\$ 7,264</u>	<u>\$ 7,181</u>

On December 2, 2016, the Company replaced its previous credit facility with another facility. The facility matures on December 2, 2020 (with no principal payments prior to December 2, 2020) and has a face value of \$8,000 and stipulated financial covenants. Pursuant to the terms of the Company's term loan, the Company is subject to certain financial and other customary covenants. The Company is required to maintain certain covenants which are defined in the agreement:

- The Company shall not have negative EBITDA for (a) any trailing four fiscal quarter period (calculated quarterly) or (b) any two consecutive fiscal quarters (calculated quarterly); and
- The Company shall at all times maintain trade accounts payables average age no longer than 30% above the trade accounts payables average age as at September 30, 2016, approximately 28 days (calculated quarterly).

The Company was in compliance with these covenants at July 1, 2017.

The facility bears interest at the Base Rate, as defined in the agreement, which is set at 10.0% per annum. The credit facility is comprised of an \$8,000 (December 31, 2016 - \$8,000) non-revolving term loan. The loan is collateralized by substantially all the assets of the Company and matures on December 2, 2020.

In conjunction with the credit facility, the Company granted the lender 600,000 warrants to purchase the equivalent number of common shares at a price of \$2.75. These warrants expire on December 2, 2020 and have been assigned a fair value of \$0.62 using the Black-Scholes model and have been included in the transaction costs. Key assumptions in the calculation of fair value include volatility of 41%, interest rate of 1.06% and dividend rate of nil. The warrants have been recorded at fair value net of deferred income tax of \$99 to account for the temporary difference between accounting and tax treatment for the warrants.

# The Second Cup Ltd.

## Notes to the Condensed Interim Financial Statements

July 1, 2017 and June 25, 2016

(Unaudited, expressed in thousands of Canadian dollars, except per share amounts)

Subsequent to the end of the quarter, the Company entered into an agreement with SPE Finance LLC (SPE), an affiliate of Serruya Private Equity, and its four shareholders to exchange the Company's \$8,000 secured term loan for common shares of Second Cup.

The Company will issue a total of 4,210,528 common shares at \$1.90 per common share to the four shareholders of SPE in full satisfaction of the secured term loan. Second Cup will also cancel 300,000 of the 600,000 common share purchase warrants issued to SPE in connection with the secured term loan, and SPE will distribute the remaining 300,000 warrants to its four shareholders pro rata.

### 6. Revenue

	13 weeks ended		26 weeks ended	
	July 1, 2017	June 25, 2016	July 1, 2017	June 25, 2016
<b>Franchise Revenue</b>				
Royalties	\$ 2,500	\$ 2,567	\$ 4,990	\$ 5,018
Services and other	1,171	1,299	2,065	2,353
	<u>3,671</u>	<u>3,866</u>	<u>7,055</u>	<u>7,371</u>
<b>Company-owned cafés and product sales</b>	2,566	3,895	5,157	7,824
	<u>\$ 6,237</u>	<u>\$ 7,761</u>	<u>\$ 12,212</u>	<u>\$ 15,195</u>

#### ***Royalties***

Royalty revenue from franchised cafés is based on agreed percentage royalty rates of the franchise location sales. Revenue is recognized on an accrual basis in accordance with the substance of the relevant agreement, provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably.

#### ***Services and other***

Services and other consist of initial franchise fees, renewal fees, transfer fees earned on the sale of cafés from one franchisee to another, construction administration fees, purchasing coordination fees, and other ancillary fees (such as IT support and training fees).

#### ***Company-owned cafés and product sales***

Company owned cafés and product sales revenue includes the sale of goods from Company-owned cafés, as well as products sold in grocery stores through wholesale distribution channels and third party licensing agreements.

# The Second Cup Ltd.

## Notes to the Condensed Interim Financial Statements

July 1, 2017 and June 25, 2016

(Unaudited, expressed in thousands of Canadian dollars, except per share amounts)

### 7. Operating costs and expenses

	13 weeks ended		26 weeks ended	
	July 1, 2017	June 25, 2016	July 1, 2017	June 25, 2016
<b>Company-owned cafés and cost of product sales</b>				
Cost of product sales	\$ 920	\$ 1,570	\$ 1,894	\$ 3,099
Labour and related expenses	900	1,225	1,833	2,649
Occupancy and other	913	1,257	1,902	2,667
Depreciation of property and equipment	74	105	159	211
Loss on disposal of assets	76	154	102	158
	<u>2,883</u>	<u>4,311</u>	<u>5,890</u>	<u>8,784</u>
<b>Franchise</b>				
Labour and related expenses	939	1,155	1,989	2,242
Travel and franchisee meetings	97	152	201	447
Professional fees and other	320	884	702	1,520
	<u>1,356</u>	<u>2,191</u>	<u>2,892</u>	<u>4,209</u>
<b>General and administrative</b>				
Labour and related expenses	729	577	1,232	1,000
Professional fees and other	996	803	1,831	1,649
Occupancy	117	112	236	224
Depreciation and amortization	294	295	584	590
	<u>2,136</u>	<u>1,787</u>	<u>3,883</u>	<u>3,463</u>
	<u>\$ 6,375</u>	<u>\$ 8,289</u>	<u>\$ 12,665</u>	<u>\$ 16,456</u>

### 8. Interest and financing costs

	13 weeks ended		26 weeks ended	
	July 1, 2017	June 25, 2016	July 1, 2017	June 25, 2016
Interest expense	\$ 206	\$ 70	\$ 413	\$ 100
Amortization of deferred financing costs	53	7	115	13
Interest income	(9)	(7)	(20)	(16)
	<u>\$ 250</u>	<u>\$ 70</u>	<u>\$ 508</u>	<u>\$ 97</u>

# The Second Cup Ltd.

## Notes to the Condensed Interim Financial Statements

July 1, 2017 and June 25, 2016

(Unaudited, expressed in thousands of Canadian dollars, except per share amounts)

### 9. Basic and diluted loss per share

Loss per share is based on the weighted average number of shares outstanding during the period. Basic and diluted loss per share is determined as follows:

	13 weeks ended		26 weeks ended	
	July 1, 2017	June 25, 2016	July 1, 2017	June 25, 2016
Net loss	\$ (315)	\$ (441)	\$ (790)	\$ (1,047)
Weighted average number of shares issued and outstanding	12,830,945	12,830,945	12,830,945	12,830,945
Basic and diluted loss per share	\$ <u>(0.02)</u>	\$ <u>(0.03)</u>	\$ <u>(0.06)</u>	\$ <u>(0.08)</u>

### 10. Supplemental cash flow information

	13 weeks ended		26 weeks ended	
	July 1, 2017	June 25, 2016	July 1, 2017	June 25, 2016
<b>Changes in non-cash working capital &amp; other (inflow (outflow)):</b>				
Trade and other receivables	\$ 217	\$ 378	\$ 1,081	\$ 1,130
Inventories	34	(49)	44	(12)
Prepaid expenses and other assets	220	(20)	(204)	114
Accounts payable and accrued liabilities	(516)	52	111	(954)
Provisions	69	(190)	(606)	(600)
Other liabilities	86	(59)	174	(112)
Gift card liability	(89)	(101)	(599)	(631)
Deposits from franchisees and restricted cash	273	(34)	(93)	(31)
Income taxes	42	582	87	582
	\$ <u>336</u>	\$ <u>559</u>	\$ <u>(5)</u>	\$ <u>(514)</u>

#### Cash payments for capital expenditures

Cash payments for capital expenditures	\$ (93)	\$ (295)	\$ (126)	\$ (314)
Cash payments for intangible assets	(13)	(150)	(153)	(213)
	\$ <u>(106)</u>	\$ <u>(445)</u>	\$ <u>(279)</u>	\$ <u>(527)</u>

#### Supplementary information

Interest paid	\$ 206	\$ 49	\$ 412	\$ 114
---------------	--------	-------	--------	--------

# The Second Cup Ltd.

## Notes to the Condensed Interim Financial Statements

July 1, 2017 and June 25, 2016

(Unaudited, expressed in thousands of Canadian dollars, except per share amounts)

---

### 11. Restricted cash

The Company has established certain accounts that have been classified as restricted cash primarily representing: a) deposits from franchisees for the cost of constructing a new café or the renovation of an existing café, b) funds contributed for use in advertising and promotional programs where the Company is acting as an agent on behalf of the Co-op Fund, and c) a deposit held by the Company's bank as security for cash management services.

	July 1, 2017	December 31, 2016
Development Fund	\$ 1,421	\$ 1,220
Co-op Fund	399	487
Security Deposit held by bank	240	240
Total Restricted Cash	\$ <u>2,060</u>	\$ <u>1,947</u>

A summary of activities in the Co-op Fund is provided as follows:

	13 weeks ended		26 weeks ended	
	July 1, 2017	June 25, 2016	July 1, 2017	June 25, 2016
Co-op Fund – opening balance	\$ 302	\$ 36	\$ 487	\$ 319
Contributions by franchisees	687	722	1,273	1,248
Contributions by Company for Company-owned cafés	71	114	177	154
Payments to third party suppliers for goods and services	(661)	(332)	(1,538)	(1,092)
Repayments to Company in respect of promissory notes		(118)		(207)
Co-op Fund – closing balance	\$ <u>399</u>	\$ <u>422</u>	\$ <u>399</u>	\$ <u>422</u>

# The Second Cup Ltd.

## Notes to the Condensed Interim Financial Statements

July 1, 2017 and June 25, 2016

(Unaudited, expressed in thousands of Canadian dollars, except per share amounts)

---

### 12. Contingencies, commitments and guarantees

The Company has lease commitments for Company-operated cafés and 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 head lease commitments, a provision has been recognized. The Company's lease commitments as at July 1, 2017 are as follows:

	Head lease commitments	Sublease to franchisees	Net
June 30, 2018	\$ 18,077	\$ 16,112	\$ 1,965
June 29, 2019	16,512	14,597	1,915
June 27, 2020	14,415	12,601	1,814
June 26, 2021	12,325	10,606	1,719
June 25, 2022	10,846	9,209	1,637
Thereafter	29,877	25,089	4,788
	<u>\$ 102,052</u>	<u>\$ 88,214</u>	<u>\$ 13,838</u>

The Company believes it will have sufficient resources to meet the net commitment of \$13,838 over the term of the leases.

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

Contracts are in place with third party companies to purchase the coffee that is sold in all cafés. In terms of these supply agreements, there is a guaranteed minimum volume of coffee purchases of \$2,181 (June 25, 2016 - \$2,056) 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 \$566 (June 25, 2016 - \$198) of contractual commitments pertaining to construction costs for new locations and renovations as at the end of the quarter. Construction costs financed for franchise projects are from deposits received from franchisees and for corporate projects from the Company's cash flows.

### 13. 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.

# The Second Cup Ltd.

## Notes to the Condensed Interim Financial Statements

July 1, 2017 and June 25, 2016

(Unaudited, expressed in thousands of Canadian dollars, except per share amounts)

---

### 14. Subsequent event

Subsequent to the end of the quarter, the Company entered into an agreement with SPE Finance LLC (SPE), an affiliate of Serruya Private Equity, and its four shareholders to exchange the Company's \$8,000 secured term loan for common shares of Second Cup.

The Company will issue a total of 4,210,528 common shares at \$1.90 per common share to the four shareholders of SPE in full satisfaction of the secured term loan. Second Cup will also cancel 300,000 of the 600,000 common share purchase warrants issued to SPE in connection with the secured term loan, and SPE will distribute the remaining 300,000 warrants to its four shareholders pro rata. Following completion of the debt exchange, each of the four SPE shareholders will hold approximately 6.9% of the outstanding common shares of Second Cup (including common shares currently held by it), or approximately 7.2% assuming the exercise of the warrants to be distributed to it.

Approval of the Company's shareholders is required for the debt exchange transaction under the rules of the Toronto Stock Exchange (the "TSX") as the TSX has determined that the transaction will have a material effect on control of the Company pursuant to section 604(a) of the TSX Company Manual since the SPE shareholders collectively will hold approximately 28.89% of the outstanding common shares of the Company assuming full exercise of the warrants. The TSX has agreed that such approval may be obtained by way of written consents in lieu of a meeting. The Company confirms that it has received approval from shareholders owning more than 50% of the issued and outstanding common shares, excluding the shares held by the SPE shareholders.

The debt exchange transaction is expected to close on or after August 10, 2017.