

**SECOND CUP
COFFEE CO.™**



SECOND CUP LTD.—ANNUAL REPORT 2015

A grayscale photograph of a coffee machine dispensing coffee into a white cup. A hand is visible in the background holding a white napkin. The scene is set in a cafe or coffee shop. The text 'VISION' is centered over the image.

VISION

To be the coffee brand most passionately committed to quality and innovation.

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LETTER FROM THE CHAIRMAN

We wish we could wave a magic wand to create instant results, but it takes time to transform culture. Thankfully, this is happening at Second Cup where the foundation is solidifying and now capable of supporting profitable growth.

After many years of slow but steady erosion, Second Cup has been steered through enormous positive change that commenced two years ago. With a renewed commitment to provide the best coffee offering for Canadian consumers, in stores operated by successful franchisees... the transformation is stunning. The first two years involved serious costs which we believe will yield significant long-term value creation. Today the store portfolio is smaller but stronger. Most of the weakest stores have been closed. The company has assumed ownership of many others that exhibit potential for a successful future. Second Cup is committed to an asset light franchise business model, and will benefit greatly when these corporate stores are franchised to inspired owner operators.

Today, Second Cup has a terrific management team that is working well together and has capacity to grow. The quality of the products offered, and operating standards continue to improve. We now operate a growing number of new and renovated stores that are truly world class and positioned to succeed in the coming years. Most importantly, the positive change in culture is palpable. Trust between franchisees and franchisor is building and there is a shared desire to win, not just survive.

While so many good things are happening at Second Cup, I wish they could happen faster. Ultimately, shareholder value will be created through successful growth, not just fixing the foundation. To that end, Alix Box and her team are taking steps to accelerate our progress. Based on what I have seen, I am optimistic that we will see materially improved performance in the latter half of this year.

Michael Bregman

Chairman

LETTER FROM THE PRESIDENT & CEO

Second Cup had an ambitious agenda in 2015. We launched a number of key strategic initiatives to redefine Second Cup as the coffee brand most passionately committed to quality and innovation. Most importantly, we have begun the process of re-energizing our franchisees and the network of stores. At our recent annual convention, many franchisees shared their individual stories of success; how by embracing the transformation, they experienced marked improvements in sales.

We ended 2015 on an encouraging note: in the 4th quarter of 2015 we returned to positive earnings, and posted positive same store sales for the first time since 2012. Our term debt has been reduced by \$5 million, and our cash balance exceeded \$3 million at year end. These are strong indicators that we are making progress toward our goals. We are hopeful that these trends will continue to improve.

The reinvention of our café experience is critical to our transformation. Late in 2014 we launched the "Café of the Future" concept in a prime and competitive location in Toronto. The café experienced tremendous sales growth finishing the year at +48% sales versus the prior year. With the strong performance of this first location and positive feedback from customers, and franchisees, the new café concept roll out began in the summer. Franchisees that have transitioned to the new model have experienced healthy increases in unit performance, re-energized their staff and have attracted a broader mix of customers.

I am excited by the roll out of the new café concept and the momentum we are gaining in refranchising cafés to high caliber franchisees. Early in the year we had to assume ownership of sub-standard cafés to help propel our turnaround, and this had a negative impact on short-term profitability. The number of corporate stores is being reduced and we are returning to an asset light model.

In April of 2015 we launched our Second Cup Coffee Co. Rewards program. Central to this program is a mobile app that includes a payment solution. The Rewards program has been instrumental in driving customer frequency and loyalty and is recognized by franchisees as an important business driver. Loyalty sales currently account for approximately 20% of sales and we plan for substantial increases.

One of our key strategies in transforming Second Cup is to offer superior quality coffee and food. As the Canadian specialty coffee company, bringing the best coffees in the world to our customers is at the core of our brand. In 2015 we reinvented our cold coffee category with the introduction of authentic frappés, made with a fresh shot of our celebrated Espresso Forte.



We have reviewed every step of the coffee process from farm to the cup, and made improvements everywhere possible. The result is taking our great coffee to even greater levels of excellence. On the food side, the premium bakery program using "best in class" local bakeries - is a key differentiator for Second Cup, and is now in approximately 80% of cafés across the country. Food sales are increasing. Food innovation and growing food sales continue to be a priority in 2016.

One of the clearest signs that we are transforming the culture of the company is the expanded role played by the Franchisee Advisory Council. The Advisory council is a group of six franchisees, elected by their peers, to work with and advise Second Cup on all major initiatives. The Council is integral in making decisions regarding the marketing coop fund, and is increasingly viewed by the franchise community as a key stakeholder in helping drive the company forward.

While we are seeing progress, we still face significant challenges, and our transformation will take somewhat longer than we had hoped. Much more work remains to be done. We continue to focus on executing our strategic initiatives, recruiting the best possible franchisees, and expanding the store network in a disciplined fashion, while continuing to grow store sales and improve profitability, for both franchisees and the company.

Transformations are not easy and they require tremendous commitment and collaboration. I thank the Board of Directors for their ongoing support and guidance this past year. I also thank our entire network of franchisees for their continued confidence in our plan of transformation and renewal.

Finally I want to acknowledge and thank my management team for their incredible hard work and passion for the revitalization of Second Cup Coffee Co.

Alix Box

Alix Box
President & CEO



CAFÉ
DIEM.

Savourez l'expertise à chaque gorgée.

TASSIMO
TASSIMO

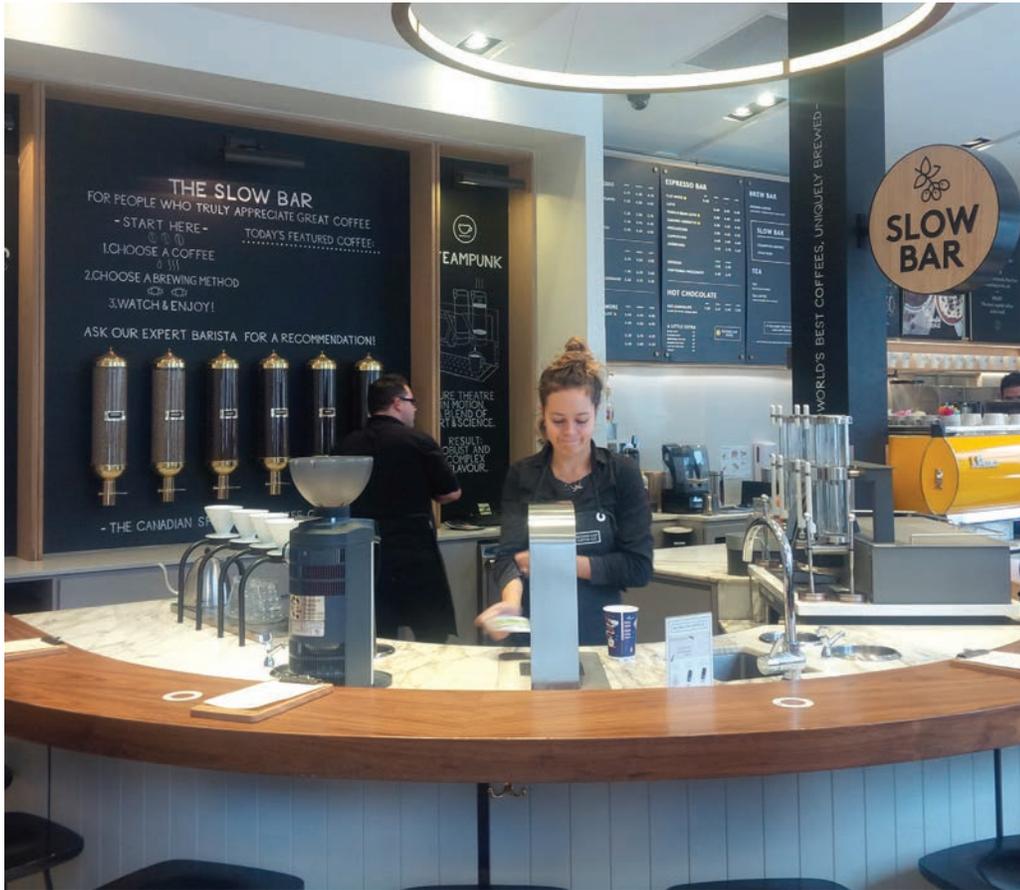
REVITALIZING THE NETWORK

New Café Roll Out Begins

Gaining momentum.

With tremendous success delivered from the first reimagined café at King and John in Toronto, this became a key milestone for the revitalization of Second Cup. In 2015, the expansion of this proven model began with rollouts in Montreal, Quebec, and in Red Deer, Alberta. This new café concept reflects our passion for coffee in an authentic, creative and collaborative way.

Revitalizing the Network



“We needed a radical change to regain our customers and to attract new ones, and that is exactly what we have been doing with these renovations.”

— Alix Box, President & CEO of Second Cup Ltd.



King & John, Toronto



Commerce Court, Toronto

Franchisees Harry, Becky, Gemma Sidhu and Kartik Behl, with Alix Box and Michael Bregman

Revitalizing the Network



Franchisees are excited to be a part of the coffee revolution.

“Our team is positive that the new look and feel at Second Cup Coffee Co. is headed in the right direction, and we are all anticipating great things for our future. We are thrilled to have the doors to our new café officially open, and are excited to share the experiences with our loyal customers, as well as the many new customers we will gain!”
—The Morrisons, Franchise Owners of Second Cup Coffee Co. in Red Deer, Alberta.

*Gasoline Alley, Red Deer
First New Concept Drive-Thru*

Franchisees: The Morrisons



*Jewish General Hospital,
Montreal*

*Franchisees: May Abdulhadi,
Sabih Abdulhadi, Karen Diaz*



Franchisees are excited to be a part of the new café of the future.

The Franchisee of the Latin Quarter shop, Daniel Di Maurizio, eagerly expressed his enthusiasm. He has been working with Second Cup since the arrival of the chain in Quebec in 1993. "After 22 years, it's good to question things. It was now or never; we needed a radical change," Daniel Di Maurizio, Franchise Owner of Second Cup Coffee Co. in Montreal, Quebec.

Rue Saint-Denis, Montreal

Franchisee: Daniel Di Maurizio



“We want Canadians to fall in love again with Second Cup,” *Alix Box, President & CEO of Second Cup.*

SEPTEMBER 2, 2015



“Steampunk, the coffee of the future by Second Cup”

SEPTEMBER 3, 2015

les affaires

“The idea is not to become the biggest (chain of coffee shops), but to become the best... It’s a question of quality first and foremost.”
Alix Box, President & CEO of Second Cup.

SEPTEMBER 1, 2015

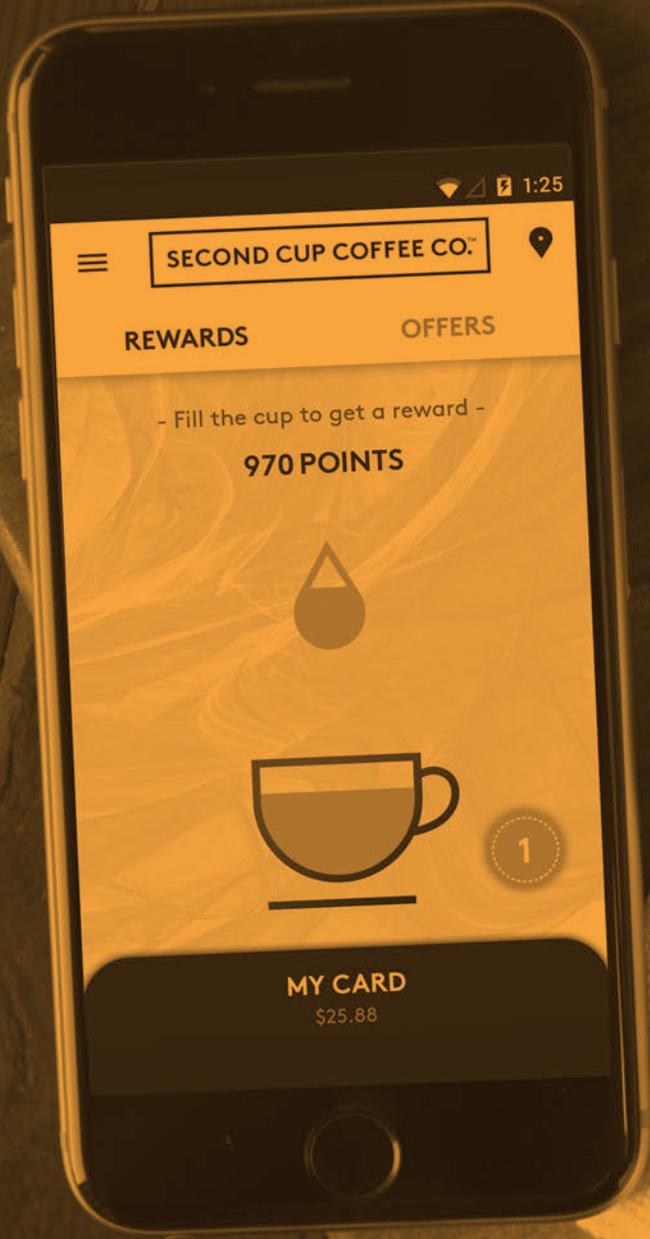


Boul St-Laurent, Montreal

Franchisee: Yana Chlumsky

“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.”

— Yana Chlumsky, Franchise Owner of Second Cup Coffee Co. in Montreal, Quebec.



SECOND CUP COFFEE CO.™

REWARDS

OFFERS

- Fill the cup to get a reward -

970 POINTS



1

MY CARD

\$25.88

DRIVING INNOVATION

Creating the ultimate coffee experience

Innovative food, beverage and experiences.

We have made Second Cup Coffee Co. a more personal experience through the launch of our Second Cup Coffee Co. Rewards program. With our loyalty program we also leveraged technology with the introduction of our mobile app, digital payment and Apple® Watch app. The program has been instrumental in driving customer loyalty and frequency. Food and beverage innovation was also a key focus in 2015. With the re-invention of our cold beverage category we delivered more authentic and coffee forward beverages – Frappés and Iced Red Eyes. Our premium bakery program launched in approximately 80% of our cafés across Canada using best in class, local bakeries. In 2016 we will bring even more excitement to our cafés, with innovative, superior quality food and beverage offerings to share with coffee lovers across Canada.

LAUNCH OF SECOND CUP COFFEE CO. REWARDS

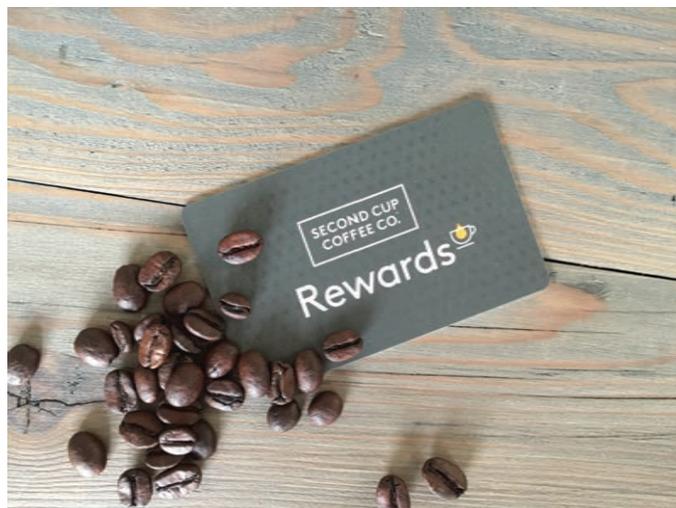
A more rewarding experience.

The launch of our loyalty program represents another pivotal milestone in the company's brand revolution and commitment to delivering the ultimate coffee experience to Canadians. The Rewards program allows members to earn points for every dollar spent at Second Cup, providing exceptional value as reward levels are quickly reached.

Members can even use the app on their Apple® Watch, making Second Cup Coffee Co. one of the first Canadian companies to debut an app for the new device.



Apple, the Apple logo, and iPhone are trademarks of Apple Inc., registered in the U.S. and other countries. Apple Watch is a trademark of Apple Inc. App Store is a service mark of Apple Inc.



Join. Earn. Enjoy FREE coffee.

The new Rewards program and mobile app embody our commitment to creating a premium, personalized brand experience for our customers.

Introduced in April 2015, the Second Cup Coffee Co. Rewards program has been instrumental in driving customer frequency and loyalty. At year end this accounted for approximately 17% of sales and exceeded first year targets for member enrollment.

PREMIUM QUALITY BAKED GOODS



Hand-made locally, delivered fresh daily.

Daily, fresh baked goods are created in our local bakeries to deliver artfully hand-baked products, created with meticulously selected ingredients that you can pronounce! Now available in approximately 80% of cafés nationally.

National Post rave reviews.

We sent over some of our new premium quality baked goods to National Post staffers for a tasting... they loved them! "This brownie is freakin' delicious".

National Post - March 23rd, 2015



Driving Innovation

BEVERAGE INNOVATION

Re-inventing the cold coffee category.

We welcomed in the warmer weather with the introduction of our authentic Frappés, made with a fresh shot of our Espresso Forte. Available in four flavours, the Frappés quickly became a customer favourite. Our iced coffee also saw innovation with the introduction of the bold Iced Red Eye—our iced coffee with a shot of Espresso Forte.



Franchisee: Lesley Hardy





Alix Box

Second Cup Ltd.

NEWSMAKER OF THE YEAR

ten Smith

“So stranger to luxury brands, Alix Box is leading Second Cup Coffee Co. in its quest to position the Canadian (a more premium coffee offering, has held the position of Second Cup president and chief executive officer since y 2014.

spent the majority of my 34 years in retail,” said Box, where the focus is on refers to as quality experience.

en Second Cup came along with the ge to transform a brand, I thought ‘wow, rally exciting’ and it’s almost as if I’ve rparing for it throughout my career.”

iously, Box was the senior vice-president at Holt Renfrew for about seven years. Box spent a decade at Starbucks Coff-spary, where she held the role of vice-t of operations and was responsible for es across Canada.

k O’Dea and Tom Culligan founded Cap in 1975 with the opening of the tion at Scarborough Town Centre. Cul-rehaed O’Dea’s shares and, after build-s a 150-store-chain, sold it to Michael n in 1988.

chain changed hands a few more times year history including being owned by operation from 2002 to 2006, when it Dinecorp Hospitality.

man was appointed chair of the board 013, where he sits with former president O Alton McEwen.

man, who worked with Box at mmmar-mumffins and Michel’s Baguette in the eached out to her about reinventing the

e of the things that appealed to me was transformative project,” Box said.

impression of Second Cup was that it ome outdated and not very relevant, ad a great past and it had a great foun-” Box said, noting this includes Second

Cap’s coffee, passionate franchisees and good real estate.

“Both Michael and I were in firm agreement that Second Cup needed to be taken up to a more premium level and [focus on] quality and innovation to really entice the customer that wasn’t coming to try us again,” said Box.

She faced a number of challenges and hit the ground running in her efforts to transform Second Cup.

“One of the challenges was the company had not been performing well, so from a cultural standpoint, that’s tough for people. Our franchisees were very disheartened because same store sales had continued to degrade over the previous loss and they didn’t have a lot of trust in the company,” said Box. “One of the things that we had to do quickly, I thought, was address some of their concerns.”

Second Cup reorganized its Mississauga, Ont.-based Coffee Centre and downsized the head office team from 77 to 35 employees.

“We took the entirety of that savings and passed it along to franchisees in the form of royalty reductions, which was a big win and I think showed our franchisees that we were listening and that we were serious about really turning the company around,” Box said.

In July 2014, Second Cup added vice-president of operations and coffee experience Chris Sonnen and marketing vice-president Vanda Prosveto to its leadership team.

Although the end goal is to bring Second Cup back to an asset-light model, the company purchased some franchise locations and is re-franchising to engaged and enthusiastic new operators.

“To propel the brand turnaround, we needed to get some of our stores into the hands of more qualified operators. It’s a really tough thing to do, to take back a store. It’s very expensive to do that, but we were willing to have some short-term pain on that for a much longer-term benefit,” said Box.

On Dec. 5, 2014, Second Cup opened its



store of the future at the corner of King and John Streets in Toronto under a new brand, Second Cup Coffee Co. The location at a competitive coffee corner was chosen deliberately, said Box, and the prototype is “outperforming our expectations.”

Year-over-year, the unit saw a 43 per cent increase.

“The store performed really well and we’re excited because I think we’ve hit something that really resonates with the consumer,” said Box. “We’re seeing a great variety of people in Second Cup.”

Designed by Toronto-based II by IV in collaboration with Second Cup, the new look has been rolled out at two Montreal locations, a second Toronto store at the Eaton Centre and a unit in Red Deer, Alta.

With a system of 327 stores in Canada, Second Cup plans to bring the new design to new locations and stores scheduled for renovations.

The new Second Cup also features coffee innovations, such as a Strampunk brewing system, a local bakery program and a focus on Canadian artists and musicians.

In 2015, the company launched a mobile app and rewards program. It also brought elements of the new store, such as the new logo,

menu boards and cups depicting Canadian art, to all its cafes.

In October, Second Cup reported positive same store sales for the first time in more than three years.

“That’s important when you have transformation—you need to see some progress,” said Box.

“Our whole proposition in our three-year plan is to be the best specialty coffee offering with a focus on quality, excellence and the individual customer experience. At the same time, it’s not about being the biggest coffee chain.”

Box is excited by the challenge, one of the things she found appealing about the role with Second Cup.

“Throughout my career, I’ve been in situations where I’ve been the change agent and in order for change to happen, I think you have to really work together with people, find different perspectives and make sure everyone is aligned on a common goal and I like to do that,” said Box.

“I think we’ve been able to come a fair distance in a number of key areas,” Box said, adding transformation takes time.

“It’s going to take longer than any of us would like, but it’s going to be doable.”

Ontario Restaurant News

2015 NEWSMAKER OF THE YEAR

Award recognizing special achievements and positive effects

A transformative opportunity.

“Our whole proposition in our three-year plan is to be the best specialty coffee offering with a focus on quality, excellence and the individual customer experience.”

—Alix Box, President & CEO of Second Cup Ltd.



“The product innovation, Rewards program and collaborative spirit have been good for our business. Our customers and our cafés really experienced the positive impact of the transformation this year and this has re-energized the franchisees.”

Paul Kieley, multi-unit Second Cup Franchisee since 1997 and member of the Franchisee Advisory Council.

A LOOK AT 2016

Superior Quality and Innovation Continues

The Canadian specialty coffee company.

Coffee and food innovation will continue to be a priority in 2016. We are taking our coffee to even greater levels of excellence by making improvements at every step possible from farm to cup. Our premium bakery program, through “best in class” local bakeries, will be delivering signature bakery items like our Hot Chocolate Cookie made with our famous Second Cup Hot Chocolate. We are confident that our customers will love our new food and coffees.

SHARING A CANADIAN TRADITION WITH NEW CANADIANS



Hot chocolate and skating.

As the only Canadian specialty coffee company, we created the Welcome to Canada skating party for new Canadians. On February 20th, 2016, along with CultureLink and Elvis Stojko, we introduced over 500 new Canadians to our favourite tradition - hot chocolate and skating! It was a morning filled with great community spirit!



*Aliv Box,
President & CEO of Second Cup Ltd.*

*Elvis Stojko,
Canadian Olympic Figure Skater*

*Ibrahim Absiye,
Executive Director of CultureLink*

EMBRACING THE TRANSFORMATION, TOGETHER



*2016 President's Club Franchisees
Annual Franchisee Convention – Montreal, Quebec*



SHAREHOLDER INFORMATION

CORPORATE HEAD OFFICE

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Computershare Trust Company
of Canada

Auditors
PricewaterhouseCoopers LLP

Market Information
Shares Listed:
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Symbol: **SCU**

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THE SECOND CUP LTD. Board of Directors

Michael Bregman^{(1) (2)}
Chairman

Alix Box
Stephen Kelley⁽¹⁾
Alton McEwen⁽²⁾
Rael Merson⁽¹⁾
Alan Simpson⁽²⁾

Committees of the Board

(1) Audit Committee
(2) Governance, Human Resources
and Compensation Committee

THE SECOND CUP LTD. Senior Management Team

Alix Box
President and
Chief Executive Officer

Barbara Mallon
Vice President, Finance
and Chief Financial Officer

Vanda Provato
Vice President,
Marketing and Category

Chris Sonnen
Vice President,
Coffee Experience

Audra Wosik
Vice President, Franchising

Ted Tai
Vice President, Operations

