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 August 2, 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 26 weeks ended June 30, 2018, and should be read in conjunction with the Unaudited Condensed Interim Financial Statements of the Company for the 13 weeks and 26 weeks ended June 30, 2018 and July 1, 2017, the Audited Financial Statements of the Company for the 52 weeks ended December 30, 2017, 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 275 cafés operating under the trade name Second Cup™ in Canada, of which 20 are Company owned and the balance are operated by franchisees. Further discussion of the Company's core business was described in the 2017 annual MD&A.

Strategic imperatives and key performance drivers

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

As the Canadian specialty coffee company, bringing the best coffees in the world to customers is at the core of the brand and fundamental to redefining Second Cup as the coffee brand most passionately committed to quality and innovation. 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.

On April 12, 2018, the Company and National Access Cannabis Corp. ("NAC") established a strategic alliance 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.

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.

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

The Company's capabilities specific to the Second Cup brand, café of the future, our people, product, locations, competition and technology were discussed in the 2017 annual MD&A.

Liquidity, capital resources and management of capital

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.

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.

ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

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.

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.

FINANCIAL HIGHLIGHTS

The following table sets out selected IFRS and certain non-GAAP financial measures of the Company and should be read in conjunction with the Unaudited Condensed Interim Financial Statements of the Company for the 13 and 26 weeks ended June 30, 2018 and July 1, 2017.

(In thousands of Canadian dollars, except same café sales, number of cafés, per share amounts, and number of common shares.)	**13 weeks ended**		**26 weeks ended**	
	June 30, 2018[2]	**July 1, 2017**	**June 30, 2018[2]**	**July 1, 2017**
System sales of cafés[1]	$36,213	$37,898	$72,133	$75,813
Same café sales[1]	(1.0%)	0.7%	(1.5%)	0.2%
Number of cafés - end of period	275	291	275	291
Total revenue	$5,627	$6,237	$10,524	$12,212
Operating costs and expenses	$5,414	$6,375	$10,486	$12,665
Operating income (loss)[1]	$213	($138)	$38	($453)
EBITDA[1]	$537	$230	$711	$290
Adjusted EBITDA[1]	$537	$517	$711	$577
Net income (loss) and comprehensive income (loss)	$577	($315)	$439	($790)
Basic and diluted earnings (loss) per share as reported	$0.03	($0.02)	$0.02	($0.06)
Total assets - end of period	$54,653	$43,294	$54,653	$43,294
Number of weighted average common shares issued and outstanding	18,761,522	12,830,945	17,901,497	12,830,945

[1]See the section "Definitions and Discussion on Certain non-GAAP Financial Measures" for further analysis.
[2]Adoption of new standard on a modified retrospective basis – Financial statements for 2018 are prepared under the new standard whereas the previous periods are on the old standard. See the section "Changes in Accounting Policies" 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.

Café network

	13 weeks ended		26 weeks ended	
	June 30, 2018	**July 1, 2017**	**June 30, 2018**	**July 1, 2017**
Number of cafés - beginning of period	279	293	286	294
Cafés opened	3	1	3	1
Cafés closed	(7)	(3)	(14)	(4)
Number of cafés - end of period	275	291	275	291

The Company ended the Quarter with 20 (July 1, 2017 – 19) 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.

Second Quarter

System sales of cafés
System sales of cafés for the 13 weeks ended June 30, 2018 were $36,213 compared to $37,898 for the 13 weeks ended July 1, 2017 representing a decrease of $1,685 or 4.4%. 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 decreased by 1.0%, compared to an increase of 0.7% in the same Quarter of 2017. The decline is primarily due to reduced transactions.

Analysis of revenue
Total revenue for the Quarter was $5,627 (2017 - $6,237), a decrease of $610, consisting of Company-owned café and product sales, royalty revenue, advertising revenue, fees and other revenue.

Company-owned cafés and product sales for the Quarter were $1,967 (2017 - $2,566), a decrease of $599. The number of Company-owned cafés increased by five in the Quarter, part of the Company's short-term effort to improve the operation and customer experience at certain cafés. The Company maintains its on-going objective of reducing the number of Company-owned café's, consistent with the Company's strategy of returning to an asset light business model.

Franchise revenue was $3,660 for the Quarter (2017 - $3,671), a decrease of $11. Franchise revenue in the Quarter includes the recognition of deferred revenue as required by IFRS 15, net impact of $48 lower than under previous standards.

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 on disposal of assets, and depreciation and amortization. Total operating costs and expenses for the Quarter were $5,414 (2017 - $6,375), a decrease of $961.

Company-owned cafés and product related expenses for the Quarter were $2,114 (2017 - $2,733), a decrease of $619. The decrease in costs is due to the lower average number of Company-owned cafés this year.

Franchise related expenses for the Quarter were $1,619 in the Quarter (2017 - $1,356), an increase of $263. The increase in franchise related expenses in the Quarter is primarily driven by an increase in provisions for bad debts of $136 and incentives of $111.

General and administrative expenses were $1,354 for the Quarter (2017 - $1,842), a decrease of $488. This decrease in expenses is primarily due to a reduction in director fees and other public entity costs and one-time transition costs in 2017.

A loss on disposal of assets of $3 was recognized in the Quarter (2017 - loss of $76). Gain and loss on disposal of assets are related to the franchising of Company-owned cafés to franchise partners.

Depreciation and amortization expense was $324 (2017 - $368), a decrease of $44.

EBITDA

EBITDA for the Quarter was $537 (2017 - $230), an increase of $307. Adjusted for one-time transition costs of $287 incurred in the second quarter of 2017, adjusted EBITDA was $537 compared to $517.

Contract income

Contract income for the Quarter was $383. The Company entered into a strategic alliance to develop and operate a network of NAC-branded recreational cannabis dispensaries and received five million warrants that will expire after five years. The Black-Scholes fair value of the warrants received ($2,655) is being recognized as contract income over the life of the agreement which is 18 months.

Gain on fair value of warrants

The gain on fair value of warrants was $150. As of June 30, 2018, the NAC stock price was $0.96 resulting in an increase to the fair value of the warrants.

Interest and financing income (costs)

Interest income for the Quarter was $36 compared to interest and financing costs of $250 in the same Quarter of 2017. The Company became debt-free in the third quarter of 2017.

Net income (loss)

The Company's net income for the Quarter was $577 or $0.03 per share, compared to a net loss of $315 or $0.02 per share in 2017.

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

Year to date

System sales of cafés

System sales of cafés for the 26 weeks ended June 30, 2018 were $72,133 compared to $75,813 for the 26 weeks ended July 1, 2017 representing a decrease of $3,680 or 4.9%. The decrease is primarily due to the reduction in store count.

Same café sales

Year to date same café sales decreased by 1.5%, compared to an increase of 0.2% in the same period of 2017. The decline is primarily due to reduced transactions.

Analysis of revenue

Year to date total revenue was $10,524 (July 1, 2017 - $12,212) consisting of Company-owned café and product sales, royalty revenue, franchise fees and other revenue.

Year to date Company-owned cafés and product sales were $3,258 (July 1, 2017 - $5,157). The decrease in revenue of $1,899 is primarily due to the lower average number of Company-owned cafés during the period as compared to last year. The Company maintains its on-going objective of reducing the number of Company-owned cafés, consistent with the Company's strategy of returning to an asset light business model.

Year to date franchise revenue was $7,266 (July 1, 2017 - $7,055). The increase in franchise revenue of $211 includes a net positive impact of $45 due to the application of the new revenue recognition standards.

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 on disposal of assets, and depreciation and amortization. Year to date total operating costs and expenses were $10,486 (July 1, 2017 - $12,665), a decrease of $2,179.

Year to date, Company-owned cafés and product related expenses were $3,622 (July 1, 2017 - $5,629), a decrease of $2,007. This decrease in costs is due to the lower average number of Company-owned cafés during the period as compared to last year.

The Company incurred franchise related expenses year to date of $3,387 (July 1, 2017 - $2,892), an increase of $495. This increase in expenses is primarily driven by an increase in provisions for bad debts of $321 and incentives of $265, offset by operational savings.

General and administrative expenses were $2,801 year to date (July 1, 2017 - $3,299), a decrease of $498. This decrease in expenses is primarily due to the one-time transition costs in 2017 and a reduction in professional fees.

Year to date, a loss on disposal of $3 was recognized (July 1, 2017 – loss of $102). Gain and loss on disposal of assets are primarily related to the franchising of Company-owned cafés to franchisees.

Depreciation and amortization expense was $673 (July 1, 2017 - $743), a decrease of $70.

EBITDA
EBITDA for the year to date was $711 compared to $290 in the same period of last year. Adjusted for one-time transition costs of $287 incurred in the second quarter of 2017, adjusted EBITDA was $711 compared to $577 in the same period of 2017. The increase in adjusted EBITDA of $134 is primarily due to improved results of Company-owned cafés.

Contract income
Year to date, contract income was $383. The Company entered into a strategic alliance to develop and operate a network of NAC-branded recreational cannabis dispensaries and received five million warrants that will expire after five years. The Black-Scholes fair value of the warrants received ($2,655) is being recognized as contract income over the life of the agreement which is 18 months.

Gain on fair value of warrants
The gain on fair value of warrants was $150. As of June 30, 2018, the NAC stock price was $0.96 resulting in an increase to the fair value of the warrants.

Interest and financing income (costs)
Interest income for the year to date was $41 compared to interest and financing costs of $508 in the same period in 2017. The Company became debt-free in the third quarter of 2017.

Net income (loss)
The Company's net income year to date was $439 or $0.02 per share, compared to a net loss of $790 or $0.06 per share in 2017.

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

SELECTED QUARTERLY INFORMATION

(in thousands of Canadian dollars, except Number of cafés, Same café sales, and per share amounts)	Q2 2018[3]	Q1 2018[3]	Q4 2017[2]	Q3 2017
System sales of cafés[1]	$36,213	$35,920	$41,326	$37,014
Same café sales[1]	(1.0%)	(2.2%)	(1.1%)	0.0%
Number of cafés - end of period	275	279	286	289
Total revenue	$5,627	$4,897	$6,085	$5,339
Operating income (loss)[1]	$213	($175)	$993	$436
EBITDA[1]	$537	$174	$1,339	$805
Adjusted EBITDA[1]	$537	$174	$1,339	$805
Net income (loss) for the period	$577	($138)	$655	($2,962)
Adjusted net income (loss) for the period[1]	$577	($138)	$655	$245
Basic and diluted earnings (loss) per share	$0.03	($0.01)	$0.04	($0.19)
Adjusted basic and diluted earnings (loss) per share[1]	$0.03	($0.01)	$0.04	$0.02

	Q2 2017	Q1 2017	Q4 2016[2]	Q3 2016
System sales of cafés[1]	$37,898	$37,915	$46,743	$37,717
Same café sales[1]	0.7%	(0.2%)	(1.0%)	(1.2%)
Number of cafés - end of period	291	293	294	298
Total revenue	$6,237	$5,975	$7,500	$7,656
Operating income (loss)[1]	($138)	($315)	$302	($25)
EBITDA[1]	$230	$60	$667	$357
Adjusted EBITDA[1]	$517	$60	$667	$357
Net income(loss) for the period	($315)	($475)	$147	($75)
Adjusted net income (loss) for the period[1]	($315)	($475)	$147	($75)
Basic and diluted earnings (loss) per share	($0.02)	($0.04)	$0.01	($0.01)
Adjusted basic and diluted earnings (loss) per share[1]	($0.02)	($0.04)	$0.01	($0.01)

[1]See the section "Definitions and Discussion on Certain non-GAAP Financial Measures" for further analysis.
[2]The Company's fourth quarter System sales of cafés are higher than other quarters due to the seasonality of the business (see "Seasonality of System sales of cafés" above).
[3]Adoption of new standard on a modified retrospective basis – Financial statements for 2018 are prepared under the new standard whereas the previous periods are on the old standard. See the section "Changes in Accounting Policies" for further analysis.

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

Summary of cash flows

	13 weeks ended		26 weeks ended	
	June 30, 2018	**July 1, 2017**	**June 30, 2018**	**July 1, 2017**
Cash flows provided by (used in) operating activities	$494	$307	$234	($236)
Cash flows provided by (used in) investing activities	(194)	255	(191)	174
Cash flows 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)

Second Quarter

Cash provided by operating activities was $494 for the Quarter compared to $307 for the same Quarter in 2017. The increase of $187 is primarily driven by the reduction in interest and financing costs.

During the Quarter, cash used in investing activities was $194 compared to cash provision of $255 for the same Quarter in 2017. In 2017, the Company received $325 for disposition of capital assets.

Cash provided by financing activities was $9,201 for the Quarter compared to nil for the same Quarter in 2017. The Company closed the Offering on May 8, 2018, net of transaction costs.

Year to date

Cash provided by operating activities was $234 for the year to date compared to cash used of $236 for the same period in 2017. The change of $470 is primarily driven by the reduction in interest and financing costs.

Year to date, cash used in investing activities was $191 compared to cash provided of $174 for the same period in 2017 primarily due to lower proceeds on disposal of capital related items and by lower repayment of notes receivable.

Cash provided by financing activities was $9,201 for the Quarter compared to cash used of $32 for the same period in 2017. The Company closed the Offering on May 8, 2018, net of transaction costs.

Working capital as at

		June 30, 2018		December 30, 2017
Current assets	$	17,744	$	10,122
Current liabilities		10,135		9,869
Working capital	$	7,609	$	253

The Company's working capital of $7,609 as at June 30, 2018 compared to a working capital balance of $253 at December 30, 2017. The Offering closed on May 8, 2018 with the Company receiving net proceeds of $9,201, leading to an increase in cash balance. Gift card liability ended the Quarter at $2,872, a decrease of $560 compared to the end of 2017. Based on the historical redemption patterns, the Company believes that it has sufficient financial resources to cover the gift card liability.

The Company had cash and cash equivalents of $13,817 as at March 31, 2018 (December 30, 2017 - $4,573). The Company continues to believe it has sufficient financial resources to meet its obligations as they come due.

Financial instruments

The following summarizes the nature of certain risks applicable to the Company's financial instruments:

Financial instrument	Risks
Financial assets	
Cash and cash equivalents	Credit and interest rate
Restricted cash	Credit and interest rate
Trade and other receivables	Credit
Notes and leases receivable	Credit
Financial liabilities	
Accounts payable and accrued liabilities	Liquidity, currency and commodity
Gift card liability	Liquidity
Deposits from franchisees	Liquidity

(i) Credit risk

Cash and cash equivalents and restricted cash

Credit risk associated with cash and cash equivalents, restricted cash and the interest rate swap is managed by ensuring these assets are placed with institutions of high creditworthiness.

Trade and other receivables, and notes and leases receivable

Trade and other receivables, and notes and leases receivable primarily comprise amounts due from franchisees. Credit risk associated with these receivables is mitigated as a result of the review and evaluation of franchisee account balances beyond a particular age. Prior to accepting a franchisee, the Company undertakes a detailed screening process, which includes the requirement that a franchisee have sufficient capital and financing. The risk is further mitigated due to a broad franchisee base that is spread across the country, which limits the concentration of credit risk.

Other receivables may include amounts owing from large organizations where often those organizations have a simultaneous vendor relationship with the Company's franchisees. Credit risk is mitigated as a result of the Company directing and maintaining certain controls over the vendor relationship with the franchisees.

(ii) Liquidity risk
Liquidity risk is managed through regular monitoring of forecasts and actual cash flows, monitoring maturity dates of financial assets and liabilities, and also the management of capital structure and debt covenants as outlined above. The main source of income is royalty receipts from franchisees.

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

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

Contingencies, commitments and guarantees

	Payments Due by Period				
Contractual Obligations	Total	1 year	2 - 3 years	4 - 5 years	After 5 years
Obligations from Operating Leases	$12,397	$2,043	$3,413	$2,910	$4,031
Purchase Obligations	1,827	1,827	Nil	Nil	Nil
Total Contractual Obligations	$14,224	$3,870	$3,413	$2,910	$4,031

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
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
	$ 96,858	$ 84,461	$ 12,397

The Company believes it has sufficient resources to meet the net commitment of $12,397 over the term of the leases.

Purchase Obligations
Contracts are in place with third party companies to purchase the coffee that is sold in all cafés. In terms of these supply agreements, there is a guaranteed minimum volume of coffee purchases of $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 its franchisees and for Company-owned cafés, there is $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 for franchise projects are paid 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 August 2, 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 June 30, 2018, 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 June 30, 2018 and up to the date of the approval of the Unaudited Condensed Interim Financial Statements and MD&A, there has been no change that has materially affected, or is reasonably likely to materially affect the Company's disclosure controls and procedures.

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

As at August 2, 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 August 2, 2018, 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 June 30, 2018 and up to the date of the approval of the Unaudited Condensed Interim Financial Statements and MD&A, there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

CRITICAL ACCOUNTING ESTIMATES

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

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

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

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

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

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

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

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

(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 amounts due according to the original terms of the receivable. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in expenses in the statement of income. When an account is deemed uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognized as a recovery in expenses in the statement of income.

RISKS AND UNCERTAINTIES

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

The performance of Second Cup is primarily dependent on its ability to maintain and increase the sales of existing cafés, add new profitable cafés to the network and redevelop and modernize cafés as their leases come due. System sales of the café network are affected by various external factors that can affect the specialty coffee industry as a whole.

A more detailed discussion of the risks and uncertainties affecting Second Cup is set out in the Company's MD&A for the year ended December 30, 2017 and Second Cup's 2017 Annual Information Form, which is available at www.sedar.com.

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.

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.

OUTLOOK

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

This fall, Second Cup's Clean Label beverage menu will be extended to include the Canadian seasonal favourite line of Pumpkin Spice beverages – Latte, White Hot Chocolate and Flash Cold Brew. At the start of the year Second Cup led the Canadian coffee market with a move to Clean Label beverages which now represent approximately 85% of the beverage menu. Clean Label products contain no artificial colours, flavours, preservatives or high fructose corn syrup.

Second Cup has been assisting NAC in its applications for recreational cannabis dispensary licenses in Alberta in respect of select locations that are currently occupied by Second Cup cafés. A number of applications are currently in process in that province. In addition, Second Cup is awaiting a formal announcement from the Ontario government on any changes to the legislation governing the recreational cannabis market in Ontario. At that time, the Company will be able to assess the potential implications to its strategic alliance with NAC.

The net proceeds received by the Company from the short form prospectus offering were $9,201. The Company has allocated $2,100 of the offering proceeds to fund the Company's estimated share of conversion costs to implement the NAC strategic agreement. In addition, from time to time Second Cup is presented with potential acquisition opportunities that may complement and/or expand the existing Second Cup coffee business. The Company has allocated approximately $7,100 of the offering proceeds to potential future acquisitions. At this time, the Company cannot precisely estimate how much of the proceeds will be used towards such acquisitions, if any. There can be no assurance that the Company will be able to identify business acquisition opportunities that meet its strategic objectives, or to the extent such opportunities are identified, that it will be able to negotiate acquisition terms that are acceptable to it.

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 and adjusted EBITDA are provided below:

	13 weeks ended		26 weeks ended	
	June 30, 2018[1]	**July 1, 2017**	**June 30, 2018[1]**	**July 1, 2017**
Net income (loss)	$ 577	$ (315)	$ 439	$ (790)
Income taxes	205	(73)	173	(171)
Interest and financing (income) costs	(36)	250	(41)	508
Gain on fair value of warrants	(150)	-	(150)	-
Contract income	(383)	-	(383)	-
Operating income (loss)	$ 213	$ (138)	$ 38	$ (453)

	13 weeks ended		26 weeks ended	
	June 30, 2018[1]	**July 1, 2017**	**June 30, 2018[1]**	**July 1, 2017**
Net income (loss)	$ 577	$ (315)	$ 439	$ (790)
Income taxes	205	(73)	173	(171)
Interest and financing (income) costs	(36)	250	(41)	508
Gain on fair value of warrants	(150)	-	(150)	-
Contract income	(383)	-	(383)	-
Depreciation of property and equipment	200	248	423	519
Amortization of intangible assets	124	120	250	224
EBITDA	537	230	711	290
Add (deduct) impact of the following:				
One-time transition costs	-	287	-	287
Adjusted EBITDA	$ 537	$ 517	$ 711	$ 577

[1]Adoption of new standard on a modified retrospective basis – Financial statements for 2018 are prepared under the new standard whereas the previous periods are on the old standard. See the section "Changes in Accounting Policies" for further analysis.