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 November 7, 2019 and is intended to assist in understanding the financial performance and financial condition of The Second Cup Ltd. ("Second Cup" or the "Company") for the 13 weeks (the "Quarter") and 39 weeks ended September 28, 2019, and should be read in conjunction with the Unaudited Condensed Interim Consolidated Financial Statements of the Company for the 13 weeks and 39 weeks ended September 28, 2019 and September 29,2018, the Audited Consolidated Financial Statements of the Company for the 52 weeks ended December 29, 2018, 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-IFRS 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 246 cafés operating under the trade name Second Cup™ in Canada, of which 30 are Company owned and the balance are operated by franchisees. Further discussion of the Company's core business was described in the 2018 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.

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.

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 licences 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.

The Company 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. Of the five applications submitted for the City of Calgary, there are two locations – where a development permit by the City has been granted – that the joint venture are in the various stages of negotiations with the respective landlords and franchisees to convert to a cannabis dispensary. In November 2018, the Alberta Gaming, Liquor and Cannabis (the "AGLC") announced a moratorium on accepting new retail licence applications and issuing new dispensary licences due to logistics issues, cannabis shortages and high demand. At the end of May 2019, the AGLC announced the lifting of the moratorium due to a steady increase in cannabis supply. The Company will continue to work with NAC and other parties towards conversion of these two cafés.

The Company has previously disclosed that it is pursuing strategic initiatives to enhance shareholder value. With a healthy balance sheet and capital to invest, Second Cup is actively engaged in potential acquisitions of coffee and food brands that are strategically and culturally aligned with the Second Cup business.

The Company continues to focus on strengthening its franchise network, franchising corporate stores to strong operators to follow an asset light business model, and expects to reduce the number of Company-owned cafés in the near future.

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 2018 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 the Underwriter agreed to purchase, on a "bought deal" basis, 2,898,600 common shares of the Company at a price of $3.45 per share 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 and net proceeds of $9,190.

On December 18, 2018, the Company announced that the Toronto Stock Exchange (the "TSX") had approved its notice of intention to make a normal course issuer bid for a portion of its common shares. Pursuant to the normal course issuer bid, the Company intends to acquire up to 1,000,000 Common Shares, representing approximately 7.4% of its public float of 13,463,184 common Shares, in the 12-month period commencing December 20, 2018 and ending on December 19, 2019 or such earlier time that the Company completes its purchases pursuant to the normal course issuer bid or provides notice of termination. Under the normal course issuer bid, the Company may purchase up to 12,071 common shares on the TSX during any trading day. As of September 28, 2019, the Company had repurchased 60,335 common shares for an aggregate total value of $115.

On July 5, 2019, in accordance with the terms of the employment agreement with the Company's new President and CEO, the Company issued Mr. Steven Pelton 515,241 common shares in the capital of the Company at $1.70 per share. Mr. Pelton paid $200 in cash for 117,641 shares and 397,600 shares were paid with the proceeds of two loans advanced to Mr. Pelton by the Company – a five-year loan of $500 repayable in June 2024 and a one-year loan of $176 repayable in June 2020, both loans accruing interest at 4.0% per annum.

ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

In January 2016, the International Accounting Standards Board ("IASB") issued IFRS 16 Leases ("IFRS 16"). IFRS 16 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 replaces 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 (i) 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 (ii) depreciation of lease assets separately from interest on lease liabilities on the consolidated statements of operations and comprehensive income (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. The guidance allows for either a full retrospective or modified retrospective transition method. The Company has selected to apply the modified retrospective transition method. Further, the Company has selected 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.

From December 30, 2018, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Assets and liabilities arising from a lease are initially measured on a present value basis.

The financial statements reflect the application of IFRS 16 beginning in 2019, while the financial statements for prior periods were prepared under the guidance of the previous standard.

See the section "Changes in Accounting Policies" for further analysis.

FINANCIAL HIGHLIGHTS

The following table sets out selected IFRS and certain non-IFRS financial measures of the Company and should be read in conjunction with the Unaudited Condensed Interim Financial Statements of the Company for the 13 weeks and 39 weeks ended September 28, 2019 and September 29, 2018.

(In thousands of Canadian dollars, except same café sales, number of cafés, per share amounts, and number of common shares.)	**13 weeks ended**		**39 weeks ended**	
	September 28, 2019[2]	**September 29, 2018**	**September 28, 2019[2]**	**September 29, 2018**
System sales of cafés[1]	$32,936	$35,704	$101,625	$107,837
Same café sales[1]	(2.9%)	0.3%	(1.3%)	(0.9%)
Number of cafés - end of period	246	270	246	270
Total revenue	$6,652	$5,937	$19,432	$16,461
Operating costs and expenses	$7,378	$5,417	$21,286	$15,903
Operating income (loss)[1]	($726)	$520	($1,853)	$558
EBITDA[1]	$179	$858	$746	$1,569
Adjusted EBITDA[1]	$785	$880	$1,751	$1,633
Net income (loss) and comprehensive income (loss)	($762)	$766	($629)	$1,205
Adjusted net income (loss) and comprehensive income (loss)[1]	($62)	$432	($492)	$480
Basic and diluted earnings (loss) per share as reported	($0.04)	$0.04	($0.03)	$0.06
Adjusted basic and diluted earnings (loss) per share[1]	$nil	$0.03	($0.02)	$0.03
Total assets - end of period	$117,265	$55,272	$117,265	$55,272
Number of weighted average common shares issued and outstanding	20,366,649	19,940,073	20,049,103	18,581,022

[1]See the section "Definitions and Discussion on Certain non-IFRS Financial Measures" for further analysis.
[2]Adoption of new accounting standard IFRS 16 on a modified retrospective basis – financial statements for 2019 are prepared under the new standard whereas the prior periods are on the previous 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	**2016**	**2017**	**2018**	**Average**
First Quarter	23.9	24.6	24.5	24.3
Second Quarter	24.6	24.6	24.7	24.6
Third Quarter	23.0	24.0	24.3	23.8
Fourth Quarter	28.5	26.8	26.5	27.3
	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		**39 weeks ended**	
	September 28, 2019	**September 29, 2018**	**September 28, 2019**	**September 29, 2018**
Number of cafés - beginning of period	252	275	262	286
Cafés opened	2	1	3	4
Cafés closed	(8)	(6)	(19)	(20)
Number of cafés - end of period	246	270	246	270

The Company ended the Quarter with 30 (September 29, 2018 – 24) 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 September 28, 2019 were $32,936 compared to $35,704 for the 13 weeks ended September 29, 2018 representing a decrease of $2,768 or 7.8%. The decrease in system wide sales is primarily due to the reduction in café count and a decline in same café sales.

Same café sales

During the Quarter, there was a 2.9% decline in same café sales, compared to an increase of 0.3% in the same Quarter of 2018. The number of transactions decreased by 6.2% offset by a 3.3% increase in the average ticket.

Analysis of revenue

Total revenue for the Quarter was $6,652 (2018 - $6,609), an increase of $43, consisting of Company-owned café and product sales, royalty revenue, advertising fund contributions, fees and other revenue.

Company-owned cafés and product sales for the Quarter were $2,794 (2018 - $2,186), an increase of $608. The increase in revenue is primarily due to the increased Company-owned café count to 30 this Quarter from 24 last year.

Franchise revenue was $3,858 for the Quarter (2018 - $4,423), a decrease of $565. The decrease in franchise revenue in the Quarter is primarily due to lower franchise café count – 216 this Quarter compared with 246 last year.

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 $7,378 (2018 - $6,089), an increase of $1,289.

Company-owned cafés and product related expenses for the Quarter were $2,715 (2018 - $2,541), an increase of $174. The increase in costs is due to the increase in store count of Company-owned cafés, offset by a decrease in rent expense as a result of a change in accounting for leases IFRS 16.

Franchise related expenses for the Quarter were $2,013 in the Quarter (2018 – 2,087), a decrease of $74. The decrease in franchise related expenses in the Quarter is mainly due to lower advertising fund expenses and lower bad debts.

General and administrative expenses were $1,757 for the Quarter (2018 - $1,123), an increase of $634, mainly due to management transition costs and professional fees, offset by a decrease in rent expense as a result of a change in accounting for leases IFRS 16.

Depreciation and amortization expense was $905 (2018 - $338), an increase of $567. Total amortization of right-of-use assets was $581 in the Quarter under IFRS 16. Prior to the adoption, payments made under real estate leases for base rent were charged to rent expense.

EBITDA

EBITDA for the Quarter was $179 (2018 - $858), a decrease of $679, mainly as a result of higher loss attributed to Company-owned cafés, lower franchise revenue, and management transition costs, offset by a change in the accounting for operating leases in accordance with IFRS 16. Adjusted for non-recurring costs, EBITDA was $785 (2018 - $880).

Other income and expenses
Other expenses for the Quarter was $349 (2018 - $456 income), composed of a decrease in the fair value of NAC warrants of $785 offset by recognized income from the NAC strategic alliance of $436.

In entering into the strategic alliance with NAC, the Company received five million warrants that will expire after five years from the date of issuance. The Black-Scholes fair value of the warrants received ($2,655) was recorded in deferred income and is being recognized as other income over the life of the agreement which is 18 months.

As of September 28, 2019, the fair value of the warrants was $0.246 versus $0.403 at the end of the prior quarter, resulting in a decrease of $785 to the fair value of the NAC warrants. The fair value of the NAC warrants will fluctuate in accordance with the trading price of the NAC common shares.

Interest and financing income
Net interest and financing income for the Quarter was $36 compared to interest and financing income of $61 in the same Quarter of 2018. Interest income from investments was $60 for the Quarter and the Company also recognized interest expense for real estate leases of $24. The Company became debt-free in the third quarter of 2017.

Net income/loss
The Company's net loss for the Quarter was $762 or $0.04 per share, compared to a net income of $766 or $0.04 per share in 2018. Adjusted net loss was $62 or $nil per share, compared to a net income of $432 or $0.03 per share in 2018.

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-IFRS Financial Measures".

Year to date

System sales of cafés
System sales of cafés for the 39 weeks ended September 28, 2019 were $101,625 (September 29, 2018 - $107,837), a decrease of $6,212 or 5.8%. The decrease is primarily due to the reduction in café count.

Same café sales
Year to date same café sales declined by 1.3% compared to a decline of 0.9% in 2018. The decline this Year is primarily due to reduced transactions.

Analysis of revenue
Year to date total revenue was $19,433 (September 29, 2018 - $18,538), an increase of $895, consisting of Company-owned café and product sales, royalty revenue, Co-op Fund contributions, franchise fees and other revenue.

Year to date Company-owned cafés and product sales were $8,002 (September 29, 2018 - $5,444), an increase of $2,558. The increase is primarily due to a higher number of Company-owned café this Year compared to 2018.

Year to date franchise revenue was $11,431 (September 29, 2018 - $13,094), a decrease of $1,663. The decrease in franchise revenue is primarily due to lower franchise café count.

Operating costs and expenses

Operating costs and expenses include the costs of Company-owned cafés and product sales, franchise-related expenses, general and administrative expenses, loss on disposal of assets, and depreciation and amortization. Year to date total operating costs and expenses were $21,289 (2018 - $17,980), an increase of $3,309.

Year to date Company-owned cafés and product related expenses were $7,820 (2018 - $6,102), an increase of $1,718. The increase was related to increase in corporate-owned cafes during the period compared to the prior year, offset by a decrease in rent expense as a result of a change in accounting for leases IFRS 16.

Year to date franchise related expenses were $5,942 (2018 - $6,940), a decrease of $998. The decrease in franchise related expenses is mainly due to a reduction in remuneration, lower advertising fund expenses and lower bad debts.

Year to date general and administrative expenses were $4,916 (2018 - $3,924), an increase of $992. This increase in expenses is primarily due to management transition costs offset by a decrease in rent expense as a result of a change in accounting for leases IFRS 16.

Depreciation and amortization expense was $2,599 (2018 - $1,011), an increase of $1,588. Total amortization of right-of-use assets was $1,674 in the year to date period under IFRS 16. Prior to the adoption, payments made under real estate leases for base rent were charged to rent expense.

EBITDA

Year to date EBITDA was $746 (2018 - $1,569), a decrease of $823. The decrease is primarily a result of higher Company-owned café operating loss, lower franchise revenue, and management transition costs, offset by lower bad debts and a change in the accounting for operating leases in accordance with IFRS 16. Adjusted for non-recurring costs, EBITDA was $1,751 (2018 - $1,633).

Other income and expenses

Year to date other income was $818 (2018 - $989), composed of recognized income from the NAC strategic alliance of $1,308, offset by a decrease in the fair value of NAC warrants of $490.

As of September 28, 2019, the fair value of the warrants was $0.246 each versus $0.344 at the end of 2018, resulting in a decrease in the fair value of the NAC warrants of $490 for the Year. The change in fair value of the NAC warrants will fluctuate in accordance with the trading price of the NAC common shares.

Interest and financing costs

Interest income for the year to date period was $177 compared to $102 in the same period in 2018. Interest income from investments was $219 (2018 - $102) and interest expense related to leases was $42 (2018 – nil). The Company became debt free in the third quarter of 2017.

Net income/loss

The Company's net loss to date was $629 or $0.03 per share, compared to net income of $1,205 or $0.06 per share in 2018. Adjusted net loss was $492 or $0.02 per share, compared to a net income of $480 or $0.03 per share in 2018.

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

SELECTED QUARTERLY INFORMATION

(in thousands of Canadian dollars, except Number of cafés, Same café sales, and per share amounts)	**Q3 2019[3]**	**Q2 2019[3]**	**Q1 2019[3]**	**Q4 2018[2,3]**
System sales of cafés[1]	$32,936	$34,377	$34,312	$38,860
Same café sales[1]	(2.9%)	0.0%	(0.9%)	(2.0%)
Number of cafés - end of period	246	252	256	262
Total revenue	$6,652	$6,507	$6,239	$7,176
Operating income (loss)[1]	($726)	($638)	($489)	$814
EBITDA[1]	$179	$218	$350	$1,138
Adjusted EBITDA[1]	$785	$617	$350	$1,297
Net income (loss) for the period	($762)	($616)	$750	($55)
Adjusted net income (loss) for the period[1]	($62)	($134)	($295)	$594
Basic and diluted earnings (loss) per share	($0.04)	($0.03)	$0.04	$0.00
Adjusted basic and diluted earnings (loss) per share[1]	$nil	($0.01)	($0.01)	$0.03
	Q3 2018[3]	**Q2 2018[3]**	**Q1 2018[3]**	**Q4 2017[2]**
System sales of cafés[1]	$35,704	$36,213	$35,920	$41,326
Same café sales[1]	0.3%	(1.0%)	(2.2%)	(1.1%)
Number of cafés - end of period	270	275	279	286
Total revenue	$5,937	$6,353	$5,576	$6,085
Operating income (loss)[1]	$520	$212	($175)	$993
EBITDA[1]	$858	$537	$174	$1,339
Adjusted EBITDA[1]	$880	$559	$194	$1,339
Net (loss) income for the period	$766	$577	($138)	$655
Adjusted net income (loss) for the period[1]	$432	$186	($138)	$655
Basic and diluted (loss) earnings per share	$0.04	$0.03	($0.01)	$0.04
Adjusted basic and diluted earnings (loss) per share[1]	$0.03	$0.01	($0.01)	$0.04

[1]See the section "Definitions and Discussion on Certain non-IFRS 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 accounting standards on a modified retrospective basis – IFRS 15 beginning 2018 and IFRS 16 beginning 2019. The prior periods are on the previous standards. 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		39 weeks ended	
	September 28, 2019	**September 29, 2018**	**September 28, 2019**	**September 29, 2018**
Cash flows provided by operating activities	($308)	$925	$722	$,1,159
Cash flows used in investing activities	(554)	(645)	(1,155)	(836)
Cash flows provided by (used in) financing activities	(584)	(8)	(2,119)	9,193
Increase (decrease) in cash and cash equivalents during the period	($1,446)	$272	($2,552)	$9,516

Second Quarter

Cash used in operating activities was $308 for the Quarter compared to cash provided of $925 for the same Quarter in 2018. The decrease of $1,233 is primarily due to lower income, the change in accounting for leases IFRS 16, offset by other changes in non-cash working capital.

During the Quarter, cash used by investing activities was $554 compared to cash used of $645 for the same Quarter in 2018. Purchases of capital and intangible assets amounted to $605 in 2019 compared with $797 last year.

Cash used in financing activities was $584 for the Quarter, composed of operating lease payments. Cash used in the same quarter in 2018 was $8, composed of transaction costs.

Year to date

Year to date cash provided by operating activities was $722 for the year to date compared to cash provided of $1,159 for the same period in 2018. The change of $437 is primarily driven by lower income, negative changes in non-cash working capital, offset by the change in accounting for leases IFRS 16.

Year to date cash used in investing activities was $1,155 compared to cash used of $836 for the same period in 2018. Year to date purchases of capital and intangible assets for Company-owned cafés amounted to $1,301 in 2019 compared with $1,031 last year.

Year to date cash used by financing activities was $2,119, composed of operating lease payments, compared to cash provided of $9,193 for the same period in 2018. The Company closed the Offering on May 8, 2018, net of transaction costs.

Working capital as at

	September 28, 2019	December 29, 2018
Current assets	$ 27,201	$ 20,199
Current liabilities	20,674	11,153
Working capital	$ 6,527	$ 9,046

The Company's working capital is $6,527 as at September 28, 2019 compared to a working capital balance of $9,046 at December 29, 2018. The decrease of $2,519 is primarily due to the inclusion of portions of leases receivable and lease liabilities in current assets and liabilities, respectively, as a result of the implementation of IFRS 16. Gift card liability ended the Quarter at $1,644, a decrease of $683 compared to the end of 2018. Based on the historical redemption patterns and cash balance, the Company has sufficient financial resources to cover the gift card liability.

The Company had cash and cash equivalents of $12,336 as at September 28, 2019 (December 29, 2018 - $14,888). The Company 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
Warrants	Credit, liquidity and interest rate
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 and restricted cash 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 that 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 leverage. The Company's main source of income is royalty receipts from its franchisees, corporate café sales, and sales from goods and services.

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

Contingencies, commitments and guarantees

Obligations from Operating Leases
With the adoption of IFRS 16, operating leases are now reported in the consolidated statement of financial position as lease liabilities along with the associated right-of-use assets and leases receivable.

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 $1,604 (September 29, 2018 - $1,921) 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 $456 (September 29, 2018 - $409) 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 November 7, 2019, the Company's management, under the supervision of, and with the participation of, the CEO and CFO, evaluated the design of the disclosure controls and procedures. Based on this evaluation, the CEO and CFO have concluded that, as at September 28, 2019, the Company's disclosure controls and procedures were appropriately designed.

Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls and procedures should not exceed their expected benefits. As such, the Company's disclosure controls and procedures can only provide reasonable, and not absolute, assurance that the objectives of such controls and procedures are met.

During the 13 weeks ended September 28, 2019 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 November 7, 2019, the Company's management, under the supervision of, and with the participation of, the CEO and CFO, evaluated the design of the controls over financial reporting. No material weaknesses in the design of these controls over financial reporting were identified. Based on this evaluation, the CEO and CFO have concluded that, as at September 28, 2019, the Company's controls over financial reporting were appropriately designed and were operating effectively.

Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. As such, the Company's internal controls over financial reporting can only provide reasonable, and not absolute, assurance that the objectives of such controls are met.

During the 13 weeks ended September 28, 2019 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 consolidated 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 in determining the amounts reported in the consolidated financial statements:

- 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 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
Impairment analysis is an area involving management judgement in determining the recoverable amount of an asset. The recoverable amount of a cash generating unit ("CGU") is calculated as the higher of the fair value less costs of disposal, and its value in use. Fair value is determined by estimating the net present value of future cash flows derived from such assets using cash flow projections that have been discounted at an appropriate rate and based on a market participant's view. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters including:

- growth in total revenue;
- change and timing of cash flows such as the increase or decrease of expenditures;
- selection of discount rates to reflect the risks involved; and
- applying judgement in cash flows specific to CGUs.

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

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

(ii) Deferred income taxes
The timing of reversal of temporary differences and the expected income allocation to various tax jurisdictions within Canada affect the effective income tax rate used to compute the deferred income taxes. Management estimates the reversals and income allocation based on historical and budgeted operating results and income tax laws existing at the reporting 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
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 amount of depreciation recorded in respect of the Company's 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 these assessments.

(v) Allowance for doubtful accounts

The adoption of IFRS 9 has changed the accounting for impairment losses, with respect to financial assets, by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. For the Company, it is not expected that impairment losses will be materially different under IFRS 9, as compared to the incurred loss approach. IFRS 9 requires the Company to record an allowance for ECLs for all loans and other debt financial assets that are not held at fair value through profit and loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

The Company notes that its cash equivalents and short-term investments are high-grade investments that are held with reputable financial institutions. As such, these assets are considered to be low credit risk investments.

For trade and other receivables, the Company has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Company has established a provision matrix that is based on the Company's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The adoption of the ECL requirements of IFRS 9 resulted in no changes to impairment allowances of the Company's financial assets.

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 29, 2018 and Second Cup's 2018 Annual Information Form, which is available at www.sedar.com.

CHANGES IN ACCOUNTING POLICIES

These unaudited condensed interim consolidated financial statements have been prepared using the same accounting policies and methods of computation as the annual consolidated financial statements of the Company for the year ended December 29, 2018 other than the changes noted below.

IFRS 16 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 replaces 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 (i) 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 (ii) depreciation of lease assets separately from interest on lease liabilities on the consolidated statements of operations and comprehensive income (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. The guidance allows for either a full retrospective or modified retrospective transition method. The Company has selected to apply the modified retrospective transition method. Further, the Company has selected 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.

From December 30, 2018, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Adjustments recognized on adoption of IFRS 16

The company transitioned to IFRS 16 in accordance with the modified retrospective approach. The prior year figures were not adjusted. On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases, which had previously been classified as 'operating leases' under the principles of IAS 17, Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of December 30, 2018. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on December 30, 2018 was 6.62%.

		2019
Operating lease commitments disclosed as at December 29, 2018	$	96,875
Less: adjustments for changes in terminations and rent rates		(3,192)
Discounted using incremental borrowing rates at the date of initial application		(18,172)
Lease liabilities recognized as at December 30, 2018	$	75,511

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous; and

- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

For Company-operated cafés and the head office, right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at December 29, 2018. The Company also recorded an adjustment to the right-of-use assets of $852 at the date of initial application for lease contracts that were onerous.

For most of the franchise cafés, the Company enters into the head lease for those café locations and, in turn, enters into a sublease on the same terms with its franchisees. IFRS 16 requires the Company, as an intermediate lessor, to classify a sublease as a finance lease by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying property. Leases receivable for the subleases were measured at the amount equal to the lease liability. The Company recorded an adjustment to leases receivable for expected credit losses of $612 at the date of initial application as required by IFRS 9, Financial Instruments.

The change in accounting policy affected the following items in the balance sheet on December 30, 2018:

- right-of-use assets – increase by $12,252
- leases receivable – increase by $61,795
- deferred income tax liabilities – decrease by $317
- provisions – decrease by $277
- lease liabilities – increase by $75,511

The net impact on retained earnings on December 30, 2018 was a decrease of $870.

On December 31, 2017, the Company applied IFRS 15 using the modified retrospective transition method. The consolidated 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.

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 had been performed, which generally occurred when the franchised café opened. The transition to IFRS 15 requires the consolidation of the Co-op Fund contributions and related expenses on a gross basis.

Under IFRS 15, the Company recognizes gift card breakage income proportionately as gift cards are redeemed using an estimated breakage rate based on our historical experience. Previously, the Company recognized the estimated breakage income on gift card sales on a pro rata basis based on an estimated breakage rate.

OUTLOOK

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

The Company has previously disclosed that it is pursuing strategic initiatives to enhance shareholder value. With a healthy balance sheet and capital to invest, Second Cup is actively engaged in potential acquisitions of coffee and food brands that are strategically and culturally aligned with the Second Cup business.

Second Cup has taken a more active role in the process of procuring the license to operate cannabis retail stores in two of its locations in Calgary. Concurrently, the Company will more aggressively pursue new retail cannabis opportunities in future rounds of licensing in the Ontario region where the brand has its largest footprint.

Expanding the network is key to Second Cup's growth and non-traditional locations have historically been some of the strongest performers including education, healthcare, and transportation centres. Second Cup's position as the largest Canadian-owned, national specialty coffee brand makes it particularly attractive to these institutions. Market tests in new non-traditional venues are underway and greater focus will be placed on expanding this channel.

DEFINITIONS AND DISCUSSION ON CERTAIN NON-IFRS FINANCIAL MEASURES

In this MD&A, the Company reports certain non-IFRS 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-IFRS 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) and EBITDA, adjusted net income (loss) and adjusted net income (loss) per share are provided below:

	13 weeks ended		39 weeks ended	
	September 28, 2019[1]	**September 29, 2018**	**September 28, 2019[1]**	**September 29, 2018**
Net income (loss)	$ (762)	$ 766	$ (629)	$ 1,205
Add (deduct):				
Income taxes (recovery)	(277)	271	(229)	444
Interest and financing income	(36)	(61)	(177)	(102)
Other loss (income)	349	(456)	(818)	(989)
Operating income (loss)	$ (726)	$ 520	$ (1,853)	$ 558

	13 weeks ended		39 weeks ended	
	September 28, 2019[1]	**September 29, 2018**	**September 28, 2019[1]**	**September 29, 2018**
Net income (loss)	$ (762)	$ 766	$ (629)	$ 1,205
Add (deduct):				
Income taxes (recovery)	(277)	271	(229)	444
Interest and financing income	(36)	(61)	(177)	(102)
Other loss (income)	349	(456)	(818)	(989)
Depreciation of property and equipment	221	212	566	635
Amortization of intangible assets	103	126	359	376
Amortization of right-of-use assets	581	-	1,674	-
EBITDA	$ 179	$ 858	$ 746	$ 1,569
Add impact of the following:				
Non-recurring costs	606	22	1,005	64
Adjusted EBITDA	$ 785	$ 880	$ 1,751	$ 1,633

	13 weeks ended		39 weeks ended	
	September 28, 2019[1]	**September 29, 2018**	**September 28, 2019[1]**	**September 29, 2018**
Net income (loss)	$ (762)	$ 766	$ (629)	$ 1,205
Add (deduct) impact of the following:				
After-tax other (income) loss	256	(334)	(599)	(725)
After-tax transition costs	444	-	736	-
Adjusted net income (loss)	$ (62)	$ 432	$ (492)	$ 480

	13 weeks ended		39 weeks ended	
	September 28, 2019[1]	**September 29, 2018**	**September 28, 2019[1]**	**September 29, 2018**
Net income (loss) per share	$ (0.04)	$ 0.04	$ (0.03)	$ 0.06
Add (deduct) impact of the following:				
After-tax other (income) loss per share	0.02	(0.01)	(0.03)	(0.03)
After-tax transition costs per share	0.02	-	0.04	-
Adjusted net income (loss) per share	$ nil	$ 0.03	$ (0.02)	$ 0.03

[1]Adoption of new accounting standard IFRS 16 on a modified retrospective basis – financial statements for 2019 are prepared under the new standard whereas the prior periods are on the previous standard. See the section "Changes in Accounting Policies" for further analysis.