



Second Cup Q3 EBITDA More Than Doubles Compared With Year Ago

MISSISSAUGA, ON, November 3, 2017 /CNW/ - The Second Cup Ltd. (TSX: SCU) today reported continued improvement of financial results for the third quarter ended September 30, 2017.

Highlights

- EBITDA was \$805,000 compared with EBITDA of \$357,000 in the same quarter last year.
- Q3 same store sales were flat and +0.9% excluding Alberta.
- Adjusted net income of \$245,000 or \$0.02 per share for the third quarter compared with a year ago net loss of \$75,000 or -\$0.01 per share.
- After absorbing one-time, non-cash financing charges, net loss for the quarter was \$2,962,000 or -\$0.19 per share.
- The company is now debt-free following a full settlement of its long-term debt in the quarter. This will result in annual cost savings for the company of approximately \$960,000.

Third Quarter 2017

Same store sales were flat this quarter compared to -1.2% last year. Excluding Alberta same store sales rose 0.9% in the third quarter. EBITDA of \$805,000 represents an improvement of 125% over the same quarter last year. The Q3 adjusted net income of \$245,000 is an improvement of \$320,000 over Q3 2016.

On August 10, 2017, the company issued 4,210,528 common shares and 300,000 warrants to the four shareholders of SPE Finance LLC (SPE), an affiliate of Serruya Private Equity. The company also settled its \$8,000,000 debt to SPE and cancelled 600,000 of old warrants. These transactions resulted in one-time, non-cash financing charges of \$3,290,000. These charges consist of the difference between the share

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price of \$2.60 on the issuance date and the agreed-to share price of \$1.90, as well as the write-off of the unamortized portion of deferred transaction costs related to the debt.

Garry Macdonald, The Second Cup Ltd. President & CEO said, "I am very pleased with our significant improvement in operating profitability this quarter. We continue to focus on updating and expanding our Second Cup footprint, as well as driving same store sales growth with product innovation including the roll out of Pinkberry and our recently launched premium bagels and spreads." Mr. Macdonald added, "We test new products and ideas at our flagship innovation centre café in Toronto where quarterly sales have risen by 27% with significantly improved profitability. This café's best practices were shared with all franchisee partners at our fall regional meetings and we are now working together on their implementation across the network."

Pinkberry

In September, Second Cup initiated the roll out of Pinkberry premium frozen yogurt following strong test market results. The program is currently in 15 Second Cup cafes, in five provinces across the country. Pinkberry has been a strong contributor to overall sales and transaction growth. Expansion is continuing.

About Second Cup® Coffee Co.™

Founded in 1975, The Second Cup Ltd. is a Canadian specialty coffee retailer operating 290 franchised and company owned cafes in Canada. The company's vision is to be the coffee brand most passionately committed to quality and innovation. For more information, please visit www.seconddcup.com or find the company on Facebook and Twitter.

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FINANCIAL HIGHLIGHTS

The following table sets out selected IFRS and certain non-GAAP financial measures of the Company and should be read in conjunction with the Unaudited Condensed Interim Financial Statements of the Company for the 13 and 39 weeks ended September 30, 2017 and September 24, 2016.

(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 30, 2017	September 24, 2016	September 30, 2017	September 24, 2016
System sales of cafés ¹	\$37,014	\$37,717	\$112,827	\$116,995
Same café sales ¹	0.0%	(1.2%)	0.1%	(1.2%)
Number of cafés - end of period	289	298	289	298
Total revenue	\$5,339	\$7,656	\$17,551	\$22,851
Operating costs and expenses	\$4,903	\$7,681	\$17,568	\$24,137
Operating income (loss) ¹	\$436	(\$25)	(\$17)	(\$1,286)
EBITDA ¹	\$805	\$357	\$1,095	(\$103)
Adjusted EBITDA ¹	\$805	\$357	\$1,382	(\$103)
Net income (loss) and comprehensive income (loss)	(\$2,962)	(\$75)	(\$3,752)	(\$1,122)
Adjusted net income (loss) and comprehensive income (loss) ¹	\$245	(\$75)	(\$545)	(\$1,122)
Basic and diluted earnings (loss) per share as reported	(\$0.19)	(\$0.01)	(\$0.28)	(\$0.09)
Adjusted Basic and diluted earnings (loss) per share ¹	\$0.02	(\$0.01)	(\$0.04)	(\$0.09)
Total assets - end of period	\$42,631	\$42,812	\$42,631	\$42,812
Number of weighted average common shares issued and outstanding	15,236,961	12,830,945	13,632,950	12,830,945

¹See the section "Definitions and Discussion on Certain non-GAAP Financial Measures" for further analysis.

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SELECTED BALANCE SHEET DATA

		September 30, 2017		December 31, 2016
Cash and cash equivalents	\$	3,264	\$	3,004
Restricted cash		1,592		1,947
Total assets		42,631		45,314
Long-term debt		-		7,181
Total liabilities		12,639		22,038
Shareholders' Equity		29,992		23,276

Café network

	13 weeks ended		39 weeks ended	
	September 30, 2017	September 24, 2016	September 30, 2017	September 24, 2016
Number of cafés - beginning of period	291	304	294	310
Cafés opened	1	-	2	2
Cafés closed	(3)	(6)	(7)	(14)
Number of cafés - end of period	289	298	289	298

The Company ended the Quarter with 15 (September 24, 2016 – 26) 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.

Third Quarter

System sales of cafés

System sales of cafés for the 13 weeks ended September 30, 2017 were \$37,014 compared to \$37,717 for the 13 weeks ended September 24, 2016 representing a decrease of \$703 or 1.9%. The decrease is primarily driven by the reduction in store count.

Same café sales

During the Quarter, same café sales were flat, compared to a decline of 1.2% in the same Quarter of 2016. Excluding Alberta, same café sales during the Quarter were 0.9%. In addition, the timing of Canada Day this year had a negative impact of approximately 0.3% on the Quarter. The success of the Company's Better For You Menu, launched in January and Flash Cold Brew launched in April have contributed to the improvement in same café sales.

Analysis of revenue

Total revenue for the Quarter was \$5,339 (September 24, 2016 - \$7,656) consisting of Company-owned café and product sales, royalty revenue, franchise fees and other revenue.

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Company-owned cafés and product sales for the Quarter were \$1,692 (September 24, 2016 - \$3,629). The decrease in revenue of \$1,937 is attributable to the reduced Company-owned cafés count from 26 last year to 15 this year and lower Company-branded consumer product sales. Reducing Company-owned cafés is consistent with the Company's strategy of returning to an asset light business model.

Franchise revenue was \$3,647 for the Quarter (September 24, 2016 - \$4,027). The decrease in franchise revenue of \$380 in the Quarter is primarily due to lower fees (renewal and coordination), partially offset by an increase in licensing fees and royalty income.

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 \$4,903 (September 24, 2016 - \$7,681), a decrease of \$2,778.

Company-owned cafés and product related expenses for the Quarter were \$1,902 (September 24, 2016 - \$3,857), a decrease of \$1,955. This decrease in costs is attributable to a lower number of Company-owned cafés and lower product sales as compared to the same Quarter in 2016.

The Company incurred franchise related expenses of \$1,131 in the Quarter (September 24, 2016 - \$1,888), a decrease of \$757. This decrease in expenses is primarily driven by operational efficiencies and reduction in remunerations.

General and administrative expenses were \$1,504 for the Quarter (September 24, 2016 - \$1,403), an increase of \$101, primarily driven by an increase in professional fees, partially offset by a reduction in remuneration.

A gain on disposal of assets of \$3 was recognized in the Quarter (September 24, 2016 – loss of \$151). Gain and loss on disposal of assets are primarily related to the franchising of Company-owned cafés to franchise partners.

Depreciation and amortization expense was \$369 (September 24, 2016 - \$382).

EBITDA

EBITDA for the Quarter was \$805 compared to \$357 in the same Quarter of 2016. The increase of \$448 is primarily driven by the decrease in franchise related expenses, partially offset by the decrease in franchise revenue, as described above.

Interest and financing costs

Interest and financing costs for the Quarter were \$3,394 compared to \$62 in the same Quarter of 2016. The increase of \$3,332 is primarily driven by one-time, non-cash financing charges of \$3,290. These charges consist of the difference between the share price of \$2.60 on the Issuance Date and the agreed-to share price of \$1.90, and the write-off of the unamortized portion of deferred transaction costs related to the debt.

Net income (loss)

The Company's net loss for the Quarter was \$2,962 or \$0.19 per share, compared to a net loss of \$75 or \$0.01 per share in 2016. Adjusted for the after-tax fair value difference on shares issued and other costs of \$3,207 (\$0.21 per share), adjusted net income was \$245 or \$0.02 per share compared to an adjusted net loss of \$75 or \$0.01 per share in 2016.

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

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Year to date

System sales of cafés

System sales of cafés for the 39 weeks ended September 30, 2017 were \$112,827 compared to \$116,995 for the 39 weeks ended September 24, 2016 representing a decrease of \$4,168 or 3.6%. The decrease is primarily driven by the reduction in store count.

Same café sales

Year to date same café sales growth was 0.1%, compared to a decline of 1.2% in the same period of 2016. The success of the Company's Better For You Menu, launched in January and Flash Cold Brew launched in April have contributed to the improvement in same café sales.

Analysis of revenue

Year to date total revenue was \$17,551 (September 24, 2016 - \$22,851) consisting of Company-owned café and product sales, royalty revenue, franchise fees and other revenue.

Year to date Company-owned cafés and product sales were \$6,849 (September 24, 2016 - \$11,453). The decrease in revenue of \$4,604 is primarily due to the reduction in Company-owned cafés this year and lower Company-branded consumer product sales. Reducing Company-owned cafés is consistent with the Company's strategy of returning to an asset light business model.

Year to date franchise revenue was \$10,702 (September 24, 2016 - \$11,398). The decrease in franchise revenue of \$696 is primarily due to lower fees (coordination, renewal and franchise-to-franchise resale), partially offset by licensing fees.

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. Year to date total operating costs and expenses were \$17,568 (September 24, 2016 - \$24,137), a decrease of \$6,569.

Year to date, Company-owned cafés and product related expenses were \$7,531 (September 24, 2016 - \$12,272), a decrease of \$4,741. This decrease in costs is attributable to a lower number of Company-owned cafés and lower product sales as compared to the same period in 2016.

The Company incurred franchise related expenses year to date of \$4,023 (September 24, 2016 - \$6,097), a decrease of \$2,074. This decrease in expenses is primarily driven by an improvement in operational effectiveness and moving from a national franchisee convention format to regional meetings with franchisees this year.

General and administrative expenses were \$4,803 year to date (September 24, 2016 - \$4,276), an increase of \$527 primarily drive by an increase in professional fees related to legal matters and one-time transition costs.

Year to date, a loss on disposal of \$99 was recognized (September 24, 2016 – loss of \$309). Gain and loss on disposal of assets are primarily related to the franchising of Company-owned cafés to franchise partners.

Depreciation and amortization expense was \$1,112 (September 24, 2016 - \$1,183) year to date.

EBITDA

EBITDA for the year to date was \$1,095 compared to a loss of \$103 in the same period of 2016. Adjusted for one-time transition costs of \$287 incurred in the second quarter of 2017, adjusted EBITDA was \$1,382 compared to an adjusted EBITDA loss of \$103 in the same period 2016. The increase of \$1,485 is primarily driven by the reduction in franchise related expenses, partially offset by the decrease in franchise revenue, as described above.

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Interest and financing costs

Interest and financing costs for the year to date was \$3,902 compared to \$159 in the same period of 2016. The increase of \$3,743 is primarily driven by one-time, non-cash financing charges of \$3,290. These charges consist of the difference between the share price of \$2.60 on the Issuance Date and the agreed-to share price of \$1.90, and the write-off of the unamortized portion of deferred transaction costs related to the debt.

Net income (loss)

The Company's net loss year to date was \$3,752 or \$0.28 per share, compared to a net loss of \$1,122 or \$0.09 per share in 2016. Adjusted for the after-tax expense on fair market value difference on issuance of shares of \$3,207 (\$0.24 per share), adjusted net loss was \$545 or \$0.04 per share compared to an adjusted net loss of \$1,112 or \$0.09 per share in 2016.

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

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SELECTED QUARTERLY INFORMATION

(in thousands of Canadian dollars, except
Number of cafés, Same café sales, and per
share amounts)

	Q3 2017	Q2 2017	Q1 2017	Q4 2016²
System sales of cafés ¹	\$37,014	\$37,898	\$37,915	\$46,743
Same café sales ¹	0.0%	0.7%	(0.2%)	(1.0%)
Number of cafés - end of period	289	291	293	294
Total revenue	\$5,339	\$6,237	\$5,975	\$7,500
Operating income (loss) ¹	\$436	(\$138)	(\$315)	\$301
EBITDA ¹	\$805	\$230	\$60	\$667
Adjusted EBITDA ¹	\$805	\$517	\$60	\$667
Net income (loss) for the period	(\$2,962)	(\$315)	(\$475)	\$147
Adjusted net income (loss) for the period ¹	\$245	(\$315)	(\$475)	\$147
Basic and diluted earnings (loss) per share	(\$0.19)	(\$0.02)	(\$0.04)	\$0.01
Adjusted basic and diluted earnings (loss) per share ¹	\$0.02	(\$0.02)	(\$0.04)	\$0.01
	Q3 2016	Q2 2016	Q1 2016	Q4 2015²
System sales of cafés ¹	\$37,717	\$40,207	\$39,071	\$46,900
Same café sales ¹	(1.2%)	(1.3%)	(1.1%)	0.2%
Number of cafés - end of period	298	304	307	310
Total revenue	\$7,656	\$7,761	\$7,434	\$9,636
Operating income (loss) ¹	(\$25)	(\$528)	(\$733)	\$167
EBITDA ¹	\$357	(\$128)	(\$332)	\$554
Adjusted EBITDA ¹	\$357	(\$128)	(\$332)	\$554
Net (loss) income for the period	(\$75)	(\$441)	(\$606)	\$94
Adjusted net income (loss) for the period ¹	(\$75)	(\$441)	(\$606)	\$94
Basic and diluted (loss) earnings per share	(\$0.01)	(\$0.03)	(\$0.05)	\$0.01
Adjusted basic and diluted earnings (loss) per share ¹	(\$0.01)	(\$0.03)	(\$0.05)	\$0.01

¹See the section “Definitions and Discussion on Certain non-GAAP Financial Measures” for further analysis.

²The 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).

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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.

OUTLOOK

This section is qualified by the section "Caution Regarding Forward-Looking Statements" at the beginning of the Company's Third Quarter 2017 Management's Discussion and Analysis.

In September, the Second Cup initiated the roll out of Pinkberry premium frozen yogurt following strong test market results. The program is currently in 15 Second Cup cafés, in five provinces across the country. Pinkberry has been a strong contributor to overall sales and transaction growth. Expansion is continuing.

DEFINITIONS AND DISCUSSION ON CERTAIN NON-GAAP FINANCIAL MEASURES

In this news release, the Company reports certain non-GAAP financial measures such as system sales of cafés, same café sales, operating income (loss), EBITDA, adjusted EBITDA, adjusted net income (loss) and adjusted net income (loss) per share. Non-GAAP measures are not defined under IFRS and are not necessarily comparable to similarly titled measures reported by other issuers.

System sales of cafés

System sales of cafés comprise the net revenue reported to Second Cup by franchisees of Second Cup cafés and by Company-owned cafés. This measure is useful in assessing the operating performance of the entire Company network, such as capturing the net change of the overall café network.

Changes in system sales of cafés result from the number of cafés and same café sales (as described below). The primary factors influencing the number of cafés within the network include the availability of quality locations and the availability of qualified franchisees.

Same café sales

Same café sales represent the percentage change, on average, in sales at cafés operating system-wide that have been open for more than 12 months. It is one of the key metrics the Company uses to assess its performance as an indicator of appeal to customers. Two principal factors that affect same café sales are changes in customer count and changes in average transaction size.

Operating income (loss)

Operating income (loss) represents revenue, less cost of goods sold, less operating expenses, and less impairment charges. This measure is not defined under IFRS, although the measure is derived from input figures in accordance with IFRS. Management views this as an indicator of financial performance that excludes costs pertaining to interest and financing, and income taxes.

EBITDA and adjusted EBITDA

EBITDA represents earnings before interest and financing, income taxes, and depreciation and amortization. Adjustments to EBITDA are for items that are not necessarily reflective of the Company's underlying operating performance. As there is no generally accepted method of calculating EBITDA, this measure is not necessarily comparable to similarly titled measures reported by other issuers. EBITDA is presented as management believes it is a useful indicator of the Company's ability to meet debt service and capital expenditure requirements, and evaluate liquidity. Management interprets trends in EBITDA as an indicator of relative financial performance. EBITDA should not be considered by an investor as an alternative to net income or cash flows as determined in accordance with IFRS.

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Adjusted net income (loss) and adjusted net income (loss) per share

Adjustments to net earnings (loss) and net earnings (loss) per share are for items that are not necessarily reflective of the Company's underlying operating performance. These measures are not defined under IFRS, although the measures are derived from input figures in accordance with IFRS. Management views these as indicators of financial performance.

Reconciliations of net income (loss) to operating income (loss), EBITDA, adjusted EBITDA, adjusted net income (loss) and adjusted net income (loss) per share are provided below:

	13 weeks ended		39 weeks ended	
	September 30, 2017	September 24, 2016	September 30, 2017	September 24, 2016
Net income (loss)	\$ (2,962)	\$ (75)	\$ (3,752)	\$ (1,122)
Income taxes (recovery)	4	(12)	(167)	(323)
Interest and financing costs	3,394	62	3,902	159
Operating income (loss)	<u>\$ 436</u>	<u>\$ (25)</u>	<u>\$ (17)</u>	<u>\$ (1,286)</u>

	13 weeks ended		39 weeks ended	
	September 30, 2017	September 24, 2016	September 30, 2017	September 24, 2016
Net income (loss)	\$ (2,962)	\$ (75)	\$ (3,752)	\$ (1,122)
Income taxes (recovery)	4	(12)	(167)	(323)
Interest and financing costs	3,394	62	3,902	159
Depreciation of property and equipment	255	281	774	877
Amortization of intangible assets	114	101	338	306
EBITDA	<u>805</u>	<u>357</u>	<u>1,095</u>	<u>(103)</u>
Add (deduct) impact of the following:				
One-time transition costs	-	-	287	-
Adjusted EBITDA	<u>\$ 805</u>	<u>\$ 357</u>	<u>\$ 1,382</u>	<u>\$ (103)</u>

	13 weeks ended		39 weeks ended	
	September 30, 2017	September 24, 2016	September 30, 2017	September 24, 2016
Net income (loss)	\$ (2,962)	\$ (75)	\$ (3,752)	\$ (1,122)
Add (deduct) impact of the following:				
After-tax fair value difference on shares issued and other costs	3,207	-	3,207	-
Adjusted net income (loss)	<u>\$ 245</u>	<u>\$ (75)</u>	<u>\$ (545)</u>	<u>\$ (1,122)</u>

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	13 weeks ended		39 weeks ended	
	September 30, 2017	September 24, 2016	September 30, 2017	September 24, 2016
Net income (loss) per share	\$ (0.19)	\$ (0.01)	\$ (0.28)	\$ (0.09)
Add (deduct) impact of the following:				
After-tax fair value difference on shares issued and other costs	0.21	-	0.24	-
Adjusted net income (loss) per share	<u>\$ 0.02</u>	<u>\$ (0.01)</u>	<u>\$ (0.04)</u>	<u>\$ (0.09)</u>

SOURCE The Second Cup Ltd.

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Forward-looking information

This news release may contain forward-looking statements (within the meaning of applicable securities laws) relating to the business of the Company and the environment in which it operates. Forward-looking statements are identified by words such as "believe", "anticipate", "expect," "intend", "plan", "will", "may" and other similar expressions. These statements are based on the Company's expectations, estimates, forecasts and projections and include, without limitation, statements regarding the benefits of the debt exchange and the impact of the debt exchange on the Company's strategic plan and transformation. The forward-looking statements in this news release are based on certain assumptions, including that the Company will be able to execute its plan, including store growth in traditional and non-traditional channels. They are not guarantees of future performance and involve risks and uncertainties that are difficult to control or predict. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to, the factors discussed under the heading "Risk Factors" in the Company's annual information form available at www.sedar.com. There can be no assurance that forward-looking statements will prove to be accurate as actual outcomes and results may differ materially from those expressed in these forward-looking statements. Readers, therefore, should not place undue reliance on any such forward-looking statements. Further, a forward-looking statement speaks only as of the date on which such statement is made. The Company undertakes no obligation to publicly update any such statement or to reflect new information or the occurrence of future events or circumstances.