

The logo for Second Cup Coffee Co. is enclosed in a black rectangular border. The text "SECOND CUP" is on the top line and "COFFEE CO." is on the bottom line, both in a bold, sans-serif font. A small trademark symbol (TM) is located to the right of "COFFEE CO."

SECOND CUP COFFEE CO.™

The Second Cup Ltd. Reports Significant Progress in Operating Results for the Third Quarter 2016

MISSISSAUGA, ON, October 31, 2016 /CNW/ - The Second Cup Ltd. (TSX: SCU) reported improved financial results today for the third quarter ended September 24, 2016.

Highlights:

- Positive EBITDA of \$357,000 compared with negative \$924,000 in Q3 2015.
- Loss of \$75,000 or \$0.01 per share for the quarter compared with a loss of \$1,099,000 or \$0.09 per share in the third quarter of 2015
- Q3 same store sales of -1.2% compared to -1.3% in Q2. Excluding Alberta, Q3 same store sales would be +0.1%

“I am pleased with the significant earnings progress and I am optimistic that this will continue into the fourth quarter,” says Ms. Alix Box, President and CEO, The Second Cup Ltd.

Third Quarter 2016

Same store sales were -1.2% in Q3 and -1.2% year to date. Alberta’s ongoing economic downturn continued to negatively impact overall same store sales by approximately 1.3% in the quarter.

The Q3 net loss of \$75,000 compared to a Q2 net loss of \$441,000 represents a significant improvement. Net loss year to date is \$1,122,000 or \$0.09 per share compared to a loss of \$1,247,000 or \$0.10 per share in 2015. The company continues to reduce the number of corporate stores through franchising to strong operators and

Second Cup Q3 2016 Release (cont'd)Page 2

returning to an asset light model. Corporate cafés were reduced to 26 in the quarter down from a high of 47.

As previously communicated, the Company is evaluating options for future financing and strategic alternatives. The Board has formed a special committee to review the various options and will make an announcement when a decision is made.

About Second Cup Coffee Co.™

Founded in 1975, The Second Cup Ltd. is a Canadian specialty coffee retailer operating over 295 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.seconcup.com or find the company on Facebook and Twitter.

SOURCE The Second Cup Ltd.

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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 24, 2016 and September 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		39 weeks ended	
	September 24, 2016	September 26, 2015	September 24, 2016	September 26, 2015
System sales of cafés ¹	\$37,717	\$41,087	\$116,995	\$127,966
Same café sales ¹	(1.2%)	(2.9%)	(1.2%)	(2.3%)
Number of cafés - end of period	298	327	298	327
Total revenue	\$7,656	\$9,270	\$22,851	\$27,705
Operating costs and expenses	\$7,681	\$10,580	\$24,137	\$28,953
Operating (loss) ¹	(\$25)	(\$1,310)	(\$1,286)	(\$1,248)
EBITDA ¹	\$357	(\$924)	(\$103)	(\$171)
Net loss and comprehensive loss	(\$75)	(\$1,099)	(\$1,122)	(\$1,247)
Basic and diluted loss per share as reported	(\$0.01)	(\$0.09)	(\$0.09)	(\$0.10)
Total assets - end of period	\$42,812	\$50,417	\$42,812	\$50,417
Number of common shares issued and outstanding - end of period	12,830,945	12,830,945	12,830,945	12,830,945

¹See the section “Definitions and discussion of certain non-GAAP financial measures” for further analysis.

SELECTED BALANCE SHEET DATA

	September 24th 2016	December 26th 2015
Cash and Cash Equivalents	1,960	3,080
Restricted Cash	1,512	840
Total Assets	42,812	46,485
Total Debts	5,996	5,977
Total Liabilities	19,958	22,558
Total Shareholders' Equity	22,854	23,927

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	2013	2014	2015	Average
First Quarter	24.5	24.0	24.7	24.4
Second Quarter	24.9	25.1	25.0	25.0
Third Quarter	23.5	23.9	23.5	23.6
Fourth Quarter	27.1	27.0	26.8	27.0
	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.

Café network

	13 weeks ended		39 weeks ended	
	September 24, 2016	September 26, 2015	September 24, 2016	September 26, 2015
Number of cafés - beginning of period	304	339	310	347
Cafés opened	-	-	2	2
Cafés closed	(6)	(12)	(14)	(22)
Number of cafés - end of period	298	327	298	327

The Company ended the Quarter with 26 (September 26, 2015 - 42) Company-operated cafés. Café closures are mainly attributable to lease expiration for 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 24, 2016 were \$37,717 compared to \$41,087 for the 13 weeks ended September 26, 2015, representing a decrease of \$3,370 or 8.2%. The decrease is attributable to the reduced store network from 327 cafés to 298 cafés and to a lesser extent the 1.2% decrease in same café sales.

Same café sales

During the quarter, same café sales declined by 1.2%, compared to a decline of 2.9% 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 \$7,656 (2015 - \$9,270), 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 \$3,629 (2015 - \$5,703). The decrease in revenue of \$2,074 is attributable to the reduced Company-owned café count from 42 last year to 26 at the end of the most recent quarter. Reducing Company-owned cafés is consistent with the Company's strategy of returning to an asset light business model.

Franchise revenue was \$4,027 for the Quarter (2015 - \$3,567). The increase in franchise revenue of \$460 was mainly due to fee revenue from corporate café resales and franchisee to franchisee resales.

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 \$7,681 (2015 - \$10,580), a decrease of \$2,899.

Company-owned cafés and product sales

Company-owned cafés and product related expenses for the Quarter were \$3,857 (2015 - \$5,841), a decrease of \$1,984. The decrease in costs is mainly attributable to lower café operating expenses due to the reduction of corporate cafés from 42 to 26. Non café labour reductions relating to the management of Company-owned cafés and product sales decreased by \$112 versus the same period last year.

Franchise

The Company incurred franchise related expenses of \$1,888 (2015 - \$3,101). This represents a decrease of \$1,216. \$915 and \$210 of the reduction is attributable to rent related and inventory expenses recorded during the same period last year, respectively.

General and administrative

General and administrative expenses were \$1,403 for the Quarter (2015 - \$1,203). This represents an increase of \$200. The increase is mainly due to a \$161 one-time recovery relating to a note receivable deemed uncollectable and subsequently recovered the same period last year.

Gain and loss on disposal

A loss on disposal of \$151 was recognized in the Quarter (2015 - \$45 loss). The loss related to the resale of three Company-owned cafés.

Depreciation and amortization

Depreciation and amortization expense was \$382 (2015 - \$387).

EBITDA

EBITDA for the Quarter was \$357, compared to a loss of \$924 last year. The difference of \$1,281 is mainly attributable to the improved inventory and rent related expenses that accrued in the same period last year and the reduced Company-owned café count from 42 last year to 26.

Net loss

The Company's net loss for the Quarter was \$75 or \$0.01 per share, compared to a net loss of \$1,099 or \$0.09 per share in 2015. A reconciliation of net loss to EBITDA is provided in the section "Definitions and discussion of certain non-GAAP financial measures".

Year to date

System sales of cafés

System sales of cafés for the 39 weeks ended September 24, 2016 were \$116,995 compared to \$127,966 for the 39 weeks ended September 26, 2015, representing a decrease of \$10,971 or 8.6%. The decrease is mainly attributable to the smaller store network and to a lesser extent the 1.2% decrease in same café sales.

Same café sales

Same café sales declined by 1.2% for the 39 weeks ended September 24, 2016, compared to a decline of 2.3% for the 39 weeks ended September 26, 2015. Alberta's ongoing economic downturn continued to negatively impact overall same store sales by approximately 1.2% year to date.

Analysis of revenue

The analysis of revenue includes revenue outlined above in the quarterly comments. Total revenue for the year to date was \$22,851 (2015 - \$27,705). The decrease of \$4,854 is mainly attributable to the reduction in Company-owned cafes discussed below.

Company-owned cafés and product sales were \$11,453 (2015 - \$16,576). The decrease of \$5,123 is mainly attributable to reduced Company-owned cafés. As at the end of the 39 weeks ended September 24, 2016 the Company-owned café count was 26 versus 42 during the same period last year. Reducing Company-owned cafés is consistent with the Company's strategy of returning to an asset light business model.

Franchise revenue was \$11,398 for the year to date (2015 - \$11,129). The increase in revenue of \$269 is primarily a result of fee revenue from corporate café resales and franchisee to franchisee resales.

Operating costs and expenses

Operating expenses include the costs outlined above in the quarterly comments. Total operating expenses for the year to date were \$24,137 (2015 - \$28,953), a decrease of \$4,816.

Company-owned cafés and product sales

Company-owned cafés and product related expenses for the year to date were \$12,272 (2015 - \$16,687), a decrease of \$4,415. The decrease in costs is mainly related to less café level operating expenses associated with the reduction of Company-owned cafés.

Franchise

Franchise related expenses of \$6,097 were incurred year to date (2015 - \$7,009), representing a decrease of \$912. The reduction in expenses is mainly attributable to the reduced rent related expenses discussed in the quarterly comments outlined above.

General and administrative

General and administrative expenses were \$4,276 for the year to date (2015 - \$4,222). The increase of \$54 relates to IT expenses and is primarily attributable to the upgrade of our POS System.

Gain and loss on disposal

A loss on disposal of \$309 was recognized for the year to date (2015 - \$43 gain). The loss related to the resale of nine Company-owned cafés.

Depreciation and amortization

Depreciation and amortization expense was \$1,183 (2015 - \$1,078).

EBITDA

EBITDA for the year to date was a loss of \$103, compared to a loss of \$171 last year.

Net loss

The Company's net loss for the year to date is \$1,122 or \$0.09 per share, compared to a net loss of \$1,247 or \$0.10 per share in 2015.

SELECTED QUARTERLY INFORMATION

(in thousands of Canadian dollars, except Number of cafés, Same café sales and per share amounts)	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)	(\$327)	\$554
Net income (loss) for the period	(\$75)	(\$441)	(\$606)	\$94
Basic and diluted earnings (loss) per share	(\$0.01)	(\$0.03)	(\$0.05)	\$0.01
	Q3 2015	Q2 2015	Q1 2015	Q4 2014²
System sales of cafés ¹	\$41,087	\$43,715	\$43,174	\$49,427
Same café sales ¹	(2.9%)	(3.2%)	(1.1%)	(3.9%)
Number of cafés - end of period	327	339	344	347
Total revenue	\$9,270	\$9,421	\$9,014	\$8,427
Operating income (loss) ¹	(\$1,310)	(\$6)	\$68	(\$521)
EBITDA ¹	(\$924)	\$334	\$419	(\$139)
Net loss for the period	(\$1,099)	(\$72)	(\$76)	(\$469)
Basic and diluted loss per share	(\$0.09)	(\$0.01)	(\$0.01)	(\$0.04)

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.

As previously communicated in the Company’s 2015 MD&A, the key financial targets included in the Company’s three-year plan to 2018 were:

- 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

The material assumptions underlying these targets were the addition of between 75 and 85 new cafes during the three-year period, annual same-store sales growth of between 5% and 9.5% during this period and the renovation of 30 to 40 stores per year during this period.

The key assumption underlying the system-wide sales target was the addition of between 75 and 85 new cafes over the three-year forecasted period. By the end of 2016, the Company will have added a total of five new stores and we do not anticipate adding a further 70 to 80 stores by 2018. As a result, the Company no longer expects to achieve its previously forecasted targets by 2018 and withdraws its previously-disclosed forward-looking information.

DEFINITIONS AND DISCUSSION OF 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 flow, net debt, loyalty sales, operating income (loss), and EBITDA. 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-operated cafés. Net revenue comprises of gross sales minus discounts. 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 it's loyal customer base.

Operating income (loss)

Operating income (loss) represents revenue, less cost of goods sold, less operating expenses and less impairment charges. 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 (loss) or cash flows as determined in accordance with IFRS.

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

	13 weeks ended		39 weeks ended	
	September 24, 2016	September 26, 2015	September 24, 2016	September 26, 2015
Net loss	\$ (75)	\$ (1,099)	\$ (1,122)	\$ (1,247)
Interest and financing	62	137	159	385
Income taxes (recovery)	(12)	(348)	(323)	(386)
Depreciation of property and equipment	281	267	877	807
Amortization of intangible assets	101	119	306	270
EBITDA	\$ <u>357</u>	\$ <u>(924)</u>	\$ <u>(103)</u>	\$ <u>(171)</u>