

**The Second Cup Ltd. Reports First Positive Same Store Sales
Quarter since 2012 and Return to Positive Earnings**

MISSISSAUGA, ON, February 22, 2016 /CNW/ - The Second Cup Ltd. (TSX: SCU) reported financial results today for the fourth quarter and year ended December 26th, 2015.

Highlights:

- Fourth quarter same store sales of +0.2%, first positive quarter since 2012.
- Earnings of \$94,000 or \$0.01 per share for the quarter compared with a loss of \$469,000 or \$0.04 per share in 2014, first positive quarter since Q1 2014.
- Full year loss of \$1,153,000 or \$0.09 per share compared to loss of \$27,032,000 or \$2.66 per share in 2014
- Reduced debt by \$5,000,000.

"I am encouraged by our accomplishments in the early stages of our three year transformational plan including the improving sales trends and the progress we are making on returning to our asset light model", says Ms. Alix Box, President and CEO, The Second Cup Ltd. "We remain focused on driving store sales and improving profitability for franchisees and the company through innovation and modernization of the store network."

Fourth Quarter 2015

Same store sales increased by +0.2% in Q4 compared to -3.9% in Q4 2014. For the year, same store sales were -1.4% for 2015 compared to -4.7% in 2014. The company is encouraged by improving same store sales trend. This is the first quarter in 14 quarters with positive same store sales.

Earnings of \$94,000 reflect the early stages of progress in our transformation. The number of corporate stores has been reduced from a midyear peak of 47 to 32 at year end. The company expects further reductions as it progresses to an asset light model.

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The company used cash balances to repay \$5,000,000 of term debt, reducing it to \$6,000,000 resulting in over \$200,000 annual reduction of net interest expense. The company had cash balances of \$3,080,000 at year-end. This gives Second Cup the flexibility to support its ongoing transformation and strategic plan.

Introduced in April 2015, the Second Cup Coffee Co. Rewards program has been instrumental in driving customer frequency and loyalty and at year end accounted for approximately 17% of sales. The premium bakery program is an important strategy for the company and it is now in over 79% of cafes.

Strategic Plan Update

The company has updated its 3-year plan to 2018 and key financial targets include:

- Grow system wide sales to exceed \$250 million
- Earnings per share targeted to exceed \$0.50
- Significant increase in average store sales
- Significant free cash flow generation

About Second Cup Coffee Co.™

Founded in 1975, The Second Cup Ltd. is a Canadian specialty coffee retailer operating 310 franchised and company owned cafes. The company's vision is to be the coffee brand most passionately committed to quality and innovation. For more information, please visit www.secondcup.com or find the company on Facebook and Twitter.

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 52 weeks ended December 26, 2015.

(In thousands of Canadian dollars, except same café sales, number of cafés, per share amounts, and number of common shares.)	13 weeks ended		52 weeks ended	
	December 26, 2015	December 27, 2014	December 26, 2015	December 27, 2014
System sales of cafés ¹	\$46,900	\$49,427	\$174,866	\$182,782
Same café sales ¹	0.2%	(3.9%)	(1.4%)	(4.7%)
Number of cafés - end of period	310	347	310	347
Total revenue	\$9,636	\$8,427	\$37,341	\$28,172
Operating costs and expenses	\$9,469	\$8,948	\$38,422	(\$59,069)
Operating income (loss) ¹	\$167	(\$521)	(\$1,081)	(\$30,897)
EBITDA ¹	\$554	(\$139)	\$384	(\$29,625)
Net income (loss) and comprehensive income (loss)	\$94	(\$469)	(\$1,153)	(\$27,032)
Basic and diluted earnings (loss) per share as reported	\$0.01	(\$0.04)	(\$0.09)	(\$2.66)
Total assets - end of period	\$46,485	\$53,449	\$46,485	\$53,449
Number of weighted average common shares issued and outstanding	12,830,945	10,879,012	12,830,945	10,151,716

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

²Earnings per share is calculated using the weighted average number of common shares outstanding

Balance Sheet Data

	December 26, 2015	December 27, 2014
Cash and cash equivalents	\$3,080	\$10,918
Restricted Cash	840	-
Total assets	46,485	53,449
Total debts	5,977	10,976
Total liabilities	22,558	28,445
Total shareholders' equity	\$23,927	\$24,994

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Café network

	<u>13 weeks ended</u>		<u>52 weeks ended</u>	
	<u>December 26, 2015</u>	<u>December 27, 2014</u>	<u>December 26, 2015</u>	<u>December 27, 2014</u>
Number of cafés - beginning of period	327	349	347	356
Cafés opened	1	1	3	9
Cafés closed	(18)	(3)	(40)	(18)
Number of cafés - end of period	<u>310</u>	<u>347</u>	<u>310</u>	<u>347</u>

The Company ended the Year with 32 (2014 – 35) Company-operated cafés.

Fourth Quarter

System sales of cafés

System sales of cafés for the 13 weeks ended December 26, 2015 were \$46,900 compared to \$49,427 for the 13 weeks ended December 27, 2014 representing a decrease of \$2,527 or 5.1%. The decrease is attributable to the reduced store count.

Same café sales

During the Quarter, same café sales increased by 0.2%, compared to a decline of 3.9% in the comparable Quarter of 2014.

Analysis of revenue

Total revenue for the Quarter was \$9,636 (2014 - \$8,427) 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 \$5,506 (2014 - \$3,947). The increase in revenue of \$1,559 is attributable to additional Company-owned cafés.

Franchise revenue was \$4,130 for the Quarter (2014 - \$4,480). The decrease in franchise revenue of \$350 is primarily driven by a lower café count, as well as an increase in Company-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 \$9,469 (2014 - \$8,948), an increase of \$521.

Company-owned cafés and product sales

Company-owned cafés and product related expenses for the Quarter were \$5,695 (2014 - \$4,239), an increase of \$1,456. This increase in costs is caused by additional Company-owned cafés.

Franchise

The Company incurred franchise related expenses of \$1,800 (2014 - \$2,234). The prior Year expenses were impacted by provisions for café closure costs.

General and administrative

General and administrative expenses were \$1,565 for the Quarter (2014 - \$1,643). The \$78 decrease is due to reduced labour expenses.

Gain and loss on disposal of assets

A loss on disposal of \$22 was recognized in the Quarter (2014 - \$450). The prior Year loss of \$450 includes the loss on transaction to acquire certain cafés.

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Depreciation and amortization

Depreciation and amortization expense was \$388 (2014 - \$382).

EBITDA

EBITDA for the quarter was \$554, compared to a loss of \$139 last Year.

Net income (loss)

The Company's net income for the Quarter was \$94 or \$0.01 per share, compared to a net loss of \$469 or \$0.04 loss per share in 2014. The increase in net income of \$563 or \$0.05 per share was mainly due to closed café and operational provisions taken in 2014 and improved operations.

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 \$174,866 compared to \$182,782 for 2014, representing a decrease of \$7,916 or 4.3%. The decrease is attributable to decreased same café sales and to the reduced store count.

Same café sales

For the Year, there was a decline of 1.4% compared to a decline of 4.7% in 2014.

Analysis of revenue

Total revenue for the Year was \$37,341 (2014 - \$28,172).

Company-owned cafés and product sales were \$22,082 (2014 - \$10,426). The increase of \$11,656 is attributable to additional Company-owned cafés on an annualized basis.

Franchise revenue was \$15,259 for the Year (2014 - \$17,746). The decrease in revenue of \$2,487 is primarily driven by a lower café count as well as the increase in Company-owned cafés on an annualized basis.

Operating costs and expenses

Total operating expenses for the Year to date were \$38,422 (2014 - \$59,069), a decrease of \$20,647. The decrease is primarily due to the impairment charge recorded in 2014 and offset by the increase in Company-owned cafés on an annualized basis.

Company-owned cafés and product sales

Company-owned cafés and product related expenses for the Year to date were \$22,382 (2014 - \$11,279), an increase of \$11,103. This increase in costs is caused by additional Company-owned cafés on an annualized basis.

Franchise

Franchise related expenses of \$8,809 were incurred for the Year (2014 - \$8,121). The increase of \$688 relates to increased labour investment in the franchise segment.

General and administrative

General and administrative expenses were \$5,787 for the Year (2014 - \$8,329). The decrease of \$2,542 is due to labour savings realized as a result of prior Years' restructuring.

Gain and loss on disposal of assets

A gain on disposal of assets of \$21 was recognized for the Year (2014 - \$360 loss). The gain relates to the resale of Company-owned cafés.

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Depreciation and amortization

Depreciation and amortization expense was \$1,465 (2014 - \$1,272). The increase is due to amortization of our Loyalty program and completed renovations at our Company-owned cafés.

EBITDA

EBITDA for the Year was \$384, compared to a loss of \$29,625 last Year.

Net loss

The Company's net loss for the Year was \$1,153 or \$0.09 loss per share, compared to a net loss of \$27,032 or \$2.66 loss per share in 2014. The favorable change in net loss of \$25,879 or \$2.57 per share was mainly due to impairment charges that occurred in 2014.

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 2015²	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 income (loss) ¹	\$167	(\$1,310)	(\$6)	\$68
EBITDA ¹	\$554	(\$924)	\$334	\$419
Net income (loss) for the period	\$94	(\$1,099)	(\$72)	(\$76)
Basic and diluted earnings (loss) per share	\$0.01	(\$0.09)	(\$0.01)	(\$0.01)
Dividends declared per share	-	-	-	-
	Q4 2014²	Q3 2014	Q2 2014	Q1 2014
System sales of cafés ¹	\$49,427	\$43,596	\$45,829	\$43,930
Same café sales ¹	(3.9%)	(3.3%)	(5.0%)	(6.9%)
Number of cafés - end of period	347	349	357	357
Total revenue	\$8,427	\$6,686	\$6,435	\$6,624
Operating (loss) income ¹	(\$521)	(\$30,214)	(\$388)	\$226
EBITDA ¹	(\$139)	(\$26,866)	(\$113)	\$493
Net (loss) income for the period	(\$469)	(\$26,230)	(\$390)	\$56
Basic and diluted (loss) earnings per share	(\$0.04)	(\$2.65)	(\$0.04)	\$0.01
Dividends declared per share	-	-	-	\$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 has updated its 3-year plan to 2018 and key financial targets include:

- Grow system wide sales to exceed \$250 million
- Earnings per share targeted to exceed \$0.50
- Significant increase in average store sales
- Significant free cash flow generation

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, adjusted EBITDA and adjusted earnings per share.

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 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, 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.

Impairment charges, if incurred, are a reconciling item in the calculation of adjusted EBITDA as its nature is non-cash and management interprets this measure to be similar in substance to depreciation and amortization. This interpretation by management is consistently applied regardless of whether impairment charges are or are expected to be recurring.

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

	13 weeks ended		52 weeks ended	
	December 26, 2015	December 27, 2014	December 26, 2015	December 27, 2014
Net income (loss)	\$ 94	\$ (469)	\$ (1,153)	\$ (27,032)
Interest and financing	72	106	457	478
Income taxes (recovery)	-	(159)	(385)	(4,343)
Depreciation of property and equipment	284	288	1,091	933
Amortization of intangible assets	104	95	374	339
EBITDA	554	(139)	384	(29,625)
Impairment charges	-	-	-	29,708
Adjusted EBITDA	\$ <u>554</u>	\$ <u>(139)</u>	\$ <u>384</u>	\$ <u>83</u>

Adjusted basic and diluted earnings per share

Adjusted earnings per share represent earnings per share excluding any impairment charges. Impairment charges are non-cash, but material items that are adjusted as management concluded that this is not a direct measure of the Company's focus on day-to-day operations, is not indicative of future operating results, and thus better evaluates the underlying business of the Company.

A reconciliation of adjusted basic and diluted earnings per share is provided below:

	13 weeks ended		52 weeks ended	
	December 26, 2015	December 27, 2014	December 26, 2015	December 27, 2014
Net income (loss)	\$ 94	\$ (469)	\$ (1,153)	\$ (27,032)
Impairment charges	-	-	-	29,708
Tax effect of adjusting items	-	-	-	(3,934)
Adjusted earnings (loss)	94	(469)	(1,153)	(1,258)
Weighted average number of shares issued and outstanding (unrounded)	<u>12,830,945</u>	<u>10,879,012</u>	<u>12,830,945</u>	<u>10,151,716</u>
Adjusted basic and diluted earnings (loss) per share	\$ <u>0.01</u>	\$ <u>(0.04)</u>	\$ <u>(0.09)</u>	\$ <u>(0.12)</u>

For the 13 and 52 weeks ended December 26, 2015, there were 715,000 outstanding share option awards (13 and 52 weeks ended December 27, 2014 – 535,000).

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