

The Second Cup Ltd. Announces Second Quarter Results and Begins Roll-out of Café of the Future

MISSISSAUGA, ON, August 4, 2015 /CNW/ - The Second Cup Ltd. (TSX: SCU) reported financial results today for the second quarter ended June 27, 2015.

Quarterly Highlights:

- System-wide same store sales declined 3.2%.
- Net loss of \$72,416 or \$0.01 per share, compared to year ago loss of \$390,760 or \$0.04 per share.
- Café of the future plans advancing with pilot store sales up 43% year-to-date.
- Generated \$578,000 of quarterly cash flow compared with cash usage of \$1,036,000 in the year ago quarter.
- Accelerated take back of sub-standard cafés.

"We made significant progress in Second Cup's transformation in the second quarter with continued strong performance of our café of the future, successful launch of our Rewards program and introduction of our premium quality cold frappés," says Ms. Alix Box, President and CEO, The Second Cup Ltd. "As previously communicated, we have accelerated take backs of sub-standard cafés and our plan is to improve and modernize these cafés and re-franchise to inspired owner operators. While the larger number of company owned cafés has and will continue to negatively impact short-term profitability, we expect significantly improved income as we return to our asset light business model. Year to date sales of our pilot store of the future have grown 43%, which gives us great confidence as we accelerate our new store and renovation plans. I am pleased with our progress, but much work remains ahead. Our focus is on building profitable growth in same store sales through quality, innovation and operational excellence."

Second Quarter 2015

Second Cup reduced the rate of decline in same store sales from -5% in the second quarter of last year to -3.2% this year. This compares with this year's first quarter results of -1.1%. The company remains focused on its plan of delivering positive same store sales as soon as possible.

Second Cup successfully launched two key transformational programs it set out in its three-year strategic plan. The Second Cup Coffee Co. Rewards program with mobile app has been embraced by franchisees and customers exceeding the registered member internal target set for 2015 in the first twelve weeks of launch. Coffee innovation continued with the launch of Frappés, premium quality blended beverages made with a freshly pulled shot of espresso.

The pilot "café of the future" in downtown Toronto continues to exceed sales expectations moving the company into roll-out phase. While net income remains impacted by several factors including the accelerated take back of underperforming franchised cafés, the company is focused on moving to restore an asset light business model.

The company generated \$578,000 of quarterly cash flow compared with cash usage of \$1,036,000 in the year ago quarter. The balance sheet remains strong with net debt at \$1,343,000.

New Developments

In July, a pivotal step in the company's three-year strategic growth plan began with the roll-out of two additional cafes of the future and more to follow. Yana Chlumsky, Second Cup franchisee of the newly opened St. Laurent café of the future in Montreal said "My sister Dana and I are thrilled with our new café. The energy is incredible, our customers and baristas love it and we truly feel like we are part of the Second Cup of the future." This marks the beginning of a roll-out plan that embodies the company's vision to be the coffee brand most passionately committed to quality and innovation.

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Second Cup unveiled more coffee innovation with the introduction of the Iced Red Eye featuring iced coffee paired with a freshly pulled shot of espresso, and the Mocha Red Eye which adds a rich, chocolate syrup. These unique beverages are a cold and bold addition to the Second Cup Coffee Co.™ line-up and strengthen the company's position as the coffee authority.

About Second Cup Coffee Co.™

Founded in 1975, The Second Cup Ltd. is a Canadian specialty coffee retailer operating over 345 franchised and company owned cafes serving more than 1 million customers each week. All of the approximately 4,000 Second Cup baristas are trained coffee experts who are committed to ensuring excellence in every cup and the very best customer experience possible. For more information, please visit www.secondcup.com or find the company on Facebook and Twitter.

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Financial Results

The following table sets out selected IFRS and certain non-GAAP financial measures of the Company and should be read in conjunction with the Unaudited Condensed Interim Financial Statements of the Company for the 13 and 26 weeks ended June 27, 2015 and June 28, 2014.

(in thousands of Canadian dollars, except same café sales, number of cafés, per share amounts, and number of common shares.)	13 weeks ended		26 weeks ended	
	June 27, 2015	June 28, 2014	June 27, 2015	June 28, 2014
System sales of cafés ¹	\$43,715	\$45,829	\$86,890	\$89,759
Same café sales ¹	(3.2%)	(5.0%)	(2.2%)	(5.9%)
Number of cafés - end of period	337	357	337	357
Total revenue	\$9,420	\$6,435	\$18,434	\$13,059
Operating costs and expenses	\$9,427	\$6,824	\$18,372	\$13,221
Operating income (loss) ¹	(\$7)	(\$389)	\$62	(\$162)
EBITDA ¹	\$334	(\$113)	\$753	\$380
Net loss and comprehensive loss	(\$72)	(\$390)	(\$148)	(\$334)
Basic and diluted loss per share as reported	(\$0.01)	(\$0.04)	(\$0.01)	(\$0.03)
Total assets - end of period	\$50,457	\$74,434	\$50,457	\$74,434
Number of common shares issued and outstanding - end of period	12,830,945	9,903,045	12,830,945	9,903,045

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

BALANCE SHEET DATA

	June 27, 2015	December 27, 2014
Cash and cash equivalents	\$9,508	\$10,918
Restricted cash	746	-
Total assets	50,457	53,449
Total debts	11,158	11,119
Total liabilities	25,575	28,456
Total shareholders' equity	\$24,882	\$24,993

Café network

	13 weeks ended		26 weeks ended	
	June 27, 2015	June 28, 2014	June 27, 2015	June 28, 2014
Number of cafés - beginning of period	344	357	347	356
Cafés opened	-	2	2	7
Cafés closed	(7)	(2)	(12)	(6)
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Number of cafés - end of period	337	357	337	357

The Company ended the quarter with forty-seven (2014 - fourteen) Company-operated cafés.

Second Quarter

System sales of cafés

System sales of cafés for the 13 weeks ended June 27, 2015 were \$43,715, compared to \$45,829 for the 13 weeks ended June 28, 2014, representing a decrease of \$2,114 or 4.6%. The decrease is attributable to decreased same café sales and to the smaller store network.

Same café sales

During the quarter, same café sales declined by 3.2%, compared to a decline of 5.0% in the comparable quarter of 2014.

Analysis of revenue

Total revenue for the Quarter was \$9,420 (2014 - \$6,435), consisting of Company-owned café and product sales, royalty revenue, and franchise fees and other revenue.

Company-owned cafés and product sales for the Quarter were \$5,634 (2014 - \$1,745). The increase in revenue of \$3,889 is attributable to additional company owned cafés, as well as growth of the product sales segment of the business.

Franchise revenue was \$3,786 for the Quarter (2014 - \$4,690). The decrease in franchise revenue of \$904 is primarily driven by the new royalty incentive introduced in August 2014, lower café sales, and the increase in corporately owned 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, the loss/gain on disposal of assets, and depreciation and amortization. Total operating costs and expenses for the Quarter were \$9,427 (2014 - \$6,824), an increase of \$2,603.

Company-owned cafés and product sales

Company-owned cafés and product related expenses for the Quarter were \$5,622 (2014 - \$1,927), an increase of \$3,693. This increase in costs is caused by additional Company-owned cafés.

Franchise

The Company incurred franchise related expenses of \$1,968 (2014 - \$1,413). The increase of \$555 is driven mainly by the costs of launching the Second Cup Coffee Co.™ Rewards loyalty program.

General and administrative

General and administrative expenses were \$1,584 for the Quarter (2014 - \$3,187). Prior year general and administrative costs included restructuring expenses of \$1,607.

Gain and loss on disposal

A gain on disposal of \$88 was recognized in the Quarter (2014 - \$21 loss). The gain related to the resale of Company-owned cafés.

Depreciation and amortization

Depreciation and amortization expense was \$341 (2014 - \$276).

EBITDA

EBITDA for the Quarter was \$334, compared to a loss of \$113 last year.

Net income

The Company's net loss for the Quarter was \$72 or \$0.01 per share, compared to net loss of \$390 or \$0.04 per share in 2014. The improvement in net income of \$319 or \$0.03 per share was mainly the result of savings due to the FY14 restructuring, partially offset by increased expenses related to additional Company-owned cafés. A reconciliation of net income to EBITDA is provided in the section "Definitions and discussion on certain non-GAAP financial measures".

Year to date

System sales of cafés

System sales of cafés for the 26 weeks ended June 27, 2015 were \$86,890 compared to \$89,759 for the 26 weeks ended June 28, 2014, representing decrease of \$2,869 or 3.2%. The decrease is attributable to decreased same café sales and to the smaller store network.

Same café sales

During the quarter, same café sales declined by 2.2% for the 26 weeks ended June 27, 2015, compared to a decline of 5.9% for the 26 weeks ended June 28, 2014.

Analysis of revenue

Total revenue for the year to date was \$18,434 (2014 - \$13,059).

Company-owned cafés and product sales were \$10,873 (2014 - \$3,814). The increase of \$7,059 is mainly attributable to additional Company-owned cafés.

Franchise revenue was \$7,561 for the year to date (2014 - \$9,245). The decrease in revenue of \$1,684 is primarily a result of the new royalty incentive introduced in August 2014, lower café sales, and the increase in corporately owned cafés.

Operating costs and expenses

Operating expenses include the costs outlined above in the quarterly comments. Total operating expenses for the year to date were \$18,372 (2014 - \$13,221), an increase of \$5,151.

Company-owned cafés and product sales

Company-owned cafés and product related expenses for the year to date were \$10,845 (2014 - \$4,404), an increase of \$6,441. This increase in costs is caused by additional Company-owned cafés.

Franchise

Franchise related expenses of \$3,905 were incurred year to date (2014 - \$3,152). The increase of \$753 is driven by the costs of launching the Second Cup Coffee Co.TM Rewards loyalty program, as well as the cost of a franchise convention.

General and administrative

General and administrative expenses were \$3,019 for the year to date (2014 - \$5,211). Prior year general and administrative costs included restructuring expenses of \$1,607.

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Gain and loss on disposal

A gain on disposal of \$88 was recognized for the year to date (2014 - \$88 gain). The gain related to the resale of company owned cafés.

Depreciation and amortization

Depreciation and amortization expense was \$691 (2014 - \$542).

EBITDA

EBITDA for the year to date was \$753, compared to \$380 last year.

Net income

The Company's net loss for the year to date is \$148 or \$0.01 per share, compared to net loss of \$334 or \$0.03 per share in 2014. The increase in net income of \$185 or \$0.02 per share was mainly due to Coffee Central expense savings due to the FY14 restructuring, offset partially by an increase in costs relating to corporate café operations.

SELECTED QUARTERLY INFORMATION

(in thousands of Canadian dollars, except Number of cafés, Same café sales, and per share amounts)	Q2 2015	Q1 2015²	Q4 2014²	Q3 2014
System sales of cafés ¹	\$43,715	\$43,174	\$49,427	\$43,596
Same café sales ¹	(3.2%)	(1.1%)	(3.9%)	(3.3%)
Number of cafés - end of period	337	344	347	349
Total revenue	\$9,420	\$9,014	\$8,427	\$6,686
Operating income (loss) ¹	(\$6)	\$68	(\$521)	(\$30,214)
EBITDA ¹	\$334	\$419	(\$139)	(\$29,866)
Net loss for the period	(\$72)	(\$76)	(\$469)	(\$26,230)
Basic and diluted loss per share	(\$0.01)	(\$0.01)	(\$0.04)	(\$2.65)
Dividends declared per share	-	-	-	-
	Q2 2014	Q1 2014	Q4 2013²	Q3 2013
System sales of cafés ¹	\$45,829	\$43,930	\$51,898	\$44,894
Same café sales ¹	(5.0%)	(6.9%)	(4.3%)	(3.7%)
Number of cafés - end of period	357	357	356	351
Total revenue	\$6,435	\$6,623	\$8,038	\$6,268
Operating (loss) income ¹	(\$389)	\$226	\$1,891	\$1,361
EBITDA ¹	(\$113)	\$493	\$2,239	\$1,671
Net (loss) income for the period	(\$390)	\$56	\$1,177	\$918
Basic and diluted (loss) earnings per share	(\$0.04)	\$0.01	\$0.12	\$0.09
Dividends declared per share	-	\$0.085	\$0.085	\$0.085

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).

OUTLOOK

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

The Company is in the early stages of executing its three year strategic plan to restore long-term growth and value creation for its shareholders. This plan is both bold and achievable. The necessary steps and decisions relating to the take back of substandard cafes corporately will have an impact on short-term profitability. The Company expects significantly improved income as it returns to an asset light business model in the long-term.

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, operating income (loss), EBITDA.

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-operated 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 represents the percentage change, on average, in sales at cafés operating system-wide that have been open for more than 12 months, including cafés closed temporarily for renovations/re-modelling. The inclusion of cafés temporarily closed is a change in methodology. Since the impact of this revision is inconsequential, the Company will not restate same café sales results for previously reported years. It is one of the key metrics the Company uses to assess its performance as an indicator of appeal to customers. Same café sales provide a useful comparison between periods while also encompassing other matters such as seasonality. The two principal factors that affect same café sales are changes in customer traffic and changes in average transaction size.

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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 indicators 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 to EBITDA is provided below:

	13 weeks ended		26 weeks ended	
	June 27, 2015	June 28, 2014	June 27, 2015	June 28, 2014
Net income (loss)	\$ (72)	\$ (390)	\$ (148)	\$ (334)
Interest and financing	71	99	248	256
Recovery for income taxes	(6)	(98)	(38)	(84)
Depreciation of property and equipment	267	197	540	392
Amortization of intangible assets	74	79	151	150
EBITDA	\$ 334	\$ (113)	\$ 753	\$ 380

SOURCE The Second Cup Ltd.

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