CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Management's Discussion and Analysis ("MD&A") may constitute forward-looking statements within the meaning of applicable securities legislation. The terms the "Company", "Second Cup", "we", "us", or "our" refer to The Second Cup Ltd. Forward-looking statements include words such as "may", "will", "should", "expect", "anticipate", "believe", "plan", "intend" and other similar words. These statements reflect current expectations regarding future events and financial performance and speak only as of the date of this MD&A. The MD&A should not be read as a guarantee of future performance or results and will not necessarily be an accurate indication of whether or not those results will be achieved. Forward-looking statements are based on a number of assumptions and are subject to known and unknown risks, uncertainties and other factors, many of which are beyond Second Cup's control that may cause Second Cup's actual results, performance or achievements, or those of Second Cup cafés, or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The following are some of the factors that could cause actual results to differ materially from those expressed in the underlying forward-looking statements: competition; availability of premium quality coffee beans; the ability to attract qualified franchisees; the location of Second Cup cafés; the closure of Second Cup cafés; loss of key personnel; compliance with government regulations; potential litigation; the ability to exploit and protect the Second Cup trademarks; changing consumer preferences and discretionary spending patterns including, but not restricted to, the impact of weather and economic conditions on such patterns; reporting of system sales by franchisees; and the financial performance and financial condition of Second Cup. The foregoing list of factors is not exhaustive, and investors should refer to the risks described under "Risks and Uncertainties" below and in Second Cup's Annual Information Form, which is available at www.sedar.com.

Although the forward-looking statements contained in this MD&A are based on what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements and, as a result, the forward-looking statements may prove to be incorrect.

As these forward-looking statements are made as of the date of this MD&A, Second Cup does not undertake to update any such forward-looking statements whether as a result of new information, future events or otherwise. Additional information about these assumptions and risks and uncertainties is contained in the Company's filings with securities regulators. These filings are also available on the Company's website at www.secondcup.com.

INTRODUCTION

The following MD&A has been prepared as of February 24, 2017 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 14 weeks (the "Quarter") and 53 weeks (the "Year") ended December 31, 2016, and should be read in conjunction with the Audited Financial Statements of the Company, accompanying notes and the Annual Information Form, which are available at www.sedar.com. Past performance may not be indicative of future performance. All amounts are presented in thousands of Canadian dollars, except number of cafés, per share amounts or unless otherwise indicated and have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company also reports certain non-IFRS measures such as System sales of cafés, Same café sales, Free cash flow, Net debt, Loyalty sales, Operating income, and EBITDA that are discussed in the "Definitions and discussion of certain non-GAAP financial measures" in this MD&A.

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CORE BUSINESS, STRATEGY, AND PERFORMANCE DRIVERS

Core business

Second Cup is a Canadian specialty coffee retailer with 294 cafés operating under the trade name Second Cup™ in Canada, of which 22 are Company owned and the balance is operated by franchisees.

Second Cup owns the trademarks, trade names, operating procedures and systems and other intellectual property used in connection with the operation of Second Cup cafés in Canada, excluding the Territory of Nunavut.

The Company was incorporated under the Business Corporations Act (Ontario) in 2011. The address of its registered office is 6303 Airport Road, 2nd Floor, Mississauga, Ontario, L4V 1R8. The website is www.secondcup.com. The common shares are listed on the Toronto Stock Exchange under the symbol "SCU".

The fiscal year follows the method, such that each quarter will consist of 13 weeks and will end on the Saturday closest to the calendar quarter-end. The fiscal year is made up of 52 or 53-week periods ending on the last Saturday of December. Fiscal year 2016 consists of 53 weeks.

As at December 31, 2016, the issued share capital consisted of 12,830,945 common shares.

Additional information including the Annual Information Form is on SEDAR at www.sedar.com.

As a franchisor, Second Cup opens, acquires, closes and refranchises individual café locations in the normal course of business.

CORE BUSINESS, STRATEGY, AND PERFORMANCE DRIVERS

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 and the brand will win customers' hearts through more "personalized experiences".

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. Second Cup reinforced its position as The Canadian Specialty Coffee Company with the September 2016 launch of its Second to None coffee campaign featuring in-house Coffee Expert Chris Sonnen. The campaign showcases the significant enhancements made in every step of the coffee process from farm to cup resulting in superior coffee taste that is "better, not bitter".

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 2017.

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 Second Cup brand

In conjunction with the official unveiling of the "café of the future", the Company launched its present logo and branding in December of 2014. The updated brand -- Second Cup Coffee Co.™ -- reflects a new independent spirit, a commitment to deliver the world's finest coffee, and the Company's vision to be the coffee brand most passionately committed to quality and innovation. The logo is designed to convey the elevated premium status of the brand, and all touch points both inside and outside of the café have been modernized. A proud Canadian company since 1975 with 294 cafés across Canada, Second Cup Coffee Co.™ is a specialty coffee retailer. The Company maintains its commitment to the communities it operates in, celebrating the franchisees' local ownership and their focus on providing quality and friendly service to each customer in every café.

The "Café of the Future"

The new design revolves around the Company's brand pillars of superior quality, optimism, collaboration, creativity and community, and focuses on the individual customer experience. Features of the new café include a Slow Bar, where customers can interact with baristas and taste coffees made from new brewing technologies, an expanded portfolio of coffees, baked goods hand-crafted in local bakeries, modern layout and architectural design, built-in charging stations for electronic devices, custom music program, community wall mural created by local artists that reflects and celebrates the neighborhood, and a stylish new employee dress code.

The people

The franchise network consists of approximately 3,500 team members. Team members range from baristas, managers and franchisees at the cafés to support personnel employed at Coffee Central (head office). Baristas and franchisees complete extensive training and certification to deliver a quality product to our customers. Franchisees and baristas are subject to operational quality checks to monitor performance.

Product

The Company has a strategic partnership with an independent roaster of coffees. The Company has also partnered with Swiss Water Decaffeinated Coffee Company Inc. to decaffeinate its coffee. This process is 100% chemical-free, unlike other decaffeination methods that use methylene chloride or ethyl acetate to remove the caffeine. This decaffeination process gently removes 99.9% of the caffeine while maintaining the unique taste characteristics of the coffee. The process reflects Second Cup's commitment to natural and healthy products.

The coffee portfolio currently contains 19 varieties of coffee, including six single-origin and estate coffees and flavoured coffees as well as proprietary blends like Batch 49, Paradiso® and Espresso Forte. The cafés offer a wide variety of hand-crafted espresso-based beverages and iced and blended beverages, including espressos, cappuccinos, lattes and the popular Vanilla Bean Latte and Moccaccino. Second Cup is committed to developing and introducing new drinks, an example of which is the Flat White, an internationally popular espresso based drink which Second Cup was the first to market nationally in Canada. The Company has a long history of partnering with coffee producers, and buying direct from farm or mill, and has Canadian exclusivity to sell San Agustin, Fazenda Vista Alegre, Cuzco® and La Minita Tarrazú; La Minita is considered by many to be the most carefully processed coffee in the world. In 2014, the Company introduced single serve capsules in a variety of roasts for at home consumption.

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

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

Liquidity, capital resources and management of capital

The Company's objectives relating to the management of its capital structure are to:

- safeguard its ability to continue as a going concern;
- maintain financial flexibility in order to preserve its ability to meet financial obligations;
- maintain a capital structure that provides financing options to the Company when the need arises to access capital; and
- deploy capital to provide an adequate return to its shareholders.

The Company's primary uses of capital are to finance increases in non-cash working capital and capital expenditures. The Company determines the appropriate level of debt in the context of its cash flows and overall business risks. On August 5, 2014, the Company suspended its dividend in order to retain cash resources for redeployment into investments that will maximize long-term growth in share value.

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

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

The Company was in compliance with these covenants at December 31, 2016. While management believes the Company will be able to comply with all of the financial covenants for the foreseeable future, there is no assurance covenants in the future will be met. Non-compliance with covenants can be remediated by additional cash injection but may also impact the Company's ability to amend covenants or renew its facility in the future.

The facility bears interest at the Base Rate, as defined in the agreement, which is set at 10.0% per annum.

In conjunction with the new credit facility, the Company granted the lender 600,000 warrants to purchase the equivalent number of common shares at a price of $2.75. These warrants expire on December 2, 2020 and have been assigned a fair value of $0.62 using the Black-Scholes model and have been included in the unamortized transaction costs. Key assumptions in the calculation of fair value include volatility of 41%, interest rate of 1.06% and dividend rate of nil.

Competition

The Canadian specialty coffee market is highly competitive and highly fragmented, with few barriers to entry. There are national, regional and local coffee retailers who are specialty coffee providers or quick serve restaurants with broad menus.

Technology

Second Cup relies heavily on information technology network infrastructure including point of sale system ("POS") hardware and software in cafés, gift and loyalty card transactions, and head office financial and administrative functions. The ability to manage operations effectively and efficiently depends on the reliability and capacity of these technology systems, most of which are administered by third party suppliers. The Company has made significant investments in POS systems across its store network as it relies on the POS system to help analysis for both marketing initiatives and royalty calculations.

FINANCIAL HIGHLIGHTS

The following table sets out selected IFRS and certain non-GAAP financial measures of the Company and should be read in conjunction with the Audited Financial Statements of the Company for the 53 weeks ended December 31, 2016.

(In thousands of Canadian dollars, except same café sales, number of cafés, per share amounts, and number of common shares.)	**14 weeks ended December 31, 2016**	**13 weeks ended December 26, 2015**	**53 weeks ended December 31, 2016**	**52 weeks ended December 26, 2015**
System sales of cafés[1]	$46,743	$46,900	$163,738	$174,866
Same café sales[1]	(1.0%)	0.2%	(1.1%)	(1.4%)
Number of cafés - end of period	294	310	294	310
Total revenue	$7,500	$9,636	$30,351	$37,341
Operating costs and expenses	$7,199	$9,469	$31,336	$38,422
Operating income (loss) [1]	$301	$167	($985)	($1,081)
EBITDA[1]	$667	$555	$563	$384
Net income (loss) and comprehensive income (loss)	$147	$94	($975)	($1,153)
Basic and diluted earnings (loss) per share as reported	$0.01	$0.01	($0.08)	($0.09)
Total assets - end of period	$45,314	$46,485	$45,314	$46,485
Number of weighted average common shares issued and outstanding	12,830,945	12,830,945	12,830,945	12,830,945

[1]See the section "Definitions and discussion on certain non-GAAP measures" for further analysis.

OPERATIONAL REVIEW

Seasonality of System sales of cafés

The following table shows the percentage of annual System sales of cafés achieved, on average, in each fiscal reporting quarter over the last three Years:

% of annual System sales of cafés	2014	2015	2016	Average
First Quarter	24.0	24.7	23.9	24.2
Second Quarter	25.1	25.0	24.6	24.9
Third Quarter	23.9	23.5	23.0	23.5
Fourth Quarter	27.0	26.8	28.5	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

	14 weeks ended December 31, 2016	13 weeks ended December 26, 2015	53 weeks ended December 31, 2016	52 weeks ended December 26, 2015
Number of cafés - beginning of period	298	327	310	347
Cafés opened	2	1	4	3
Cafés closed	(6)	(18)	(20)	(40)
Number of cafés - end of period	294	310	294	310

The Company ended the Year with 22 (2015 – 32) Company-owned cafés. Café closures are mainly attributable to leases that are not renewed on expiration, under-performing locations and landlord re-development of specific sites.

Fourth Quarter

System sales of cafés

System sales of cafés for the 14 weeks ended December 31, 2016 were $46,743 compared to $46,900 for the 13 weeks ended December 26, 2015 representing a decrease of $157 or 0.3%. The decrease is attributable to the reduced store count and a decrease in same café sales, offset by inclusion of an extra week of sales.

Same café sales

During the Quarter, same café sales decreased by 1.0%, compared to an increase of 0.2% in the comparable Quarter of 2015. Alberta's ongoing economic downturn continued to negatively impact overall same store sales by approximately 1.3% in the Quarter.

Analysis of revenue

Total revenue for the Quarter was $7,500 (2015 - $9,636) consisting of Company-owned café and product sales, royalty revenue, franchise fees and other revenue.

Company-owned cafés and product sales for the Quarter were $3,210 (2015 - $5,506). The decrease in revenue of $2,296 is attributable to the reduced Company-owned cafés count from 32 last year to 22 this Year and lower Company-branded consumer product sales, offset by inclusion of an extra week of sales. Reducing Company-owned cafés is consistent with the Company's strategy of returning to an asset light business model.

Franchise revenue was $4,290 for the Quarter (2015 - $4,130). The increase in franchise revenue of $160 in 2016 is primarily driven by a slightly better blended royalty rate on higher franchise café sales due to an extra week, offset by fewer cafés.

Operating costs and expenses

Operating costs and expenses include the costs of Company-owned cafés and product sales, franchise-related expenses, general and administrative expenses, loss/gain on disposal of assets, and depreciation and amortization. Total operating costs and expenses for the Quarter were $7,199 (2015 - $9,469), a decrease of $2,270.

Company-owned cafés and product sales

Company-owned cafés and product related expenses for the Quarter were $3,410 (2015 - $5,678), a decrease of $2,268. This decrease in costs is attributable to a lower number of Company-owned cafés and lower product sales as compared to 2015.

Franchise

The Company incurred franchise related expenses of $2,006 (2015 - $1,816). Expenses for the same period in 2015 benefited from an adjustment in the provisions for café closure costs.

General and administrative

General and administrative expenses were $1,502 for the Quarter (2015 - $1,565). The $63 decrease is mainly due to reduced staff-related expenses as a result of a reduction in employee headcount.

Gain and loss on disposal of assets

A gain on disposal of $84 was recognized in the Quarter (2015 – loss of $22). Gain and loss on disposal of assets are primarily related to the franchising of Company-owned cafés to franchise partners.

Depreciation and amortization

Depreciation and amortization expense was $365 (2015 - $388).

EBITDA

EBITDA for the Quarter was $667 compared to $555 in 2015. The increase of $112 is primarily due to a smaller loss attributed to the Company-owned cafés and product sales segment.

Net income (loss)

The Company's net income for the Quarter was $147 or $0.01 per share, compared to a net income of $94 or $0.01 per share in 2015.

A reconciliation of net income (loss) to Adjusted EBITDA is provided in the section "Definitions and discussion of certain non-GAAP financial measures".

Year

System sales of cafés

System sales of cafés for the Year were $163,738 compared to $174,866 for 2015, representing a decrease of $11,128 or 6.4%. The decrease is attributable to decreased same café sales as well as the reduced café count.

Same café sales

For the Year, same café sales declined by 1.1% compared to a decline of 1.4% in 2015. Alberta's economic downturn continued to negatively impact overall same store sales by approximately 1.3% for the Year.

Analysis of revenue

This analysis of revenue includes the revenue outlined in the quarterly comments above. Total revenue for the Year was $30,351 (2015 - $37,341).

Company-owned cafés and product sales were $14,663 (2015 - $22,082). The decrease of $7,419 is attributable to the gradual reduction in the Company-owned cafés count from 32 at the end of 2015 to 22 this Year and lower Company-branded consumer product sales, offset by inclusion of an extra week of sales. Reducing Company-owned cafés is consistent with the Company's strategy of returning to an asset light business model.

Franchise revenue was $15,688 for the Year (2015 - $15,259). The increase in revenue of $429 is primarily driven by a slightly better blended royalty rate on franchise café sales and fee revenue from corporate café resales, offset by fewer franchise café count in 2016.

Operating costs and expenses

Operating expenses include the costs outlined in the quarterly comments above. Total operating expenses for the Year were $31,336 (2015 - $38,422), a decrease of $7,086.

Company-owned cafés and product sales

Company-owned cafés and product related expenses for the Year were $15,682 (2015 - $22,382), a decrease of $6,700. The decrease in costs is mainly related to lower café operating expenses associated with the reduction of Company-owned cafés.

Franchise

Franchise related expenses of $8,103 were incurred for the Year (2015 - $8,809). The decrease of $706 is attributable to rent-related expenses recorded during the third quarter of 2015.

General and administrative

General and administrative expenses were $5,778 for the Year (2015 - $5,787). Restructuring and severance costs were lower in the Year offset by an increase in technology costs as compared to 2015.

Gain and loss on disposal of assets

A loss on disposal of assets of $225 was recognized for the Year (2015 - $21 gain). The loss is related to the resale of Company-owned cafés.

Depreciation and amortization

Depreciation and amortization expense was $1,548 (2015 - $1,465).

EBITDA

EBITDA for the Year was $563, compared to $384 last year. The increase in 2016 over 2015 is mainly due to the improvement in the franchise business partially offset by lower earnings from Company-branded product sales.

Net loss

The Company's net loss for the Year was $975 or $0.08 loss per share, compared to a net loss of $1,153 or $0.09 loss per share in 2015.

A reconciliation of net loss to adjusted EBITDA is 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)	Q4 2016[2]	Q3 2016	Q2 2016	Q1 2016
System sales of cafés[1]	$46,743	$37,717	$40,207	$39,071
Same café sales[1]	(1.0%)	(1.2%)	(1.3%)	(1.1%)
Number of cafés - end of period	294	298	304	307
Total revenue	$7,500	$7,656	$7,761	$7,434
Operating income (loss)[1]	$301	($25)	($528)	($733)
EBITDA[1]	$667	$357	($128)	($332)
Net income (loss) for the period	$147	($75)	($441)	($606)
Basic and diluted earnings (loss) per share	$0.01	($0.01)	($0.03)	($0.05)
Dividends declared per share	-	-	-	-
	Q4 2015[2]	**Q3 2015**	**Q2 2015**	**Q1 2015**
System sales of cafés[1]	$46,900	$41,087	$43,715	$43,174
Same café sales[1]	0.2%	(2.9%)	(3.2%)	(1.1%)
Number of cafés - end of period	310	327	339	344
Total revenue	$9,636	$9,270	$9,421	$9,014
Operating (loss) income[1]	$167	($1,310)	($6)	$68
EBITDA[1]	$554	($924)	$334	$419
Net (loss) income for the period	$94	($1,099)	($72)	($76)
Basic and diluted (loss) earnings per share	$0.01	($0.09)	($0.01)	($0.01)
Dividends declared per share	-	-	-	-

[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).

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. The performance of Second Cup franchisees and Company-owned cafés could impact the ability of the Company to declare and pay dividends to its shareholders. For a more detailed discussion of the risks and uncertainties affecting the Company's liquidity, see the "Risks and uncertainties" section below.

Summary of cash flows

	14 weeks ended December 31, 2016	13 weeks ended December 26, 2015	53 weeks ended December 31, 2016	52 weeks ended December 26, 2015
Cash flows provided by (used in) operating activities	$ (479)	$ (722)	$ (1,253)	$ (675)
Cash flows provided by (used in) investing activities	(19)	(940)	(365)	(2,093)
Cash flows provided by (used in) financing activities	1,542	(5,070)	1,542	(5,070)
Increase (decrease) in cash and cash equivalents during the period	$ 1,044	$ (6,732)	$ (76)	$ (7,838)

Fourth Quarter

Cash used in operating activities was $479 for the Quarter compared to cash used of $722 for the same Quarter in 2015. The reduction in cash use of $243 is primarily due to a smaller change in the Co-op Fund offset by gains in disposal of capital assets.

During the Quarter, cash used in investing activities was $19 compared to cash used of $940 for the same Quarter in 2015 due to lower payments for capital expenditures and intangible assets in 2016.

Cash generated in financing activities was $1,542 (2015 – cash used of $5,070). The increase in cash provided of $6,612 was due to the repayment of $5,000 of the term loan in 2015 and the increase in long-term debt of $2,000, offset by financing charges.

Year

Cash used by operating activities was $1,253 for the Year compared to cash use of $675 for 2015. The increase in cash used of $578 was primarily caused by a reduction in accounts payable and accrued liabilities, offset by losses in disposal of capital assets.

During the Year, cash used in investing activities was $365 compared to cash used of $2,093 for 2015. The reduction in cash used was primarily the result of lower capital expenditures and payments for intangible assets in 2016.

Financing activities resulted in a cash generation of $1,542 (2015 – cash used of $5,070). The increase in cash of $6,612 was due to the repayment of $5,000 of the term loan in 2015 and the increase in long-term debt of $2,000, offset by financing charges, as a result of replacing the credit facility with the new facility described in the "Liquidity, capital resources and management of capital" section.

Working capital as at

	December 31, 2016	December 26, 2015
Current assets	$ 9,096	$ 8,817
Current liabilities	10,242	11,804
Working capital deficiency	$ (1,146)	$ (2,987)

The Company's working capital deficit of $1,146 as at December 31, 2016 improved by $1,841 from December 26, 2015, primarily as a result of a reduction in accounts payable and accrued liabilities at the end of 2016. Gift card liability ended the Year at $3,484, a decrease of $70 compared to the end of 2015. Based on the historical redemption patterns, the Company believes that it has sufficient financial resources to cover the gift card liability. The Company operates in the franchise industry, in which a working capital deficit is considered normal.

The Company had cash and cash equivalents of $3,004 as at December 31, 2016 (December 26, 2015 - $3,080) and recently replaced its credit facility which does not require principal payments until 2020. 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	
Interest rate swap	Credit, liquidity and interest rate
Accounts payable and accrued liabilities	Liquidity, currency and commodity
Gift card liability	Liquidity
Deposits from franchisees	Liquidity
Term loan	Liquidity and interest rate

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

Trade and other receivables, and notes and leases receivable
Trade and other receivables, and notes and 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) Interest rate risk

Financial instruments exposed to interest rate risk earn and bear interest at floating rates. The Company entered into an interest rate swap agreement to minimize risk on its long-term debt. The swap agreement expired in the third quarter of 2016. The option of entering into an interest rate swap agreement is available to the Company, as needed.

(iv) 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

Contractual Obligations	Payments Due by Period				
	Total	1 year	2 - 3 years	4 - 5 years	After 5 years
Debt	$8,000	$Nil	$Nil	$8,000	$Nil
Obligations from Operating Leases	13,903	1,999	3,895	3,131	4,878
Purchase Obligations	1,382	1,382	Nil	Nil	Nil
Total Contractual Obligations	$23,285	$3,381	$3,895	$11,131	$4,878

Debt

On December 2, 2016, the Company entered into a new credit facility which replaced its facility with the Bank of Nova Scotia. The new credit facility of $8,000 matures on December 2, 2020 (with no principal payments prior to December 2, 2020). As part of the agreement, the Company issued 600,000 warrants that granted the lender the right to purchase in respect of each warrant one Common Share, at a purchase price of $2.75 per Common Share, at any time up to December 2, 2020.

Obligations from Operating Leases

Second Cup has lease commitments for Company-owned cafés and also acts as the head tenant on most leases, which in turn it subleases to franchisees. To the extent the Company may be required to make rent payments due to head lease commitments, a provision has been recognized.

		Head lease commitments		Sublease to franchisees		Net
December 30, 2017	$	17,792	$	15,793	$	1,999
December 29, 2018		15,960		13,970		1,990
December 28, 2018		13,994		12,089		1,905
December 26, 2020		11,584		9,927		1,657
December 25, 2021		9,822		8,348		1,474
Thereafter		27,423		22,545		4,878
	$	96,575	$	82,672	$	13,903

The Company believes it has sufficient resources to meet the net commitment of $13,903 over the term of the leases.

Purchase Obligations
Contracts are in place with third party companies to purchase the coffee that is sold in all cafés. In terms of these supply agreements, there is a guaranteed minimum value of coffee purchases of $849 USD (2015 - $2,464 USD) for the 12 months. The coffee purchase commitment comprises three components: unapplied futures commitment contracts, fixed price physical contracts and flat 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 $241 (2015 - $265) of contractual commitments pertaining to construction costs for new locations and renovations as at the end of the fiscal Year. Construction costs financed for franchise projects are from deposits received from franchisees and for corporate projects from the Company's cash flows.

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

Related parties
Related parties are identified as key management, members of the Board of Directors, and shareholders that effectively exercise significant influence on the Company. Such related parties include any entities acting with or on behalf of the aforementioned parties.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") must acknowledge they are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting ("ICFR") for the Company. The control framework used by the CEO and CFO to design the Company's ICFR is Internal Control over Financial Reporting - Guidance for Smaller Public Companies as issued by COSO. In addition, in respect of:

Disclosure controls and procedures
The CEO and CFO must certify they have designed the disclosure controls and procedures, or caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the

Company is made known to them in a timely manner and that information required under securities legislation is recorded, processed, summarized and reported in a timely manner.

As at February 24, 2017, the Company's management, under the supervision of, and with the participation of, the CEO and CFO, evaluated the design of the disclosure controls and procedures. Based on this evaluation, the CEO and CFO have concluded that, as at December 31, 2016, 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 14 weeks ended December 31, 2016 and up to the date of the approval of the Audited Financial Statements and MD&A, there has been no change that has materially affected, or is reasonably likely to materially affect the Company's disclosure controls and procedures.

Internal controls over financial reporting

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

As at February 24, 2017, the Company's management, under the supervision of, and with the participation of, the CEO and CFO, evaluated the design of the controls over financial reporting. No material weaknesses in the design of these controls over financial reporting were identified. Based on this evaluation, the CEO and CFO have concluded that, as at December 31, 2016, 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 14 weeks ended December 31, 2016 and up to the date of the approval of the Audited Financial Statements and MD&A, there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

CRITICAL ACCOUNTING ESTIMATES

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

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

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

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

(i) Impairment charges
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 judgement to evaluate the likelihood and measurement of settlements, temporary payouts or subleasing. Management works with landlords and franchises and uses previous experience to obtain adequate information needed to make applicable judgements.

(v) Allowance for doubtful accounts
The allowance for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amount due according to the original terms of the receivable. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in expenses in the statement of income. When an account is deemed uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognized as a recovery in expenses in the statement of income.

RISKS AND UNCERTAINTIES

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

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

The specialty coffee industry is characterized by intense competition with respect to price, location, coffee and food quality, and numerous factors affecting discretionary consumer spending. Competitors include national and regional chains, independent cafés, all restaurants and food service outlets that serve coffee, and supermarkets that compete in the whole bean and roast and ground segments.

Growth of the café network depends on Second Cup's ability to secure and build desirable locations and find high calibre, qualified franchisees to operate them. Credit markets may affect the ability of franchisees to obtain new credit or refinance existing credit on economically reasonable terms.

Second Cup faces competition for café locations and franchisees from its competitors and from franchisors and operators of other businesses. The success of franchisees is significantly influenced by the location of their cafés. There can be no assurance that current café locations will continue to be attractive, or that additional café sites can be located and secured as demographic and traffic patterns change. Also, there is no guarantee that the property leases in respect of the cafés will be renewed or suitable alternative locations will be obtained and, in such event, cafés could be closed. It is possible that the current locations or economic conditions where cafés are located could decline in the future, resulting in reduced sales in those locations. There is no assurance that future sites will produce the same results as past sites. There is also no assurance that a franchisee will continue to pay rental obligations in a timely manner, which could result in Second Cup being obligated to pay the rental obligations pursuant to its head lease commitment, which would adversely affect the profitability of the business.

The Canadian specialty coffee industry is also affected by changes in discretionary spending patterns, which are in turn dependent on consumer confidence, disposable consumer income and general economic conditions. Factors such as changes in general economic conditions, recessionary or inflationary trends, job security and unemployment, equity market levels, consumer credit availability and overall consumer confidence levels may affect their business. The specialty coffee industry is also affected by demographic trends, traffic and weather patterns, as well competing cafés.

Business could be adversely affected by increased concerns about food safety in general or other unusual events. On May 28, 2015, the government of Ontario enacted the Making Healthy Choices Act, 2015. The Act came into force on January 1, 2017. Restaurant chains and other food service providers with 20 or more locations operating under the same (or substantially the same) name in Ontario have made changes to the information they display on menus, menu boards and displays. The potential impact of this legislation is undetermined.

Partnerships to distribute whole bean and roast and ground coffees requires significant investments of non-refundable listing fees. The TASSIMO self-serve product has achieved positive results and the Company will continue to evaluate this area of potential growth, including consideration of adding additional products. The Company also offers whole bean and ground coffees as a complementary but different product line in comparison to self-serve.

Second Cup relies heavily on information technology (IT) network infrastructure. The ability to manage operations effectively and efficiently depends on the reliability and capacity of these IT systems, most of which are administered by third party suppliers. The Company relies on POS for system sales for both marketing trends and royalty calculations. Cafés rely on IT network infrastructure to order goods and process credit, debit and café card transactions. Coffee Central financial and administrative functions rely on IT infrastructure for accurate and reliable information. The failure of these systems to operate effectively, or problems with upgrading or replacing systems, could cause a material negative financial result. The Company is continually reviewing its systems and procedures to minimize risk.

The company's cash flow can also be impacted by underperformance of its franchise network through reduced royalties, higher lease exit provisions or the increase in the number of corporate stores. Reduced earnings could impact the company's ability to comply with its credit facility covenants.

The loss of key personnel and/or a shortage of experienced management and hourly employees could have an adverse impact on operations and cafés.

A more detailed discussion of the risks and uncertainties affecting Second Cup is set out in the Second Cup's Annual Information Form, which is available at www.sedar.com.

OUTLOOK

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

The Company celebrated a key milestone in February 2017 with the Rewards program reaching the 300,000 member mark and 25% sales penetration in under two years. Members enjoy free rewards faster by earning points with every dollar spent and through personalized bonus point offers sent by email and on the mobile app. The Rewards program continues to be a strategic priority for the Company.

The Company has a number of new initiatives in test markets that have encouraging results for sales growth. Based on successful test market results, the Company recently launched a new line of "Better For You" products to meet growing customer demand for healthier options.

DEFINITIONS AND DISCUSSION ON CERTAIN NON-GAAP FINANCIAL MEASURES

In this MD&A, the Company reports certain non-IFRS measures such as system sales of cafés, same café sales, free cash flows, net debt, loyalty sales, operating income (loss), EBITDA, adjusted EBITDA and adjusted earnings 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.

Free cash flow

Free cash flow is calculated as operating cash flow minus capital expenditures. Free cash flow represents the cash that a company is able to generate after spending the money required to maintain or expand its asset base. Free cash flow is important because it allows the Company to pursue opportunities that enhance shareholder value.

Net Debt

Net debt refers to the total debt of the Company minus cash and cash equivalents. It does not include cash classified as restricted. Net debt is discussed at times as management believes it is a useful indicator of the Company's ability to meet debt service and evaluate liquidity.

Loyalty Sales

Loyalty sales refers to system sales that are transacted in café through or in association with the Company's loyalty program. Loyalty sales are defined as sales transactions through the Company's loyalty app or sales transactions that are accompanied by the Company's loyalty card. Management views this as useful indicator of its loyal customer base.

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

EBITDA represents earnings before interest, taxes, depreciation and amortization. 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.

A reconciliation of net income (loss) to EBITDA is provided below:

	14 weeks ended December 31, 2016	13 weeks ended December 26, 2015	53 weeks ended December 31, 2016	52 weeks ended December 26, 2015
Net income (loss)	$ 147	$ 94	$ (975)	$ (1,153)
Interest and financing	96	72	255	457
Income taxes (recovery)	59	-	(265)	(385)
Depreciation of property and equipment	268	284	1,145	1,091
Amortization of intangible assets	97	104	403	374
EBITDA	667	554	563	384

Basic and diluted earnings per share

	14 weeks ended December 31, 2016	13 weeks ended December 26, 2015	53 weeks ended December 31, 2016	52 weeks ended December 26, 2015
Net income (loss)	$ 147	$ 94	$ (975)	$ (1,153)
Weighted average number of shares issued and outstanding (unrounded)	12,830,945	12,830,945	12,830,945	12,830,945
Basic and diluted earnings (loss) per share	$ $0.01	$ 0.01	$ (0.08)	$ (0.09)

For the 14 and 53 weeks ended December 31, 2016, there were 670,000 outstanding share option awards (13 and 52 weeks ended December 26, 2015 – 715,000) and 600,000 warrants to purchase shares that are excluded due to anti-dilutive impact.