



The Second Cup Ltd.

Unaudited Condensed Interim Financial Statements
For the 13 and 26 weeks ended June 30, 2018, and July 1, 2017

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
President and Chief Executive Officer, The Second Cup Ltd.

(Signed)

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

August 2, 2018

The Second Cup Ltd.

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

	June 30, 2018	December 30, 2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 13,817	\$ 4,573
Restricted cash (note 10)	1,066	1,359
Trade and other receivables	1,891	3,716
Notes and leases receivable	35	64
Inventories	521	205
Income tax recoverable	186	-
Prepaid expenses and other assets	228	205
	<u>17,744</u>	<u>10,122</u>
Non-current assets		
Notes and leases receivable	46	74
Warrants (note 11)	2,805	-
Property and equipment	1,932	2,132
Intangible assets	32,126	32,372
	<u>36,909</u>	<u>34,578</u>
Total assets	<u>\$ 54,653</u>	<u>\$ 44,700</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 3,498	\$ 3,974
Provisions	789	934
Other liabilities	154	459
Gift card liability	2,872	3,432
Deposits from franchisees	512	979
Deferred revenue (note 3 and note 11)	2,310	-
Income tax payable	-	91
	<u>10,135</u>	<u>9,869</u>
Non-current liabilities		
Provisions	175	230
Other liabilities	161	179
Deferred revenue (note 3 and note 11)	2,626	-
Deferred income taxes	5,391	6,160
	<u>8,353</u>	<u>6,569</u>
Total liabilities	<u>18,488</u>	<u>16,438</u>
SHAREHOLDERS' EQUITY	<u>36,165</u>	<u>28,262</u>
Total liabilities and shareholders' equity	<u>\$ 54,653</u>	<u>\$ 44,700</u>

Contingencies, commitments and guarantees (note 12).

See accompanying notes to the unaudited condensed interim financial statements.

Approved by the Directors on August 2, 2018

Michael Bregman, Director

Melinda Lee, Director

The Second Cup Ltd.

Condensed Interim Statements of Income and Comprehensive Income

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

	13 weeks ended		26 weeks ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Revenue (note 5)				
Company-owned cafés and product sales	\$ 1,967	\$ 2,566	\$ 3,258	\$ 5,157
Franchise revenue	3,660	3,671	7,266	7,055
	<u>5,627</u>	<u>6,237</u>	<u>10,524</u>	<u>12,212</u>
Operating costs and expenses (note 6)				
Company-owned cafés and cost of product sales	2,114	2,733	3,622	5,629
Franchise	1,619	1,356	3,387	2,892
General and administrative	1,354	1,842	2,801	3,299
Loss on disposal of assets	3	76	3	102
Depreciation and amortization	324	368	673	743
	<u>5,414</u>	<u>6,375</u>	<u>10,486</u>	<u>12,665</u>
Income (loss) from operations	<u>213</u>	<u>(138)</u>	<u>38</u>	<u>(453)</u>
Contract income (note 11)	383	-	383	-
Gain on fair value of warrants (note 11)	150	-	150	-
Interest and financing income (costs) (note 7)	36	(250)	41	(508)
	<u>782</u>	<u>(388)</u>	<u>612</u>	<u>(961)</u>
Income (loss) before income taxes	<u>782</u>	<u>(388)</u>	<u>612</u>	<u>(961)</u>
Income taxes	205	(73)	173	(171)
	<u>577</u>	<u>(315)</u>	<u>439</u>	<u>(790)</u>
Net income (loss) and comprehensive income (loss) for the period	<u>\$ 577</u>	<u>\$ (315)</u>	<u>\$ 439</u>	<u>\$ (790)</u>
Basic and diluted earnings (loss) per share (note 8)	<u>\$ 0.03</u>	<u>\$ (0.02)</u>	<u>\$ 0.02</u>	<u>\$ (0.06)</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
Balance – December 31, 2016	\$ <u>8,652</u>	\$ <u>271</u>	\$ <u>61,789</u>	\$ <u>(47,436)</u>	\$ <u>23,276</u>
Net loss for the period	-	-	-	(790)	(790)
Stock option plan expense	-	-	(41)	-	(41)
Balance – July 1, 2017	\$ <u>8,652</u>	\$ <u>271</u>	\$ <u>61,748</u>	\$ <u>(48,226)</u>	\$ <u>22,445</u>
Balance – December 30, 2017	\$ <u>19,271</u>	\$ <u>165</u>	\$ <u>61,747</u>	\$ <u>(52,921)</u>	\$ <u>28,262</u>
Adoption of new accounting policy - net of tax (note 3)	-	-	-	(1,967)	(1,967)
Net income for the period	-	-	-	439	439
Stock option plan expense	-	-	16	-	16
Shares issued (note 8)	9,415	-	-	-	9,415
Balance – June 30, 2018	\$ <u>28,686</u>	\$ <u>165</u>	\$ <u>61,763</u>	\$ <u>(54,449)</u>	\$ <u>36,165</u>

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	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
CASH PROVIDED BY (USED IN)				
Operating activities				
Net income (loss) for the period	\$ 577	\$ (315)	\$ 439	\$ (790)
Items not involving cash				
Depreciation of property and equipment	200	259	423	531
Amortization of intangible assets	124	115	250	224
Share-based compensation expense	12	(49)	140	(41)
Deferred income taxes	188	(116)	145	(258)
Loss on disposal of capital related items	3	77	3	103
Contract income	(383)	-	(383)	-
Gain on fair value of warrants	(150)	-	(150)	-
Bad debt expense for notes and leases receivable	-	-	27	-
Changes in non-cash working capital & other (note 9)	(77)	336	(660)	(5)
Cash provided by (used in) operating activities	494	307	234	(236)
Investing activities				
Proceeds from disposal of capital related items	1	325	13	325
Cash payments for capital expenditures (note 9)	(211)	(93)	(234)	(126)
Cash payments for intangible assets (note 9)	-	(13)	-	(153)
Notes receivable repayment	16	36	30	128
Cash provided by (used in) investing activities	(194)	255	(191)	174
Financing activities				
Proceeds from issuance of shares (note 8)	10,000	-	10,000	-
Transaction costs (note 8)	(799)	-	(799)	(32)
Cash provided by (used in) financing activities	9,201	-	9,201	(32)
Increase (decrease) in cash and cash equivalents during the period	9,501	562	9,244	(94)
Cash and cash equivalents - Beginning of the period	4,316	2,348	4,573	3,004
Cash and cash equivalents - End of the period	\$ 13,817	\$ 2,910	\$ 13,817	\$ 2,910

See accompanying notes to the unaudited condensed interim financial statements.
Supplemental cash flow information is provided in note 9.

The Second Cup Ltd.

Notes to the Condensed Interim Financial Statements

June 30, 2018 and July 1, 2017

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

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1. Organization and nature of business

The Second Cup Ltd. (the “Company”) is a Canadian specialty coffee retailer with 275 cafés operating under the trade name, Second Cup™, in Canada, of which 20 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. 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

June 30, 2018 and July 1, 2017

(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 June 30, 2018 and July 1, 2017 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 30, 2017, 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, except for the adoption of the new accounting policies as described in note 3. The accounting policies are based on IFRS issued and outstanding as at August 2, 2018, 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 2018 is a 52-week period (2017 – 52-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.

3. Changes in accounting policies

Except as described below, 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 30, 2017.

In May, 2014, the International Accounting Standards Board (“IASB”) issued IFRS 15, a new comprehensive model for entities to use accounting for revenue arising from contracts with customers (“IFRS 15”). On December 31, 2017, (“Transition Date”) the Company applied IFRS 15 using the modified retrospective transition method. The financial statements reflect the application of IFRS 15 beginning in 2018, while the financial statements for previous periods were prepared under the guidance of the previous standard. The details and quantitative impact of the changes are disclosed below.

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Notes to the Condensed Interim Financial Statements

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

Franchise revenue consists of royalties, as well as initial and renewal of franchise fees, and other fees. Our performance obligation under franchise agreements include a franchise license as well as pre-opening services including training. These obligations are highly interrelated and as required under the new guidance, the Company defers the initial franchise and licensing fees and recognizes revenue over the term of the related agreement. Previously, the Company recognized initial franchise fees when all material obligations and services have been performed, which generally occurred when the franchised café opened. On the Transition Date, the Company recognized an increase of \$2,684 to deferred revenue, a decrease to deferred income taxes of \$717 and a decrease to the retained earnings (deficit) of \$1,967. For the 13 and 26 weeks ended June 30, 2018, a decrease of \$48 and an increase of \$45, respectively, in franchise revenue was recognized compared to the previous standards.

After completing the analysis on the Co-op Fund under the guidance of IFRS 15, the Company continues to report the Co-op Fund on a net basis in our Statements of Financial Position.

Under IFRS 15, the Company recognizes the estimated breakage income on gift cards as they are utilised. Previously, the Company recognized the estimated breakage income on a pro rata basis based on the historical gift card redemption patterns. The application of IFRS 15 to the estimated breakage income on gift cards had no impact to the opening retained earnings (deficit) and to the 13 and 26 weeks ended June 30, 2018.

IFRS 9, Financial Instruments, (“IFRS 9”) replaced the incurred loss model under IAS 39 with a model on expected credit losses. Under the new standard, expected credit losses are recorded. The application of IFRS 9 had no impact to the opening retained earnings (deficit) and to the 13 and 26 weeks ended June 30, 2018.

Recent accounting pronouncements not yet effective

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.

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Notes to the Condensed Interim Financial Statements

June 30, 2018 and July 1, 2017

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

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 \$243 (2017 – expense of \$96) was recognized in the 26 weeks ended June 30, 2018 and was reflected in the franchise operating costs and expenses line on the unaudited condensed interim statements of loss and comprehensive loss.

5. Revenue

	13 weeks ended		26 weeks ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Franchise Revenue				
Royalties	\$ 2,488	\$ 2,500	\$ 4,920	\$ 4,990
Franchise fees, services and other	1,172	1,171	2,346	2,065
	<u>3,660</u>	<u>3,671</u>	<u>7,266</u>	<u>7,055</u>
Company-owned cafés and product sales				
	1,967	2,566	3,258	5,157
	<u>\$ 5,627</u>	<u>\$ 6,237</u>	<u>\$ 10,524</u>	<u>\$ 12,212</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.

Franchise fees, services and other

Franchise fees, 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, licensing fees and other ancillary fees (such as IT support and training fees).

	Deferred revenue
Balance at December 31, 2017	\$ 2,684
Franchise fees recognized that was included in the deferred revenue balance at the beginning of the year	(439)
Increase, excluding amounts recognized as franchise fees during the period	<u>419</u>
Balance at June 30, 2018	<u>\$ 2,664</u>

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.

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Notes to the Condensed Interim Financial Statements

June 30, 2018 and July 1, 2017

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

6. Operating costs and expenses

	13 weeks ended		26 weeks ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Company-owned cafés and cost of product sales				
Cost of product sales	\$ 799	\$ 920	\$ 1,286	\$ 1,894
Labour and related expenses	625	900	1,123	1,833
Occupancy and other	690	913	1,213	1,902
Depreciation of property and equipment	80	74	170	159
Loss on disposal of assets	3	76	3	102
	<u>2,197</u>	<u>2,883</u>	<u>3,795</u>	<u>5,890</u>
Franchise				
Labour and related expenses	1,049	939	2,254	1,989
Travel and franchisee meetings	70	97	132	201
Professional fees and other	500	320	1,001	702
	<u>1,619</u>	<u>1,356</u>	<u>3,387</u>	<u>2,892</u>
General and administrative				
Labour and related expenses	445	729	957	1,232
Professional fees and other	771	996	1,582	1,831
Occupancy	138	117	262	236
	<u>1,354</u>	<u>1,842</u>	<u>2,801</u>	<u>3,299</u>
Other				
Depreciation and amortization	244	294	503	584
	<u>\$ 5,414</u>	<u>\$ 6,375</u>	<u>\$ 10,486</u>	<u>\$ 12,665</u>

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Notes to the Condensed Interim Financial Statements

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

7. Interest and financing income (costs)

	13 weeks ended		26 weeks ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Interest expense	\$ -	\$ (206)	\$ -	\$ (413)
Amortization of deferred financing costs	-	(53)	-	(115)
Interest income	36	9	41	20
	<u>\$ 36</u>	<u>\$ (250)</u>	<u>\$ 41</u>	<u>\$ (508)</u>

On August 10, 2017, 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 and cancelled 600,000 of old warrants. 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.

8. Basic and diluted earnings (loss) per share

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

	13 weeks ended		26 weeks ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Net income (loss)	\$ 569	\$ (315)	\$ 439	\$ (790)
Weighted average number of shares issued and outstanding	<u>18,761,522</u>	<u>12,830,945</u>	<u>17,901,497</u>	<u>12,830,945</u>
Basic and diluted earnings (loss) per share	<u>\$ 0.03</u>	<u>\$ (0.02)</u>	<u>\$ 0.02</u>	<u>\$ (0.06)</u>

On April 17, 2018 the Company entered into an agreement with Clarus Securities Inc. (the “Underwriter”), pursuant to which Clarus agreed to purchase, on a “bought deal” basis, 2,898,600 common shares of the Company at a price of \$3.45 per share (the “Offering Price”) for aggregate gross proceeds to the Company of \$10,000 (the “Offering”). The Offering closed on May 8, 2018 with the Company receiving aggregate gross proceeds of \$10,000.

The Second Cup Ltd.

Notes to the Condensed Interim Financial Statements

June 30, 2018 and July 1, 2017

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

9. Supplemental cash flow information

	13 weeks ended		26 weeks ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Changes in non-cash working capital & other (inflow (outflow)):				
Trade and other receivables	\$ 590	\$ 217	\$ 1,784	\$ 1,081
Inventories	(118)	34	(316)	44
Prepaid expenses and other assets	33	220	18	(204)
Accounts payable and accrued liabilities	74	(516)	(610)	111
Provisions	(74)	69	(145)	(606)
Other liabilities	(146)	86	(360)	174
Gift card liability	(107)	(89)	(560)	(599)
Deferred revenue	73	-	(20)	-
Deposits from franchisees and restricted cash	(255)	273	(174)	(93)
Income taxes	(147)	42	(277)	87
	<u>\$ (77)</u>	<u>\$ 336</u>	<u>\$ (660)</u>	<u>\$ (5)</u>
Cash payments for capital expenditures				
Cash payments for capital expenditures	\$ (211)	\$ (93)	\$ (234)	\$ (126)
Cash payments for intangible assets	-	(13)	-	(153)
	<u>\$ (211)</u>	<u>\$ (106)</u>	<u>\$ (234)</u>	<u>\$ (279)</u>
Supplementary information				
Interest paid	<u>\$ -</u>	<u>\$ 206</u>	<u>\$ -</u>	<u>\$ 412</u>

The Second Cup Ltd.

Notes to the Condensed Interim Financial Statements

June 30, 2018 and July 1, 2017

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

10. 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.

	June 30, 2018		December 30, 2017	
Development Fund	\$	214	\$	408
Co-op Fund		612		711
Security Deposit held by bank		240		240
Total Restricted Cash	\$	<u>1,066</u>	\$	<u>1,359</u>

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

	13 weeks ended		26 weeks ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Co-op Fund – opening balance	\$ 785	\$ 302	\$ 711	\$ 487
Contributions by franchisees	683	687	1,329	1,273
Contributions by Company for Company-owned cafés	40	71	146	177
Payments to third party suppliers for goods and services	(896)	(661)	(1,574)	(1,538)
Co-op Fund – closing balance	\$ <u>612</u>	\$ <u>399</u>	\$ <u>612</u>	\$ <u>399</u>

11. Warrants

On April 12, 2018, the Company established a strategic alliance with National Access Cannabis Corp. ("NAC") to develop and operate a network of NAC-branded recreational cannabis dispensaries initially across Western Canada, expanding to include additional provinces where legally permissible. NAC will apply for licenses to dispense cannabis products and upon receipt, work with Second Cup and applicable franchisees to leverage Second Cup's extensive Canadian retail footprint to construct retail stores carrying leading cannabis products. As consideration, the Company received 5,000,000 warrants to purchase common shares of NAC at a strike price of \$0.91 at any time during the period of 5 years following the issuance date. As at the date of issuance, the fair value of \$2,655 was recorded as an asset with a corresponding entry to deferred revenue. As of June 30, 2018, the stock price was \$0.96 resulting in an increase to the fair value of the warrants of \$150.

The deferred revenue is recognized over the term of the agreement with NAC which commenced on the date of agreement, April 12, 2018, and terminates on the twelve-month anniversary of the coming into force of the Cannabis Act, October 17, 2019.

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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 June 30, 2018 are as follows:

	Head lease commitments	Sublease to franchisees	Net
June 29, 2019	\$ 17,973	\$ 15,930	\$ 2,043
June 27, 2020	15,808	14,025	1,783
June 26, 2021	13,595	11,965	1,630
June 25, 2022	12,274	10,775	1,499
June 24, 2023	10,827	9,416	1,411
Thereafter	26,381	22,350	4,031
	<u>\$ 96,858</u>	<u>\$ 84,461</u>	<u>\$ 12,397</u>

The Company believes it will have sufficient resources to meet the net commitment of \$12,397 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 \$1,827 (July 1, 2017 - \$2,181) 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 are \$750 (July 1, 2017 - \$566) 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.