ANNUAL REPORT 2013 THE SECOND CUP LTD.

The Second Cup Ltd. / Annual Report 2013

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The Second Cup Ltd. Annual Report 2013

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SECOND CUP

SECOND CUP

SECOND CUP

Michael Bregman, Chairman

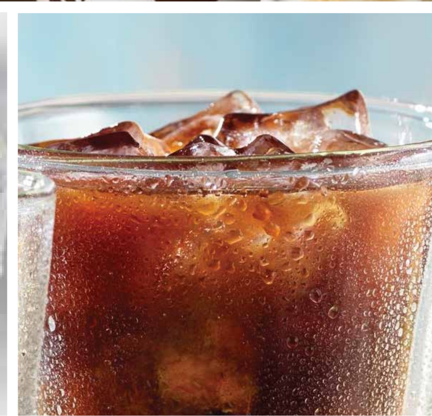
LETTER FROM THE CHAIRMAN OF THE SECOND CUP LTD.

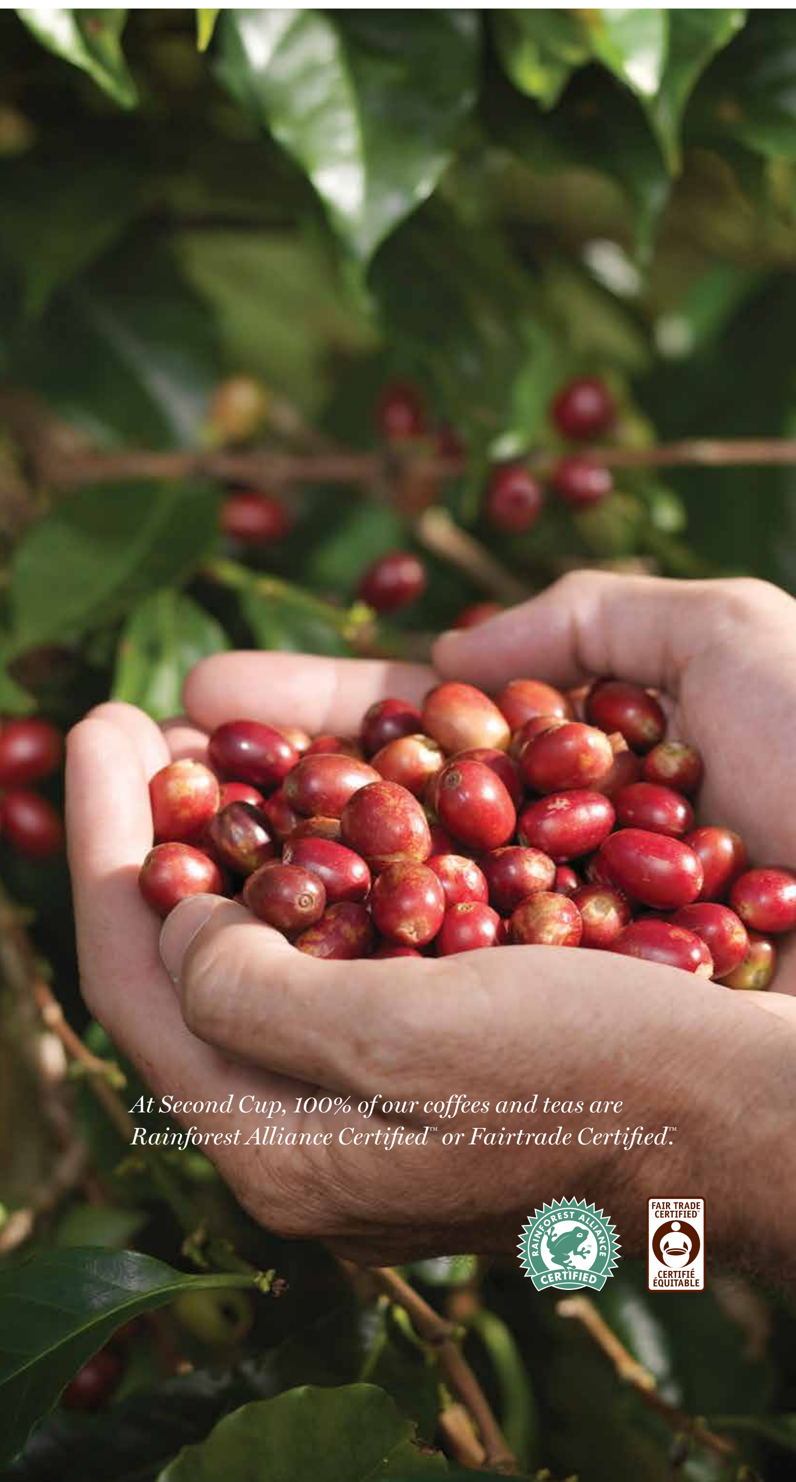
Dear Shareholders,

I am delighted to have re-associated with Second Cup as your Chairman. I see great opportunity for Second Cup to restore its legacy of excellence in all aspects of the company. The challenges are formidable and will take time to successfully tackle. I am very optimistic that we will succeed.

My prior relationship with Second Cup was very rewarding for shareholders and ended with a successful transaction twelve years ago. The foundation of the company retains important qualities, including excellent locations, highly motivated franchisees and superb coffee quality. However, we acknowledge that the company's leadership position has been tarnished in recent years. While Canada's specialty coffee industry has flourished, Second Cup has experienced declines in store count, same store sales, store level profitability and company profitability. This must change.

In 2013, the TASSIMO T DISC branded line of single-serve coffees grew to include five varieties — Paradiso®, Paradiso® Dark, Caffè Latte, Caramelo® and Espresso Forte.





At Second Cup, 100% of our coffees and teas are Rainforest Alliance Certified™ or Fairtrade Certified™.

Our ultimate objectives are lofty. We aim to operate world class coffee stores. As we progress, we will earn loyal patronage of more customers. When more customers visit Second Cup, sales and profitability will rise at store level and corporately. As success is achieved, there is potential for significant growth in shareholder value.

We recognize that much change is needed to chart a new, more positive future direction for the company. This could not occur without leadership change and there has been considerable change recently. The board of directors was reconstituted in December with a new slate of directors. There is strong alignment with major shareholders to support bold action to improve Second Cup's performance. To date, our most important move was recruiting Alix Box as our President and CEO.

Alix is uniquely qualified to lead Second Cup. Throughout her career, she has been a successful leader of positive change with an uncompromising commitment to excellence. She understands quality retailing and she knows coffee. Alix is committed to build an organization dedicated to excellence with the goal of restoring strong growth in sales and profitability. This will require time. In the coming months, Alix will share her vision for Second Cup's future.

Our journey has begun and we are prepared for considerable change in the short term in our quest to build substantial and sustained long term value.

I thank you for the privilege of serving as your chair and we look forward to reporting on Second Cup's progress.

Sincerely,

Michael Bregman
Chairman

SECOND CUP

Alix Box, President & CEO

LETTER FROM THE PRESIDENT & CEO OF THE SECOND CUP LTD.

Dear Shareholders,

After a period away from the coffee business, I am thrilled to be leading Second Cup and energized by our ambitious objective of enhancing shareholder value by improving the profitability of both our franchisees and the company. I believe we can draw on the strong roots of this iconic brand and reinvigorate it to bring the best coffee experience to Canadians that is uniquely Second Cup.

The company has experienced significant challenges over the last several periods and our performance has to fundamentally improve. We are therefore embarking on a period of significant change to transform Second Cup. Most importantly, we will be raising the bar

Through its partnership with Kraft Canada Inc., Second Cup announced the launch of a line of premium whole bean and roast & ground coffees.

SECOND CUP

SECOND CUP
SECOND CUP

TASSIMO
SECOND CUP
478 g

TASSIMO
new
nouveau
SECOND CUP
12x
163 g

TASSIMO
new
nouveau
SECOND CUP
12x
163 g

TASSIMO
new
nouveau
SECOND CUP
16x

SECOND CUP

SECOND CUP

significantly as we set out to over deliver and thrill our customers, every cup, every day! This journey to take Second Cup to a much higher level of performance will take time.

In my first weeks in the role, I spent time meeting with our franchisees and with the Second Cup Franchisee Advisory Council. After listening and hearing from this passionate group, I am thoroughly convinced that our goals are both appropriate and entirely achievable. We are privileged to have such talented entrepreneurs who have a deep passion for Second Cup and are integral parts of the communities they serve. I am committed to re-establishing the trust and collaborative relationship with these partners that is fundamental to our success.

I have always believed that striving for excellence requires an unrelenting focus on both quality and all the elements of the customer experience. In our quest to drive stronger sales and profits and get our stores performing at higher levels, we will enhance our standards in all that we do including: leveraging our unrivalled coffee quality, introducing product innovations, pursuing operational excellence and unparalleled customer service, and developing a new world-class store of the future. We have begun the process of re-engineering Coffee Central, our renamed head office, so we can provide the highest possible level of service to our franchisees.

2014 will be a year of enormous change. I am encouraged by our team's desire and excitement to rejuvenate Second Cup and thank our Board of Directors for their incredible support. I am committed to delivering long term growth for both our shareholders and franchisees and eager to lead our transformation.

Sincerely,

Alix Box
President & CEO

SECOND CUP

FINANCIAL HIGHLIGHTS

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

	13 weeks ended December 28, 2013	13 weeks ended December 29, 2012	52 weeks ended December 28, 2013	52 weeks ended December 29, 2012
System sales of cafés[1]	$ 51,898	$ 53,515	$ 191,434	$ 194,387
Same café sales[1]	(4.3%)	(4.2%)	(3.6%)	(1.9%)
Number of cafés - end of period	356	360	356	360
Total revenue	$ 8,038	$ 7,785	$ 27,188	$ 26,346
Gross profit	6,949	6,638	23,134	22,823
Operating expenses	4,759	3,977[2]	16,704	15,417[2]
Impairment charges	299	15,649[2]	13,552	15,656[2]
Operating income (loss)[1]	$ 1,891	$ (12,988)	$ (7,122)	$ (8,250)
Adjusted EBITDA[1]	$ 2,868	$ 3,027	$ 7,570	$ 8,643
Net income (loss) and comprehensive income (loss)	1,177	(12,024)	(7,369)	(9,404)
Basic and diluted earnings (loss) per share as reported	0.12	(1.21)	(0.74)	(0.95)
Adjusted basic and diluted earnings per share[1]	0.17	0.18[2]	0.45	0.45[2]
Total Assets - end of period	77,340	88,680	77,340	88,680
Number of common shares issued and outstanding - end of period	9,903,045	9,903,045	9,903,045	9,903,045

[1] See the section “Definitions and discussion on certain non-GAAP measures” for further analysis.

[2] Comparative figures were subject to reclassification as discussed in note 2a of the Audited Financial Statements. The net impact of the reclassification was $nil to net loss and comprehensive loss and only impacted presentation within current liabilities.

The Second Cup Ltd.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Management's Discussion and Analysis ("MD&A") may constitute forward looking statements within the meaning of applicable securities legislation. The terms the "Company", "Second Cup", "we", "us", or "our" refer to The Second Cup Ltd. Forward looking statements include words such as "may", "will", "should", "expect", "anticipate", "believe", "plan", "intend" and other similar words. These statements reflect current expectations regarding future events and financial performance and speak only as of the date of this MD&A. The MD&A should not be read as a guarantee of future performance or results and will not necessarily be an accurate indication of whether or not those results will be achieved. Forward looking statements are based on a number of assumptions and are subject to known and unknown risks, uncertainties and other factors, many of which are beyond Second Cup's control that may cause Second Cup's actual results, performance or achievements, or those of Second Cup cafés, or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The following are some of the factors that could cause actual results to differ materially from those expressed in the underlying forward looking statements: competition; availability of premium quality coffee beans; the ability to attract qualified franchise partners; the location of Second Cup cafés; the closure of Second Cup cafés; loss of key personnel; compliance with government regulations; potential litigation; the ability to exploit and protect the Second Cup trademarks; changing consumer preferences and discretionary spending patterns including, but not restricted to, the impact of weather and economic conditions on such patterns; reporting of system sales by franchise partners; and the financial performance and financial condition of Second Cup. The foregoing list of factors is not exhaustive, and investors should refer to the risks described under "Risks and Uncertainties" below and in Second Cup's Annual Information Form, which is available at www.sedar.com.

Although the forward looking statements contained in this MD&A are based on what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward looking statements and, as a result, the forward-looking statements may prove to be incorrect.

As these forward looking statements are made as of the date of this MD&A, Second Cup does not undertake to update any such forward-looking statements whether as a result of new information, future events or otherwise. Additional information about these assumptions and risks and uncertainties is contained in the Company's filings with securities regulators. These filings are also available on the Company's website at www.secondcup.com.

INTRODUCTION

The following MD&A has been prepared as of March 7, 2014 and is intended to assist in understanding the financial performance and financial condition of The Second Cup Ltd. ("Second Cup" or the "Company") for the 13 weeks (the "Quarter") and 52 weeks (the "Year") ended December 28, 2013, and should be read in conjunction with the Audited Financial Statements of the Company, accompanying notes and the Annual Information Form, which are available at www.sedar.com. Past performance may not be indicative of future performance. All amounts are presented in thousands of Canadian dollars, except number of cafés, per share amounts or unless otherwise indicated and have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company also reports certain non-IFRS measures such as System sales of cafés, Same café sales, EBITDA, Adjusted EBITDA, and Adjusted earnings per share that are discussed in the "Definitions and discussion of certain non-GAAP financial measures" in this MD&A.

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CORE BUSINESS, STRATEGY, AND PERFORMANCE DRIVERS

Core business

Second Cup is Canada's largest specialty coffee café franchisor (as measured by the number of cafés) with 356 cafés operating under the trade name Second Cup™ in Canada, of which ten are Company-operated and the balance are operated by franchise partners who are selected and trained to retail Second Cup's product offering.

Second Cup owns the trademarks, trade names, operating procedures and systems and other intellectual property used in connection with the operation of Second Cup cafés only in Canada, excluding the Territory of Nunavut.

Second Cup was incorporated under the Business Corporations Act (Ontario) in 2011. The address of its registered office is 6303 Airport Road, 2nd Floor, Mississauga, Ontario, L4V 1R8. The Company's website is www.secondcup.com. The common shares of the Company are listed on the Toronto Stock Exchange under the symbol "SCU".

Second Cup's fiscal year follows the method implemented by many retail entities, such that each quarter will consist of 13 weeks and will end on the Saturday closest to the calendar quarter-end. The fiscal year is made up of 52 or 53 week periods ending on the last Saturday of December.

As at March 7, 2014, the Company's issued share capital consisted of 9,903,045 common shares and was unchanged from the previous Year.

Additional information relating to the Company, including the Company's Annual Information Form, is on SEDAR at www.sedar.com.

As a franchisor, Second Cup opens, acquires, closes and refranchises individual café locations in the normal course of business.

Strategic imperatives and key performance drivers
The Company's strategic vision is to be Canada's favourite coffee house. The strategic focus is supported with integrated imperatives that are geared towards future growth. Key objectives are:
• improve franchise partner profitability by growth in café sales and margin enhancements;
• growing and improving our café network;
• new channel development which would build our brand within and outside of cafés; and
• innovation of product offerings.

A summary of the three strategic imperatives targeted to fulfil growth objectives that commenced in 2012 are outlined as follows:

(i) Development and deployment of a loyalty program
The Company launched the loyalty program pilot in 31 cafés in the Calgary region in June 2013. The pilot program helped facilitate key learnings and consideration points with respect to a planned national launch in 2014. The goal of the loyalty program is to reward our loyal customers and attract incremental traffic from new and existing customers. Initial pilot results are promising and helped support the business case to continue to develop and launch the loyalty program on a national basis.

(ii) Distribution of Second Cup coffee in grocery stores and other retail channels
The Company has partnered with Kraft Canada Inc. to distribute three whole bean and three roast & ground coffee offerings in grocery stores across Canada. The product was made available on store shelves in certain locations in February 2014. This launch will offer customers more ways to enjoy the quality and variety of coffee from Second Cup. Expansion into the grocery channel broadens Second Cup's brand by reaching guests in markets that might not have a Second Cup café nearby and better serves current Second Cup guests in-home. The increased accessibility of Second Cup products also enhances brand awareness to encourage guests to seek and experience the Second Cup product at a café. The launch will introduce a new revenue stream for the Company and builds on Second Cup's success in on-demand, single-serve coffee in the grocery channel on the TASSIMO system.

(iii) Launch and continuing development of a new look café design
In July 2013, the Company completed a renovation and launched a new look café at one of its Company-operated cafés in downtown Toronto. The new look is designed to put the Company's broad selection of brewed coffee at the forefront and to enhance the guest experience. Elements of the new café design are being incorporated across the Company's store network as cafés are opened or renovated. Management will continue to review aspects of the design and work towards further deployment and refinement going forward.

Change in Board of Directors and Chief Executive Officer
The Company announced on December 20, 2013 the reconstitution of the Board of Directors. The new Board is compromised of Michael Bregman (Chairman), Stephen Kelley, Alton McEwen, Rael Merson, and Alan Simpson.

On February 24, 2014, Alix Box commenced her duties as President and Chief Executive Officer. Ms. Box was also appointed as a director of the Company.

CAPABILITIES

This section documents factors that affect the Company's capabilities to execute strategies, manage key performance drivers and deliver results. This section is qualified by the section "Caution Regarding Forward-Looking Statements" at the beginning of this MD&A.

The Second Cup brand
The Company has a well-established and recognizable national brand. A proudly Canadian company since 1975 with 356 cafés across Canada, Second Cup is Canada's largest specialty coffee franchisor. The Company maintains its

commitment to the communities it operates in, and thus we celebrate our franchise partners' local ownership and focus on providing quality and friendly service to each guest that walks into our cafés.

Our people

The Company's franchise network consists of approximately 4,000 team members. Team members range from baristas, managers, and franchise partners at the cafés, and support personnel employed at the head office. Baristas and franchise partners complete extensive training and certification to deliver a quality product to our customers. Franchise partners and baristas are subject to operational quality checks to monitor performance.

Product

The Company has a strategic partnership with its independent roaster of coffees. The Company has also partnered with Swiss Water Decaffeinated Coffee Company Inc. to decaffeinate its coffee. The process is 100% chemical-free, unlike other decaffeination methods that use methylene chloride or ethyl acetate to remove the caffeine. The decaffeination process gently removes 99.9% of the caffeine while maintaining the unique taste characteristics of the coffee. The process emphasizes the Company's commitment to natural and healthy products.

The Company's coffee portfolio includes over 25 types of coffee, including a number of single origin estate coffees and a variety of blends exclusive to Second Cup, such as Paradiso, Espresso Forte and Second Cup's Holiday Blend. Second Cup also offers a wide variety of espresso-based beverages and blender drinks such as espressos, cappuccinos, lattes and iced coffees, and is continually developing variations of these products. Examples of innovative espresso-based beverages and blender drinks developed by Second Cup include the Caramel Corretto®, Chillatte®, Frrrozen Hot Chocolate® and Icepresso Chiller®. The Company has Canadian exclusivity to distribute Costa Rican sourced La Minita Tarrazú coffee beans, which is considered one of the most highly sought-after coffees in the world.

Second Cup prides itself that 80% of the coffee portfolio, 100% of its espresso beverages, and 100% of its silk sachet tea collection are certified by third parties such as Rainforest Alliance Certified™ as environmentally sustainable products. The Company offers a fair-trade and organic certified blend of coffee entitled Cuzco®.

In addition to coffee-based products and other beverages, our cafés carry a variety of complementary products, including pastries, sandwiches, muffins, cookies, coffee accessories and coffee-related gift items.

Liquidity, capital resources and management of capital

The Company's objectives relating to the management of its capital structure are to:

- safeguard its ability to continue as a going concern;
- maintain financial flexibility in order to preserve its ability to meet financial obligations;
- maintain a capital structure that provides financing options to the Company when the need arises to access capital;
- ensure it has sufficient cash and cash equivalents to pay declared dividends to its shareholders; and
- deploy capital to provide an adequate return to its shareholders.

The Company's primary uses of capital are to finance increases in non-cash working capital and capital expenditures. The Company determines the appropriate level of long-term debt in the context of its cash flows and overall business risks. The Company has historically generated sufficient cash flows to pay quarterly dividends to its shareholders. In order to maintain or modify the capital structure, Second Cup may adjust the amount of dividends paid to its shareholders.

On September 26, 2013, the Company renegotiated its term loan and operating credit facilities, including an extension of the maturity of the credit facilities to September 30, 2016. The revised credit facilities are comprised of an $11,000 non-revolving term credit facility, fully drawn, and an undrawn $2,000 revolving operating credit facility. The term credit facilities are collateralized by substantially all the assets of the Company.

Pursuant to the terms of the Company's operating credit facility and term loan, the Company is subject to certain financial and other customary covenants.

The Company has requirements to maintain:

- a ratio of senior debt to EBITDA ratio ("Leverage Ratio");
- a fixed charge coverage ratio;
  both of which are based on a trailing four-quarter basis; and
- a maximum amount of permitted distributions and purchases of the Company's own stock based on a trailing cumulative EBITDA, plus a carry-forward legacy surplus of permitted distributions.

During the periods ended December 28, 2013 and December 29, 2012, the Company was in compliance with all financial and other covenants of the Company's operating credit facility and term loan.

The $11,000 non-revolving term credit facility bears interest at the bankers' acceptance ("BA") rate plus a margin range of 2.25% to 3.25% depending on the Company's Leverage Ratio. As at December 28, 2013, the applicable margin pertaining to the aforementioned range is 2.75%. As at December 28, 2013, the full amount of the $11,000 non-revolving term credit facility was drawn.

The $2,000 operating credit facility bears interest at the BA rate plus a range of 2.25% to 3.25% depending on the Company's Leverage Ratio. As at December 28, 2013, the applicable margin pertaining to the aforementioned range is 2.75%. As at December 28, 2013, no advances had been drawn on this facility.

The Company had an interest rate swap agreement with a notional value of $11,000 that expired on April 1, 2013, which fixed the interest rate on the Company's non-revolving term credit facility at 3.04% per annum plus the margin noted above, which resulted in a fixed effective interest rate of 5.79%.

On September 30, 2013, the Company entered into an interest rate swap agreement with a notional value of $11,000 that expires on September 30, 2016. The swap fixed the interest rate on the Company's non-revolving term credit facility at 2.07% per annum plus the margin noted above, which resulted in a fixed effective interest rate of 4.82%.

Competition

The Canadian specialty coffee market is highly competitive and highly fragmented, with few barriers to entry. There are national, regional, and local coffee retailers whom are speciality coffee providers or quick serve restaurants with broad menus.

Technology

Second Cup relies heavily on information technology network infrastructure including point of sales system ("POS") hardware and software in cafés, Second Cup gift and loyalty card transactions, and head office financial and administrative functions. The Company's ability to manage operations effectively and efficiently depends on the reliability and capacity of these technology systems, most of which are administered by third party suppliers. The Company has made significant investments in POS systems across its store network as it relies on the POS system to help analysis for both marketing initiatives and royalty calculations.

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 28, 2013.

(in thousands of Canadian dollars, except Number of cafés, Same café sales, and per share amounts)	13 weeks ended December 28, 2013	13 weeks ended December 29, 2012	52 weeks ended December 28, 2013	52 weeks ended December 29, 2012
System sales of cafés[1]	$ 51,898	$ 53,515	$ 191,434	$ 194,387
Same café sales[1]	(4.3%)	(4.2%)	(3.6%)	(1.9%)
Number of cafés - end of period	356	360	356	360
Total revenue	$ 8,038	$ 7,785	$ 27,188	$ 26,346
Gross profit	6,949	6,638	23,134	22,823
Operating expenses	4,759	3,977[2]	16,704	15,417[2]
Impairment charges	299	15,649[2]	13,552	15,656[2]
Operating income (loss)[1]	$ 1,891	$ (12,988)	$ (7,122)	$ (8,250)
Adjusted EBITDA[1]	$ 2,868	$ 3,027	$ 7,570	$ 8,643
Net income (loss) and comprehensive income (loss)	1,177	(12,024)	(7,369)	(9,404)
Basic and diluted earnings (loss) per share as reported	0.12	(1.21)	(0.74)	(0.95)
Adjusted basic and diluted earnings per share[1]	0.17	0.18[2]	0.45	0.45[2]
Total Assets - end of period	77,340	88,680	77,340	88,680
Number of common shares issued and outstanding - end of period	9,903,045	9,903,045	9,903,045	9,903,045

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

2 Comparative figures were subject to reclassification as discussed in note 2a of the Audited Financial Statements. The net impact of the reclassification was $nil to net loss and comprehensive loss and only impacted presentation within current liabilities.

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	2011	2012	2013	Average
First quarter	23.5	24.2	24.5	24.1
Second quarter	24.4	24.4	24.9	24.5
Third quarter	24.0	23.9	23.5	23.8
Fourth quarter	28.1	27.5	27.1	27.6
	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. Because of this seasonality, the results for any Quarter are not necessarily indicative of what may be achieved for any other Quarter or Year.

Café network

	13 weeks ended December 28, 2013	13 weeks ended December 29, 2012	52 weeks ended December 28, 2013	52 weeks ended December 29, 2012
Number of cafés - beginning of period	351	358	360	359
Cafés opened	6	4	15	18
Cafés closed	(1)	(2)	(19)	(17)
Number of cafés - end of period	356	360	356	360
Number of cafés renovated	3	4	22	19

Closure activity in 2013 was predominantly driven by the planned closures of eight low volume cafés located inside home improvement retail centres. The Company ended the Year with ten (2012 - ten) Company-operated cafés.

Fourth Quarter

System sales of cafés

System sales of cafés for the 13 weeks ended December 28, 2013 were $51,898 compared to $53,515 for the 13 weeks ended December 29, 2012, representing a decrease of $1,617 or 3.0%. The decrease is attributable to decreased Same café sales and to the marginally smaller store network.

Same café sales

During the Quarter, Second Cup continued to be impacted by competitive activity resulting in a same café sales decline of 4.3%, compared to a decline of 4.2% in the comparable Quarter of 2012.

Analysis of revenue

Total revenue for the Quarter was $8,038 (2012 - $7,785) and consisted of royalty revenue, revenue from sale of goods, and services revenue.

Royalty revenue for the Quarter was $3,816 (2012 - $4,017). The reduction in royalty revenue of $201 is primarily a result of overall lower System sales of cafés, and to a lesser extent, the mix of cafés with varying royalty rates.

Revenue from the sale of goods, which consists of revenue from Company-operated cafés and from the e-commerce channel was $1,526 (2012 - $1,597) for the Quarter. The decrease of $71 in revenue from the sale of goods was mainly due lower customer traffic across the Company-operated café portfolio and changes within the portfolio of cafés. There were ten Company-operated cafés at the end of both Years.

Services revenue for the Quarter was $2,696 (2012 - $2,171). Services revenue includes initial franchise fees, renewal fees, transfer fees earned on the sale of cafés from one franchise partner to another, construction administration fees, product licencing revenue, wholesale revenue, purchasing coordination fees, and other ancillary fees (such as IT support and training fees). The $525 increase in services revenue was primarily due to sales pertaining to the partnership with Kraft Canada Inc. to produce, market, and sell Second Cup branded TASSIMO T-Discs.

Cost of goods sold

Cost of goods sold represents the product cost of goods sold in Company-operated cafés and through the e-commerce channel, plus the cost of direct labour to prepare and deliver the goods to the customers in the Company-operated cafés. Cost of goods sold was $1,089 (2012 - $1,147) or alternatively as a percentage of revenue from the sale of goods was 71% (2012 - 72%). The improvement is due to menu price increases at cafés and decreases pertaining to product purchase costs as a result of improved vendor pricing.

Operating expenses

Operating expenses include the head office expenses of Second Cup and the overhead expenses of Company-operated cafés. Total operating expenses for the Quarter were $4,759 (2012 - $3,970), an increase of $782.

Head office
Head office expenses for the Quarter were $4,406 (2012 - $3,424), an increase of $982 or 29%. During the Quarter, the Company recorded $883 of restructuring charges pertaining to the reconstitution of the Board of Directors and change in Chief Executive Officer. The Company also recorded bad debt expense of $265 in the Quarter. Offsetting impacts included lower salaries, wages, benefits, and incentives coupled with a gain of $372 relating to breakage income on gift cards.

Company-operated cafés
Company-operated café expenses for the Quarter were $353 (2012 - $546), a decrease of $193 or 35%. The decrease is due to gains on disposal of capital related items as a result of required software upgrades in advance of the anticipated launch of the loyalty program.

Impairment charges
The Company recognized impairment charges of $299 (2012 - $15,649). The 2013 charge pertained to leasehold improvement assets carried at a value in excess of its recoverable amount that cannot be redeployed to another Company-operated café.

The 2012 charges of $15,649 were a result of the Company's annual impairment analysis, which consisted of $12,850 to trademarks, $2,444 to goodwill, and $355 to other assets.

Interest and financing
The Company incurred interest and financing expenses of $254 (2012 - $128). The swap agreement expired on April 1, 2013 and was subsequently renewed during the Quarter on September 30, 2013. The increase in interest and financing expenses is due to the fair value adjustment primarily realized at inception of the renewed swap which captures an interest rate premium to fix the effective interest rate on the Long-term debt. Details are discussed in the "Liquidity and capital resources" section onward in the MD&A.

Income taxes (recovery)
Current income taxes of $427 (2012 - $596) and deferred income tax expense of $33 (2012 - tax recovery of $1,688) were recorded in the Quarter. Current income taxes decreased as a result of decreased royalties. The change in deferred income taxes was driven by the impairment charges recorded in 2012.

Adjusted EBITDA
Adjusted EBITDA for the Quarter was $2,868 (2012 - $3,027). The decrease of $159 in Adjusted EBITDA was primarily due to decreased royalty revenue.

Net income (loss)
The Company's net income for the Quarter was $1,177 or $0.12 per share, compared to a loss of $12,024 or $1.21 per share in 2012. The increase in net income of $13,201 or $1.33 per share was mainly due to the non-cash impairment charge that was recorded in the prior Year.

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 $191,434 compared to $194,387 for 2012, representing a decrease of $2,953 or 1.5%. The decrease is attributable to lower same café sales and to the marginally smaller store network.

Same café sales
For the Year, there was a decline of 3.6% compared to a decline of 1.9% in the comparable Year of 2012. The nature of the decrease is consistent to what was discussed above in the Quarter.

Analysis of revenue
Total revenues for the Year were $27,188 (2012 - $26,346).

Royalty revenue for the Year was $14,117 (2012 - $14,927). The reduction in royalty revenue of $810 was mainly a result of overall lower system sales of cafés and the reduction in the effective royalty rate from 7.9% in 2012 to 7.6% in the Year. This change was consistent with what was discussed above pertaining to the Quarter.

Revenue from the sale of goods, which consists of revenue from Company-operated cafés and the e-commerce channel was $5,506 (2012 - $4,698) for the Year. The increase in revenue from the sale of goods was mainly due to a range of ten to eleven Company-operated cafés compared to a 2012 range of seven to ten Company-operated cafés.

Services revenue for the Year was $7,565 (2012 - $6,721). The $844 increase in services revenue was primarily due to the full year impact of the partnership with Kraft Canada Inc. to produce, market, and sell Second Cup TASSIMO T-Discs. Sales of TASSIMO T-Discs commenced in the third Quarter of 2012, hence the 2013 Year benefitted from having a full period of sales.

Cost of goods sold
Cost of goods sold was $4,054 (2012 - $3,523) or alternatively as a percentage of revenue from the sale of goods was 74% (2012 - 75%). The improvement was discussed above in the Quarter.

Operating expenses
Total operating expenses for the Year were $16,704 (2012 - $15,417), an increase of $1,287.

Head office
Head office expenses increased by $1,191 (9%) in the Year to $14,943 from $13,752 in 2012. The Company incurred $883 in restructuring charges as discussed above in the Quarter. The increase was also driven by adjustments to closed café lease provisions and increases in other onerous lease related provisions where the Company is on the headlease. The increase also pertains to expenditures on innovation, test concepts, and initiatives mostly due to costs towards the loyalty program and new café branding and design costs. Offsetting some of the increase was a gain of $797 relating to breakage income on gift cards recorded in the Year.

Company-operated cafés
The overhead expenses in Company-operated cafés for the Year increased by $96 to $1,761 from $1,665 in 2012. The increase is due to a larger number of Company-operated cafés offset partially by a gain on disposal of capital related items, both of which were discussed above in the Quarter.

Impairment charges
The Company incurred impairment charges of $13,552 (2012 - $15,656). During the second Quarter of 2013, the Company identified impairment indicators on its trademark assets, which were primarily a result of the decline in its stock price and a decline in sales in comparison to internal projections. The impairment test is based on the expected recoverable amount of the cash generating unit which has been determined using fair value less costs to sell. The determination of the recoverable amount incorporates an element of risk in meeting those expectations. As a result of the impairment test, the Company recognized an impairment charge of $13,253 in the Year pertaining to trademarks. The after-tax impact of this impairment charge was $11,497 and reduced earnings per share by $1.16. The impairment charge had no impact on the Company's liquidity, cash flow, borrowing capability or operations.

Further impairment charges are discussed above in the Quarter.

Interest and financing
The Company incurred interest and financing expenses of $516 (2012 - $503). The increase in interest and financing expenses was discussed above in the Quarter. Offsetting the increases were recoveries pertaining to higher interest income as a result of higher cash balances. Further recoveries were a result of a lower fixed effective interest rate of 4.82% vs. 5.79% under the previous interest rate swap that ended on April 30, 2013. Details are discussed in the "Liquidity and capital resources" section onward in the MD&A.

Income taxes (recovery)

Current income taxes of $1,503 (2012 - $1,644) and deferred income tax recoveries of $1,772 (2012 - $993) were recorded in the Year. The decline in current taxes is consistent with the discussion above in the Quarter. The income tax recoveries pertaining to deferred income taxes were driven by the impairment charges discussed above.

Adjusted EBITDA

Adjusted EBITDA for the Year was $7,570 (2012 - $8,643). The Adjusted EBITDA decrease of $1,073 was primarily due to an increase in operating expenses before restructuring charges, the change in estimate pertaining to the gift card breakage rate, and a decrease in royalty revenue as discussed above.

Net loss

The Company's net loss for the Year was $7,369 or $0.74 loss per share, compared to net loss of $9,404 or $0.95 loss per share in 2012. The improvement of net loss of $2,035 or $0.20 per share was mainly due to lower non-cash impairment charges in the current Year.

Dividend

On March 7, 2014 the Board of Directors of Second Cup approved a quarterly dividend of $0.085 per common share, payable on March 28, 2014 to shareholders of record at the close of business on March 21, 2014.

The Company's dividend policy is to continue to pay a portion of earnings while retaining funds for organic growth initiatives. The determination to declare and make payable dividends from Second Cup is at the discretion of the Board of Directors of Second Cup and until declared payable, Second Cup has no requirement to pay cash dividends to shareholders. Taking into account current economic conditions and their impact on the profitability of Second Cup, the Board of Directors will continually review the level of dividends paid by the Company and there can be no assurance the dividends will remain at the current level.

SELECTED QUARTERLY INFORMATION

(in thousands of Canadian dollars, except Number of cafés, Same café sales, and per share amounts)	Q4 2013[2]	Q3 2013	Q2 2013	Q1 2013
System sales of cafés[1]	51,898	44,894	47,688	46,954
Same café sales[1]	(4.3%)	(3.7%)	(2.2%)	(3.3%)
Number of cafés - end of period	356	351	362	361
Total revenue	8,038	6,268	6,636	6,246
Operating income (loss)[1]	1,891	1,361	(11,401)	1,027
Adjusted EBITDA[1]	2,868	1,246[3]	2,122	1,334
Net income (loss) for the period	1,177	918	(10,152)	688
Basic/diluted earnings (loss) per share	0.12	0.09	(1.03)	0.07
Dividends declared per share	0.085	0.085	0.085	0.085

	Q4 2012[2]	Q3 2012	Q2 2012	Q1 2012
System sales of cafés[1]	53,515	46,389	47,382	47,101
Same café sales[1]	(4.2%)	(2.8%)	(1.5%)	0.4%
Number of cafés - end of period	360	358	356	355
Total revenue	7,785	6,378	6,175	6,008
Operating (loss) income[1]	(12,988)	1,133	2,063	1,542
Adjusted EBITDA[1]	3,027	1,468	2,334	1,814
Net (loss) income for the period	(12,024)	746	842	1,032
Basic/diluted (loss) earnings per share	(1.21)	0.08	0.09	0.10
Dividends declared per share	0.085	0.15	0.15	0.15

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

[2] The 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).

[3] The Company amended its definition of Adjusted EBITDA as discussed in the section "Definitions and discussion on certain non-GAAP financial measures" to include changes in the estimate pertaining to the gift card breakage rate. Comparative amounts were amended in order to provide adequate comparative figures.

LIQUIDITY AND CAPITAL RESOURCES

Second Cup collects royalties based on the franchise partner portion of System sales of cafés, franchise fees, and other amounts from its franchise partners and also generates revenues from its Company-operated cafés. The performance of Second Cup franchise partners and Company-operated cafés could impact the ability of the Company to declare and pay dividends to its shareholders. For a more detailed discussion of the risks and uncertainties affecting the Company's liquidity, see the "Risks and uncertainties" section below.

Summary of cash flows

	13 weeks ended December 28, 2013	13 weeks ended December 29, 2012	52 weeks ended December 28, 2013	52 weeks ended December 29, 2012
Cash flows provided by operating activities	$ 2,765	$ 1,765	$ 7,678	$ 5,150
Cash flows used by investing activities	(744)	(221)	(1,661)	(1,367)
Cash flows used by financing activities	(842)	(844)	(3,396)	(5,368)
Increase (decrease) in cash and cash equivalents during the period	$ 1,179	$ 700	$ 2,621	$ (1,585)

Fourth Quarter

Cash generated by operating activities was $2,765 for the Quarter compared to $1,765 for the same Quarter in 2012. The difference is attributable to changes in non-cash working capital as a result of recorded breakage income and increases in provisions as a result of restructuring charges. Offsetting the increase were lower royalty revenues.

During the Quarter, cash used in investing activities was $744 compared to cash used of $221 for the same Quarter in 2012. The cash usage was a result of purchases in software pertaining to the POS system upgrade that commenced in the Quarter.

Financing activities resulted in a cash usage of $842 (2012 - $844) and thus was relatively stable.

Year

Cash generated by operating activities was $7,678 for the Year compared to $5,150 for the same period last year. The difference was due to items discussed above in the Quarter.

During the Year, cash used in investing activities was $1,661 compared to cash used of $1,367 for the same period in 2012. The Company purchased $2,117 (2012 - $1,758) of property and equipment primarily for the acquisition of three Company-operated cafés in 2013, new look café renovations, equipment for other corporate cafés, head office and the POS system, and $787 (2012 - $180) towards software primarily for POS system upgrades that are a prerequisite to the launch of a loyalty program. The Company received proceeds of $1,240 (2012 - $350) on the disposal of property and equipment related to the sale of two corporate cafés to franchise partners and where the Company obtained proceeds upon returning related POS software licenses. Other cash received from investing activities was $3 (2012 - $185).

Financing activities resulted in a cash usage of $3,396 (2012 - $5,368) predominantly for dividends of $3,367 paid to shareholders. The dividends were reduced during the fourth quarter of 2012 to re-invest in long-term strategic growth initiatives such as the loyalty program and the new café design as discussed above.

Working capital as at

	Dec. 28, 2013	Dec. 29, 2012
Current assets	$ 11,402	$ 9,593
Current liabilities	11,061	10,649
Working capital (deficiency)	$ 341	$ (1,056)

The Company's working capital of $341 as of December 28, 2013, improved by $1,397 from December 29, 2012. Current liabilities include a $3,895 (December 29, 2012 - $4,560) gift card liability. The change in working capital was a result of a higher cash balance (discussed below) and a reduction of the gift card liability due to breakage (discussed above).

The Company had cash and cash equivalents of $6,501 at December 28, 2013 (December 29, 2012 - $3,880). The increase was primarily due to the reduced dividends (discussed above). The Company continues to believe it has sufficient financial resources to pay operating expenses and future dividends when approved, declared, and due.

Financial instruments

The following summarizes the nature of certain risks applicable to the Company's financial instruments:

Financial instrument	Risks
Financial assets	
Cash and cash equivalents	Credit and interest rate
Trade and other receivables	Credit
Notes and leases receivable	Credit
Financial liabilities	
Interest rate swap	Credit, liquidity, and interest rate
Accounts payable and accrued liabilities	Liquidity, currency, and commodity
Gift card liability	Liquidity
Deposits from franchise partners	Liquidity
Term loan	Liquidity and interest rate

(i) Credit risk

Cash and cash equivalents, and interest rate swap

Credit risk associated with cash and cash equivalents, and the interest rate swap is managed by ensuring these assets are placed with institutions of high creditworthiness.

Trade and other receivables, and notes and leases receivable

The Company's trade and other receivables, and notes and lease receivable primarily comprise amounts due from franchise partners. Credit risk associated with these receivables is mitigated as a result of the review and evaluation of franchise partner account balances beyond a particular age. Prior to accepting a franchise partner, the Company undertakes a detailed screening process which includes the requirement that a franchise partner has sufficient financing. The risk is further mitigated due to a broad franchise partner base that is spread across the country which limits the concentration of credit risk.

Other receivables may include amounts owing from large organizations where often those organizations have a simultaneous vendor relationship with the Company's franchise partners. Credit risk is mitigated as a result of the Company directing and maintaining certain controls over the vendor relationship with the franchise partners.

(ii) Liquidity risk

The Company manages liquidity risk through regular monitoring of dividends, forecast and actual cash flows, monitoring maturity dates of financial assets and liabilities, and also the management of its capital structure and debt leverage ratios as outlined above. The Company's main source of income is royalty receipts from its franchise partners.

(iii) Interest rate risk
The Company's financial instruments exposed to interest rate risk earn and bear interest at floating rates. The Company entered into an interest rate swap agreement to minimize risk on its long-term debt.

(iv) Currency risk
The Company transacts with a small number of vendors that operate in foreign currencies. The Company believes that due to low volumes of transactions, low number of vendors, and low magnitude of spend, the impact of currency risk is not material.

The Company is in the process of evaluating future currency risk and its ability to mitigate this risk with respect to a key vendor involved in the anticipated national launch of a loyalty program.

(v) Commodity risk
The Company is directly and indirectly exposed to commodity market risk. The exposure relates to the changes in coffee commodity prices given it is a material input for the Company's product offerings. The direct risk pertaining to Company-operated cafés is not considered material given that there is a relatively small number of cafés. The direct exposure pertaining to the wholesale business is mitigated given that the Company has the ability to adjust its sales price if commodity prices rise over a threshold level. The indirect risk exists where franchise partner profitability may be impacted, thus potentially resulting in an impeded ability to collect accounts receivable or the need for other concessions to be made to the franchise partner. The Company mitigates this risk by entering fixed price purchase commitments through coffee commodity brokers and by having the ability to adjust retail selling prices.

Contingencies, commitments and guarantees
Discussion of commitments as at December 28, 2013 are as follows:

Second Cup has lease commitments for Company-operated cafés and also acts as the head tenant on leases, which it in turn subleases to franchise partners.

	Headlease commitments	Sublease to franchisees	Net
December 28, 2014	$ 19,627	$ 18,144	$ 1,483
December 28, 2015	18,328	17,004	1,324
December 28, 2016	16,254	15,033	1,221
December 28, 2017	14,222	13,030	1,192
December 28, 2018	12,159	11,076	1,083
Thereafter	32,694	29,142	3,552
	$ 113,284	$ 103,429	$ 9,855

The Company believes it will have sufficient resources to meet the net commitment of $9,855.

Second Cup is involved in litigation and other claims arising in the normal course of business. Management must use its judgement to determine whether or not a claim has any merit, the amount of the claim and whether to record a provision, which is dependent on the potential success of the claim. Second Cup believes it will not incur any significant loss or expense with such claims. However, there can be no assurance that unforeseen circumstances will not result in significant costs. The outcome of these actions is not determinable at this time, and adjustments, if any, will be recorded in the period of settlement.

The Coffee "C" contract is the world benchmark for Arabica coffee. The contract prices physical delivery of exchange grade green beans from one of 19 countries of origin in a licensed warehouse to one of several ports in the U.S. and Europe, with stated premiums/discounts. Second Cup sources high altitude Arabica coffee which tends to trade at a premium above the "C" coffee commodity price. Second Cup has contracts with third party companies to purchase the coffee that is sold in all Second Cup cafés. In terms of these supply agreements, Second Cup has guaranteed a minimum volume of coffee purchases of $5,621 USD (2012 - $4,421 USD) during fiscal 2014. The coffee purchase commitment is comprised of three components: unapplied futures commitment contracts, fixed price physical contracts and flat price physical contracts.

Second Cup has entered into a distribution agreement and has partnered with a vendor to wholesale its products through grocery and other retail outlets across Canada. As a result of the distribution agreement, the Company is required to pay a portion of one-time listing fees in the amount of up to $1,050 in 2014.

Second Cup is the primary coordinator of café construction costs on behalf its franchise partners and for Company-operated cafés. There is $1,433 of contractual commitments pertaining to construction costs for new locations and renovations. The Company finances construction costs for franchise projects from deposits received from franchise partners and corporate projects from the Company's cash flows.

Related parties

The Company has identified related parties as key management, members of the Board of Directors, and shareholders that effectively exercise significant influence on the Company. Such related parties include any entities acting with or on behalf of the aforementioned parties.

In 2013, the Company incurred a total of $153 in legal expenditures incurred on behalf of shareholders and related companies with respect to the reconstitution of the Board of Directors. These items were recorded at their exchange amount as restructuring expenses.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") must acknowledge they are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting ("ICFR") for the Company. The control framework used by the CEO and CFO to design the Company's ICFR is Internal Control Over Financial Reporting - Guidance for Smaller Public Companies as issued by COSO. In addition, in respect of:

Disclosure controls and procedures

The CEO and CFO must certify they have designed the disclosure controls and procedures, or caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the Company is made known to them in a timely manner and that information required under securities legislation is recorded, processed, summarized and reported in a timely manner.

During the last week of the second Quarter of 2013, the Company appointed a new interim CFO who subsequently was appointed as CFO during the third Quarter. The Company also hired a new Director of Finance in the second Quarter. Given the experience of both the CFO and the Director of Finance, as well as the continuity of the rest of the senior leadership team, we believe the transition was effective and had no impact on the disclosure controls and procedures.

During the first Quarter of 2014, the Company appointed a new CEO. Given the continuity of the senior leadership team which included the effective transition of the new CFO over a reasonable duration during the fiscal Year as documented above, we believe the transition was effective and had no impact on the disclosure controls and procedures.

As at March 7, 2014, the Company's management, under the supervision of, and with the participation of, the CEO and CFO, evaluated the design of the disclosure controls and procedures. Based on this evaluation, the CEO and CFO have concluded that, as at December 28, 2013, the Company's disclosure controls and procedures were appropriately designed.

Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls and procedures should not exceed their expected benefits. As such, the Company's disclosure controls and procedures can only provide reasonable, and not absolute, assurance that the objectives of such controls and procedures are met.

During the Year ended December 28, 2013 and up to the date of the approval of the Audited Financial Statements and MD&A, there has been no change that has materially affected, or is reasonably likely to materially affect the Company's disclosure controls and procedures.

Internal controls over financial reporting
The CEO and CFO must certify they have designed such internal controls over financial reporting, or caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Audited Financial Statements for external purposes in accordance with IFRS.

During the last week of the second Quarter of 2013, the Company appointed a new interim CFO who subsequently was appointed as CFO during the third Quarter. The Company also hired a new Director of Finance in the second Quarter. Given the experience of both the CFO and the Director of Finance, as well as the continuity of the rest of the senior leadership team, we believe the transition was effective and had no impact on the internal controls over financial reporting.

During the first Quarter of 2014, the Company appointed a new CEO. Given the continuity of the senior leadership team which included the effective transition of the new CFO over a reasonable duration during the fiscal Year as documented above, we believe the transition was effective and had no impact on the internal controls over financial reporting.

As at March 7, 2014, the Company's management, under the supervision of, and with the participation of, the CEO and CFO, evaluated the design of the controls over financial reporting. No material weaknesses in the design of these controls over financial reporting were identified. Based on this evaluation, the CEO and CFO have concluded that, as at December 28, 2013, the Company's controls over financial reporting were appropriately designed and were operating effectively.

Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. As such, the Company's internal controls over financial reporting can only provide reasonable, and not absolute, assurance that the objectives of such controls are met.

During the Year ended December 28, 2013 and up to the date of the approval of the Audited Financial Statements and MD&A, there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Audited Financial Statements requires management to make estimates, assumptions, and use judgement in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgements are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The accounting estimates will, by definition, seldom equal the related actual results.

Estimates
The following are examples of estimates and assumptions the Company makes:
- The allowance for doubtful accounts;
- The allowance for inventory obsolescence;
- The estimated useful lives of assets;
- The recoverability of tangible and intangible assets subject to depreciation, amortization, or with indefinite lives;
- The derivation of income tax assets and liabilities;
- Café lease provisions; and
- Gift card breakage.

Use of judgement
The following discusses the most significant accounting judgements and estimates that the Company has made in the preparation of the Audited Financial Statements:

(i) Impairment charges
Impairment analysis is an area involving management judgement requiring assessment as to whether the carrying value of assets is recoverable. Fair value less cost to sell is determined by estimating the net present value of future cash flows derived from such assets using cash flow projections that have been discounted at an appropriate rate and based on a market participant's view. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters including:
• Growth in total revenue;
• Change and timing of cash flows such as the increase or decrease of expenditures;
• Selection of discount rates to reflect the risks involved; and
• Applying judgement in cash flows specific to cash generating units.

Changing the assumptions selected by management, in particular, the discount rate and the growth rate assumptions used in the cash flow projections, could significantly affect the impairment evaluations and recoverable amounts.

(ii) Deferred income taxes
The timing of reversal of temporary differences and the expected income allocation to various tax jurisdictions within Canada affect the effective income tax rate used to compute the deferred income taxes. Management estimates the reversals and income allocation based on historical and budgeted operating results and income tax laws existing at the Statements of Financial Position dates. In addition, management occasionally estimates the current or future deductibility of certain expenditures, affecting current or deferred income tax balances and expenses.

(iii) Estimated useful lives
Management estimates the useful lives of property and equipment based on the period during which the assets are expected to be available-for-use. The amounts and timing of recorded expenses for depreciation of property and equipment for any period are affected by these estimated useful lives. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's property and equipment in the future.

(iv) Café lease provisions
Café lease provisions require judgement to evaluate the likelihood and measurement of settlements, temporary payouts, or sub-leasing. Management works with landlords and franchise partners to obtain adequate information needed to make applicable judgements.

RISKS AND UNCERTAINTIES

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

The performance of Second Cup is primarily dependent on its ability to maintain and increase the sales of existing cafés, add new profitable cafés to the network and redevelop and modernize cafés as their leases come due. System sales of the Second Cup café network are affected by various external factors that can affect the specialty coffee industry as a whole. Potential risks include the following:

The specialty coffee industry is characterized by intense competition with respect to price, location, coffee and food quality, and numerous factors affecting discretionary consumer spending. Competitors include national and regional chains, independent cafés, all restaurants and food service outlets that serve coffee, and supermarkets that compete in the whole bean and roast & ground segments. If Second Cup cafés are unable to successfully compete in the Canadian specialty coffee industry, System sales of cafés may be adversely affected, which, in turn, may adversely affect the ability of Second Cup to pay dividends.

Growth of the café network depends on Second Cup's ability to secure and build desirable locations and find high calibre, qualified franchise partners to operate them. Adverse credit markets, such as those currently being experienced, may affect the ability of franchise partners to obtain new credit or refinance existing credit on economically reasonable terms.

Second Cup faces competition for café locations and franchise partners from its competitors and from franchisors and operators of other businesses. The success of Second Cup franchise partners is significantly influenced by the location of their cafés. There can be no assurance that current Second Cup café locations will continue to be attractive, or that additional café sites can be located and secured as demographic and traffic patterns change. Also, there is no guarantee that the property leases in respect of the Second Cup cafés will be renewed or suitable alternative locations will be obtained and, in such event, one or several cafés could be closed. It is possible that the current locations or economic conditions where Second Cup cafés are located could decline in the future, resulting in potentially reduced sales in those locations, which will have an adverse effect on System sales of cafés. There is no assurance that future sites will produce the same results as past sites. There is also no assurance that a franchise partner will continue to pay its rental obligations in a timely manner, which could result in Second Cup being obligated to pay the rental obligations pursuant to its head lease commitment, which would adversely affect the profitability of Second Cup's business.

A shortage in supply or an increase in the price of premium quality coffee beans could adversely affect Second Cup. Second Cup has no material long-term contracts with coffee bean suppliers and relies on historical relationships to ensure availability. While there are a number of coffee bean suppliers, there can be no assurance that coffee bean suppliers that have relationships with Second Cup will continue to supply coffee beans at competitive prices.

The Canadian specialty coffee industry is also affected by changes in discretionary spending patterns, which are in turn dependent on consumer confidence, disposable consumer income and general economic conditions. Factors such as a change in general economic conditions, recessionary or inflationary trends, job security and unemployment, equity market levels, consumer credit availability and overall consumer confidence levels may affect their business. The specialty coffee industry is also affected by demographic trends, traffic and weather patterns, as well as the type, number, and location of competing cafés.

Second Cup's business could be adversely affected by increased concerns about food safety in general or other unusual events. In February 2014, it was announced that the government of Ontario is in the process of advancing legislation that would require quick service restaurants to post calorie counts on its menu boards. Such legislation has not been finalized as at the date of this MD&A. Overt disclosure of calorie counts may alter consumer spending habits which would impact store sales. It is also undetermined what the potential impact of associated financial requirements would be to fulfil legislative requirements.

The partnership with Kraft Canada Inc. to distribute whole bean and roast & ground coffees requires significant investments of non-refundable listing fees. The TASSIMO self-serve product has achieved positive results and the Company will continue to evaluate this area of potential growth, including the consideration of adding further product offerings. The launch of whole bean and roast & ground coffees are a complementary but different product line in comparison to self-serve. Thus there is a risk that the success of products offered through grocery and retail channels may differ.

Second Cup relies heavily on information technology network infrastructure. The Company's ability to manage operations effectively and efficiently depends on the reliability and capacity of these technology systems, most of which are administered by third party suppliers. The Company relies on POS for system sales for both marketing trends and royalty calculations through the IT network infrastructure. Cafés rely on IT network infrastructure to order goods and process credit, debit and café card transactions. Head Office financial and administrative functions rely on IT infrastructure for accurate and reliable information. The failure of these systems to operate effectively, or problems with upgrading or replacing systems could cause a material negative financial result. The Company is continually reviewing its systems and procedures to minimize risk.

The loss of key personnel and/or a shortage of experienced management and hourly employees could have an adverse impact on Second Cup's operations and cafés.

A more detailed discussion of the risks and uncertainties affecting Second Cup is set out in the Second Cup's Annual Information Form, which is available at www.sedar.com.

OUTLOOK

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

The Second Cup business continues to operate in a competitive marketplace and a challenging consumer environment. In 2013, management continued to invest in the business, including investing in the development of a loyalty program which is being tested in 31 cafés, with positive initial results. In 2014, Second Cup plans to roll out the loyalty program nationally.

As well, the Company introduced and will further expand a coffee revitalization program. Promotions will be geared to put coffee at the forefront as one of the Company's key success factors. Included in the revitalization program was the expansion of the TASSIMO T-Disc line, which was launched in market late in the Quarter.

Second Cup has announced that it will leverage its success with its partner, Kraft Canada Inc., to distribute its Second Cup branded whole bean and roast & ground coffee to grocery stores across Canada commencing in February 2014. The new revenue stream is intended to increase corporate sales, while increasing brand presence in the marketplace to attract customers into cafés in addition to their homes. This new venture will require an initial investment in listing fees and potential advertising support in 2014.

Second Cup will continue to improve the café network with the opening of cafés while closing below average performing cafés.

As a result of the reconstitution of the Board of Directors, a change in the Chief Executive Officer, and an ongoing review of the Second Cup's operational direction, the Company may incur certain transitional and restructuring related charges onward in 2014. The Company will focus on embracing change and implementing improvements to better the economic health of the franchise network, which is intended to ultimately benefit the Company and its shareholders.

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, 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 growth of the overall café network. Sales are reported by franchisees to Second Cup on a weekly basis without audit or other form of independent assurance. Second Cup's substantiation of sales reported by its franchisees is through analytical and financial reviews performed by management, comparison to sales data on the POS, on-site visits, and analyses of raw materials purchased by the cafés as reported by authorized vendors.

Increases in System sales of cafés result from the addition of new cafés and Same café sales (as described below). The primary factors influencing the number of cafés added to the Second Cup café network include the availability and cost of high quality locations, competition from other specialty coffee retailers and other businesses for prime locations, and the availability of qualified franchisees.

System sales of cafés are also affected by the permanent closure of Second Cup cafés. Cafés are closed when they cease to be viable or, occasionally, when a renewal of a lease for a particular location is not available or when an alternative, preferable location is available.

Same café sales
Same café sales represents the percentage change, on average, in sales at cafés (franchised and Company-operated) 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 with specific focus on organic growth. Organic growth is an indicator on how the Company is impacted by operational effectiveness, the results of marketing efforts, pricing, and responsiveness to competition. Same café sales provides 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 sale.

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, the measure as calculated by the Company is likely not 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, 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 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.

Restructuring charges are a reconciling item in the definition of Adjusted EBITDA as management believes such costs are non-recurring and not an indicative performance measure directly linked to the focus of the Company's business operations and strategic imperatives. As there is no generally accepted method of calculating Adjusted EBITDA, the measure as calculated by the Company is likely not comparable to similarly titled measures reported by other issuers. Adjusted EBITDA should not be considered by an investor as an alternative to net income or cash flows as determined in accordance with IFRS.

The change in estimate pertaining to the gift card breakage rate was captured as a reconciling item to Adjusted EBITDA as management believes this change in estimate was material and not an indicative performance measure used to evaluate the sustainable current and ongoing financial performance.

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

	13 weeks ended December 28, 2013	13 weeks ended December 29, 2012	52 weeks ended December 28, 2013	52 weeks ended December 29, 2012
Net income (loss)	$ 1,177	$ (12,024)	$ (7,369)	$ (9,404)
Net interest and financing	254	128	516	503
Income taxes (recovery)	460	(1,092)	(269)	651
Depreciation of property and equipment	206	208	749	716
Amortization of intangible assets	142	116	502	451
(Gain) loss on disposal of property and equipment	(181)	42	(197)	70
EBITDA	2,058	(12,622)	(6,068)	(7,013)
Impairment charges	299	15,649[1]	13,552	15,656[1]
Restructuring charges	883	-	883	-
Gift card breakage rate - change in estimate	(372)	-	(797)	-
Adjusted EBITDA	$ 2,868	$ 3,027	$ 7,570	$ 8,643

[1] As a result of the reclassification of impairment charges discussed in note 2a of the Audited Financial Statements, adjusted earnings per share for comparative amounts were amended in order to provide adequate comparative figures.

Adjusted basic and diluted earnings per share

Adjusted earnings per share represents earnings per share excluding impairment and restructuring charges, and the change in estimate pertaining to the gift card breakage rate. Impairment charges of trademarks and goodwill are non-cash, but material items that were adjusted as management concluded that this was 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. Impairment charges of tangible assets are primarily related to leasehold improvements at Company-operated cafés. The Company typically operates such cafés for exploratory purposes or with the intention to improve underperformers and to subsequently refranchise the cafés. Restructuring charges are a reconciling item as management believes these costs are non-recurring and not an indicative performance measure directly linked to the focus of the Company's business operations on a per share basis. The change in estimate pertaining to the gift card breakage rate was captured as a reconciling item to Adjusted earnings per share as management believed this change in estimate was material and not an indicative performance measure used to evaluate the sustainable current and ongoing financial performance.

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

	13 weeks ended December 28, 2013	**13 weeks ended December 29, 2012**	**52 weeks ended December 28, 2013**	**52 weeks ended December 29, 2012**
Net income (loss)	$ 1,177	$ (12,024)	$ (7,369)	$ (9,404)
Impairment charges	299	15,649[1]	13,552	15,656[1]
Restructuring charges	883	-	883	-
Gift card breakage rate - change in estimate	(372)	-	(797)	-
Tax effect of impairment and restructuring charges, and the change in estimate of the gift card breakage rate	(215)	(1,795)[1]	(1,859)	(1,799)[1]
Adjusted earnings	1,722	1,830[1]	4,410	4,453[1]
Weighted average number of shares issued and outstanding (unrounded)	9,903,045	9,903,045	9,903,045	9,903,045
Adjusted basic and diluted earnings per share	$ 0.17	$ 0.18[1]	$ 0.45	$ 0.45[1]

[1] As a result of the reclassification of impairment charges discussed in note 2a of the Audited Financial Statements, adjusted earnings per share for comparative amounts were amended in order to provide adequate comparative figures.

The Second Cup Ltd.

AUDITED FINANCIAL STATEMENTS

For the 52 weeks ended
December 28, 2013 and December 29, 2012

March 7, 2014

Independent Auditor's Report

To the Shareholders of
The Second Cup Ltd.

We have audited the accompanying financial statements of The Second Cup Ltd., which comprise the statements of financial position as at December 28, 2013 and December 29, 2012 and the statements of operations and comprehensive income (loss), statements of changes in equity and statements of cash flows for the two fifty-two week periods then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of The Second Cup Ltd. as at December 28, 2013 and December 29, 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

The Second Cup Ltd.

STATEMENTS OF FINANCIAL POSITION

As at December 28, 2013 and December 29, 2012

(Expressed in thousands of Canadian dollars)

	December 28, 2013	December 29, 2012
ASSETS		
Current assets		
Cash and cash equivalents	$ 6,501	$ 3,880
Trade and other receivables (note 7)	4,368	4,616
Notes and leases receivable (note 8)	220	265
Inventories (note 9)	123	137
Prepaid expenses and other assets	190	695
	11,402	9,593
Non-current assets		
Notes and leases receivable (note 8)	701	741
Property and equipment (note 10)	3,507	3,544
Intangible assets (note 11)	61,730	74,802
Total assets	$ 77,340	$ 88,680
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 12)	$ 4,586	$ 3,123
Provisions (note 13)	847	448
Other liabilities (note 14)	717	720
Income tax payable	138	318
Gift card liability	3,895	4,560
Deposits from franchise partners	878	1,480
	11,061	10,649
Non-current liabilities		
Provisions (note 13)	1,380	683
Other liabilities (note 14)	428	421
Long-term debt (note 15)	11,089	11,037
Deferred income taxes	7,418	9,190
Total liabilities	31,376	31,980
SHAREHOLDERS' EQUITY	45,964	56,700
Total liabilities and shareholders' equity	$ 77,340	$ 88,680

Contingencies, commitments and guarantees (note 22) and subsequent event (note 25).
See accompanying notes to the financial statements.

Approved by the Directors March 7, 2014

Michael Bregman, Director   Rael Merson, Director

STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

For the periods ended December 28, 2013 and December 29, 2012

(Expressed in thousands of Canadian dollars, except per share amounts)

	2013	2012
Revenue		
Royalties	$ 14,117	$ 14,927
Sale of goods	5,506	4,698
Services	7,565	6,721
	27,188	26,346
Cost of goods sold	4,054	3,523
Gross profit	23,134	22,823
Operating expenses (note 16)	16,704	15,417
Impairment charges (note 17)	13,552	15,656
Operating loss	(7,122)	(8,250)
Interest and financing (note 18)	516	503
Loss before income taxes	(7,638)	(8,753)
Income taxes (recovery) (note 19)	(269)	651
Net loss and comprehensive loss for the period	$ (7,369)	$ (9,404)
Basic and diluted loss per share (note 20)	$ (0.74)	$ (0.95)

See accompanying notes to the financial statements.

The Second Cup Ltd.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the periods ended December 28, 2013 and December 29, 2012

(Expressed in thousands of Canadian dollars)

	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Total
Balance - December 31, 2011	$ 1,000	$ 61,557	$ 8,845	$ 71,402
Net loss for the period	-	-	(9,404)	(9,404)
Dividends to shareholders	-	-	(5,298)	(5,298)
Balance - December 29, 2012	$ 1,000	$ 61,557	$ (5,857)	$ 56,700
Net loss for the period	-	-	(7,369)	(7,369)
Dividends to shareholders	-	-	(3,367)	(3,367)
Balance - December 28, 2013	$ 1,000	$ 61,557	$ (16,593)	$ 45,964

See accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS

For the periods ended December 28, 2013 and December 29, 2012

(Expressed in thousands of Canadian dollars)

	2013	2012
CASH PROVIDED BY (USED IN)		
Operating activities		
Loss for the period	$ (7,369)	$ (9,404)
Items not involving cash		
Depreciation of property and equipment	749	716
Amortization of intangible assets	502	451
Impairment charges	13,552	15,656
Amortization of deferred financing charges	38	82
Amortization of provisions	(116)	(89)
Amortization of leasehold inducements	69	26
Deferred income taxes	(1,772)	(993)
(Gain) Loss on disposal of capital related items	(197)	70
Movement in fair value of interest rate swap	44	(206)
Changes in non-cash working capital (note 21)	2,178	(1,159)
Cash provided by operating activities	7,678	5,150
Investing activities		
Proceeds from disposal of capital related items	1,240	350
Cash payments for capital expenditures (note 21)	(2,904)	(1,938)
Proceeds from repayment of leases receivable	-	36
Proceeds from repayment of notes receivable	13	185
Investment in notes receivable	(10)	-
Cash used by investing activities	(1,661)	(1,367)
Financing activities		
Dividends paid to shareholders	(3,367)	(5,298)
Repayment of note payable	-	(18)
Deferred financing charges	(29)	(50)
Payments on long-term lease	-	(2)
Cash used by financing activities	(3,396)	(5,368)
Increase (decrease) in cash and cash equivalents during the period	2,621	(1,585)
Cash and cash equivalents - Beginning of the period	3,880	5,465
Cash and cash equivalents - End of the period	$ 6,501	$ 3,880

Supplemental cash flow information is provided in note 21.

See accompanying notes to the financial statements.

The Second Cup Ltd.

NOTES TO THE FINANCIAL STATEMENTS

For the periods ended December 28, 2013 and December 29, 2012
(Expressed in thousands of Canadian dollars, except per share amounts)

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1. ORGANIZATION AND NATURE OF BUSINESS

The Second Cup Ltd. ("Second Cup" or "the Company") is Canada's largest specialty coffee franchisor (as measured by the number of cafés) with 356 cafés operating under the trade name Second Cup™ in Canada, of which ten are Company-operated and the balance are operated by franchise partners.

Second Cup owns the trademarks, trade names, operating procedures and systems and other intellectual property used in connection with the operation of Second Cup cafés only in Canada, excluding the Territory of Nunavut.

Second Cup is incorporated under the Business Corporations Act (Ontario) in 2011 and domiciled in Canada. The address of its registered office is 6303 Airport Road, 2nd Floor, Mississauga, Ontario, L4V 1R8. The Company's website is www.secondcup.com. The common shares of the Company are listed on the Toronto Stock Exchange under the symbol "SCU".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation

The financial statements of Second Cup have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretation Committee ("IFRIC") interpretations. The accounting policies applied in the financial statements are based on IFRS effective for the fiscal year ended December 28, 2013. The Company's functional currency is the Canadian dollar.

Second Cup's fiscal year follows the method implemented by many retail entities, such that each quarter will consist of 13 weeks and will end on the Saturday closest to the calendar quarter end. The fiscal year is made up of 52 or 53 week periods ending on the last Saturday of December.

Second Cup manages an advertising and co-operative fund (the "Co-op Fund") established to collect and administer funds contributed for use in advertising and promotional programs, and initiatives designed to increase sales and enhance the reputation of the Second Cup brand. Contributions to the Co-op Fund are required to be made from both franchised and Company-operated cafés and are based on a percentage of café sales. The revenue, expenses and cash flows of the Co-op Fund are not consolidated, but netted in the Company's Statements of Operations and Comprehensive Loss in operating expenses when there is a spend deficit, or carried on the balance sheet in accounts payable if there is a spend surplus. The assets and liabilities of the Co-op Fund are included in the assets and liabilities of the Company on the Statements of Financial Position. The policy is established because the contributions to the Co-op Fund are segregated, the contributions are designated for a specific purpose, the Company is acting as an agent, and this accounting treatment is common practice in the Company's industry.

Reclassification

Certain comparable figures have been reclassified to conform to the current period's financial statement presentation. Management determined that reclassification better captures the substance of the balances in conjunction with the Company's accounting policies. The reclassification had no impact on the Statements of Operations and Comprehensive Loss nor current vs. non-current presentation on the Statements of Financial Position. The 2012 Statements of Financial Position was reclassified as follows:

Item in current liabilities	2012 as reported	Reclassification impact	2012 reclassified
Accounts payable and accrued liabilities	$ 3,313	$ (190)	$ 3,123
Provisions	365	83	448
Other liabilities	189	531	720
Deposits from franchise partners	1,904	(424)	1,480

Impairment charges were previously presented showing solely charges related to intangible assets and goodwill. Impairment pertaining to property and equipment was classified under operating expenses. The reclassification captures all impairment charges combined under one line item.

2012 operating expenses and impairment charges were reclassified as follows:

Item in Statements of Operations and Comprehensive Loss	2012 as reported	Reclassification impact	2012 reclassified
Operating expenses	$ 15,779	$ (362)	$ 15,417
Impairment of goodwill and trademarks	15,294	(15,294)	-
Impairment charges	-	15,656	15,656

b. Segmented information and reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The Company substantially operates and is managed as one reportable segment. The Company is structured as a franchisor with all of its operating revenues derived in Canada. Operating revenues comprise of royalties, the sale of goods from Company-operated cafés, and the sale of goods through ancillary channels, and other service fees. Management is organized based on the Company's operations as a whole rather than the specific revenue streams.

c. Critical accounting estimates and the use of judgements

The preparation of financial statements requires management to make estimates, assumptions, and use judgement in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgements are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The accounting estimates will, by definition, seldom equal the related actual results.

Estimates

The following are examples of estimates and assumptions the Company makes:

- The allowance for doubtful accounts;
- The allowance for inventory obsolescence;
- The estimated useful lives of assets;
- The recoverability of tangible and intangible assets subject to depreciation, amortization, or with indefinite lives;
- The derivation of income tax assets and liabilities;
- Café lease provisions; and
- Gift card breakage.

Use of judgement

The following discusses the most significant accounting judgements and estimates that the Company has made in the preparation of the financial statements:

(i) Impairment charges

Impairment analysis is an area involving management judgement requiring assessment as to whether the carrying value of assets is recoverable. Fair value less cost to sell is determined by estimating the net present value of future cash flows derived from such assets using cash flow projections that have been discounted at an appropriate rate and based on a market participant's view. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters including:

- Growth in total revenue;
- Change and timing of cash flows such as the increase or decrease of expenditures;
- Selection of discount rates to reflect the risks involved; and
- Applying judgement in cash flows specific to cash generating units.

Changing the assumptions selected by management, in particular, the discount rate and the growth rate assumptions used in the cash flow projections, could significantly affect the impairment evaluations and recoverable amounts.

The Company's impairment test includes the key assumptions related to sensitivity in the cash flow projections. Further details are provided in note 17 to the financial statements.

(ii) Deferred income taxes

The timing of reversal of temporary differences and the expected income allocation to various tax jurisdictions within Canada affect the effective income tax rate used to compute the deferred income taxes. Management estimates the reversals and income allocation based on historical and budgeted operating results and income tax laws existing at the Statements of Financial Position dates. In addition, management occasionally estimates the current or future deductibility of certain expenditures, affecting current or deferred income tax balances and expenses.

(iii) Estimated useful lives

Management estimates the useful lives of property and equipment based on the period during which the assets are expected to be available-for-use. The amounts and timing of recorded expenses for depreciation of property and equipment for any period are affected by these estimated useful lives. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's property and equipment in the future.

(iv) Café lease provisions

Café lease provisions require judgement to evaluate the likelihood and measurement of settlements, temporary payouts, or sub-leasing. Management works with landlords and franchise partners to obtain adequate information needed to make applicable judgements.

d. Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the Statements of Financial Position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The Company does not use hedge accounting.

In respect to recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

Financial instrument	Categorization	Recognition method
Financial assets		
Cash and cash equivalents	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Notes and leases receivable	Loans and receivables	Amortized cost
Financial liabilities		
Interest rate swap	Fair value through profit and loss	Fair value
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Gift card liability	Other financial liabilities	Amortized cost
Deposits from franchise partners	Other financial liabilities	Amortized cost
Term loan	Other financial liabilities	Amortized cost

(i) Cash and cash equivalents, trade and other receivables, and notes and leases receivable: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the amount expected to be received, and if necessary less a present value discount if collection is to be expected beyond one year. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment, if necessary. Management has selected this classification as the benefit of selecting the available-for-sale classification alternative was not beneficial to the Company.

(ii) Derivative financial instruments: The Company uses derivatives in the form of interest rate swaps to manage risks related to its variable rate long-term debt. Management has selected the fair value through profit or loss classification as such best reflects management's investment and treasury management intentions.

Unrealized fair value gains and losses pertaining to the interest rate swap are included in interest income (expense).

(iii) Transaction costs: The Company accounts for long-term debt initially at fair value, net of any transaction costs incurred and, subsequently, at amortized cost using the effective interest method. Transaction costs pertaining to instruments categorized as fair value through profit and loss are recognized immediately. Transaction costs associated with instruments recognized at amortized cost are amortized over the expected life of the instrument. The Company has selected this classification as it results in better matching of the transaction costs with the periods benefiting from the transaction costs.

e. Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks and other short-term highly liquid investments with original maturities of three months or less.

f. Leases receivable

The Company has entered into lease agreements acting as the lessor with some franchise partners relating to point of sale systems ("POS"). The lease term is for the major part of the economic life of the POS although the Company does not transfer title. The Company recognizes leases as finance type leases and records a lease receivable at an amount equal to the net investment in the lease. Leases receivable are initially recognized at the amount expected to be received, less a present value discount if collection is to be expected beyond one year. Subsequently, leases receivable are measured at amortized cost using the effective interest method less a provision for impairment.

g. Inventories

Inventories are stated at the lower of cost and net realizable value, with cost being determined on a first-in, first-out ("FIFO") method. Net realizable value is the estimated recoverable amount less applicable selling expenses. If carrying value exceeds net realizable amount, a write-down is recognized. The write-downs are reversed if the circumstances that caused the initial write-down no longer exist.

h. Property and equipment

Property and equipment are stated at cost less accumulated depreciation net of any impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying value or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying value of a replaced asset is removed when replaced. Repairs and maintenance costs are charged to the Statements of Operations and Comprehensive Loss during the period in which they are incurred. Where property and equipment construction projects are of a sufficient size and duration, an amount is capitalized for the costs used to finance construction.

Depreciation is calculated using the straight-line basis as management believes this approach best reflects consumption and benefit patterns pertaining to the asset's use. Depreciation is charged commencing when the asset is available for use. The following rates are based on the expected useful lives of the asset:

Leasehold improvements	lesser of 10 years and the remaining term of the lease
Equipment, furniture, fixtures and other	3 to 7 years
Computer hardware	3 years

i. Goodwill

Goodwill represents the excess of the cost of acquisition over the fair values of assets, liabilities and contingent liabilities acquired. Goodwill is carried at cost less accumulated impairment losses. Goodwill is tested annually for impairment or at any time if an indicator for impairment exists.

j. Intangible assets

Intangible assets consist of trademarks, franchise rights and software, which are amortized or assessed for impairment as follows:

(i) Trademarks

Trademarks consist of trade names, operating procedures and systems and other intellectual property used in connection with the operation of the Second Cup cafés in Canada and are recorded at the historical cost less impairment write-downs. The trademark is an indefinite life intangible asset that is tested annually for impairment or at any time if an indicator for impairment exists. The trademark assets do not have continual renewal requirements nor is there any deterioration incurred due to usage. As a result of the combination of the aforementioned, our trademark assets are considered to have indefinite lives.

(ii) Franchise rights

As a result of the acquisition of The Second Cup Ltd. in 2009 by Second Cup Royalty Income Fund, franchise rights were recognized as an intangible asset. The franchise rights intangible asset is based on the net present value of the discounted future cash flows expected from the existing franchise partners of Second Cup as at the date of acquisition, including royalties and franchise fees. Franchise rights are reviewed for impairment at any time if an indicator of impairment exists. Franchise rights are amortized based on the average remaining term of the existing franchise agreement.

(iii) Software

Purchased software costs are recorded at cost and are amortized commencing when the asset is available for use. Amortization is calculated using the straight-line basis as management believes this approach best reflects consumption and benefit patterns pertaining to the asset's use. The following rate is based on the expected useful lives of the assets:

Software	3 to 7 years

Where software implementation projects are of a sufficient size and duration, an amount is capitalized for the costs used to finance development.

k. Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect is material. The Company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts. A summary of the provisions to the Company are:

(i) Headlease liabilities

On June 27, 2009, Second Cup Trade-Marks Limited Partnership, on behalf of Second Cup Income Fund, completed the acquisition of all of the outstanding shares of Second Cup. Headlease liabilities represent the provision for lease guarantees provided by Second Cup for franchised operations at the date of acquisition. The liability was recorded at estimated fair value based on the net present value of the future estimated negative cash flows when Second Cup is required to cover rental arrears of its franchise partners, to terminate unfavourable leases or to cover shortfalls if a location is sublet to a third party. This liability is amortized over the average remaining length of these existing lease agreements.

(ii) Café leases

Second Cup has lease commitments since it acts as the head tenant on most café leases. In cases where the lease contract specifies an ongoing or termination fee, or rents due in arrears to the landlord where the Company believes they are liable, the Company records a provision based on its best estimate of future cash outflows. When ceasing operations under operating leases where the landlord does not allow the Company to prematurely exit the lease, but allows for subleasing, the Company estimates the fair value of sublease income in calculating the provision to the end of the lease term. In other circumstances, the Company will record a provision where onerous arrangements exist as a result of the Company acting as the head tenant on café leases.

(iii) Other

Other provisions may include restructuring related, lawsuit related, and any other provisions.

l. Other liabilities

(i) Deferred revenue

The Company has entered into several supply agreement contracts and receives allowances from certain suppliers in consideration for the café network achieving certain volume thresholds over the term of the supply agreement. Deferred revenue is amortized over the term of the supply agreements based on the proportion of volume thresholds met during the fiscal year.

Deposits from franchise partners for franchise administration fees pertaining to the commencement of a new franchise term or a pending transfer arrangement are accounted as deferred revenue until the revenue recognition criteria are met.

(ii) Leasehold inducements

Leasehold inducements are amortized to rent expense on a straight-line basis over the term of the lease.

m. Income taxes

Income tax comprises current and deferred income taxes. Income taxes are recognized in the Statements of Operations and Comprehensive Loss except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current income taxes are the expected taxes payable on the taxable income for the period, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous periods.

Deferred income taxes are recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. Deferred income taxes are determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the Statements of Financial Position dates and are expected to apply when the deferred income tax asset or liability is settled. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

n. Gift card liability

Second Cup has a gift card program that allows customers to prepay for future purchases by loading a dollar value onto their gift cards through cash or credit/debit cards in the cafés or online through credit cards, when and as needed. The gift card liability represents liabilities related to unused balances on the Second Cup Café Card net of estimated breakage. These balances are included as sales from franchised cafés, or as revenue of Company-operated cafés, at the time the customer redeems the amount in a café for products.

The gift cards do not have an expiration date and the Company does not deduct non-usage fees from outstanding gift card balances. When the Company determines the likelihood of the gift card being redeemed by the customer is remote and there is not a legal obligation to remit the unredeemed gift cards to a relevant jurisdiction, this amount is recorded as breakage. The determination of the gift card breakage rate is based upon Company-specific historical load and redemption patterns. During 2013, the Company revised its estimated breakage rate from 2% to 3% of gift card sales. Gift card breakage is recognized on a pro rata basis based on historical gift card redemption patterns commencing after a reasonable period from the date of the gift card sale. Breakage is recognized in other operating expenses in the Statements of Operations and Comprehensive Loss and a portion is allocated to the Co-op Fund.

o. Deposits from franchise partners

The development process of a new or to be renovated café requires a deposit from a franchise partner at the outset. Deposits from franchise partners are applied against the cost of constructing a new café or the renovation of an existing café.

p. Revenue recognition

Revenue is recognized when it is probable the economic benefits will flow to the Company and delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other revenue related concessions.

(i) Royalties

Royalty revenue from franchised cafés is recognized as the products are sold based on agreed percentage royalty rates as a function of the franchise location sales. Revenue is recognized on an accrual basis in accordance with the substance of the relevant agreement, provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably.

(ii) Sale of goods

Revenue from the sale of goods from Company-operated cafés and from the sale of products through the e-commerce channel is recognized as the products are delivered to customers.

(iii) Services

Services revenue includes initial franchise fees, renewal fees, transfer fees earned on the sale of cafés from one franchise partner to another, construction administration fees, product licencing revenue, wholesale revenue, purchasing coordination fees, and other ancillary fees (such as IT support and training fees).

Initial franchise fees are recognized as income when substantially all the initial services as required by the franchise agreement have been performed and risks and rewards are transferred to the franchise partner. Recognition generally occurs when the café commences operations. Renewal fees are recognized at the commencement of a new franchise term. Café resale fees are recognized when title transfers on the sale of a café between franchise partners. Construction administration fees are recognized on the completion of a café renovation and re-opening. All fees are recognized as revenue after the franchise agreement has been signed and the Company has performed substantially all services and met all material conditions required by the franchise agreement.

For Second Cup branded products sold by third parties, product licencing or wholesale revenue is recognized when goods are shipped from the distributor or manufacturer.

Purchasing coordination fees are derived from purchases made by franchise partners from approved suppliers and are recognized as the services are rendered or goods delivered and all significant conditions have been met.

q. Cost of goods sold
Cost of goods sold represents the product cost of goods sold in Company-operated cafés and through the e-commerce channel, plus the cost of direct labour to prepare and deliver the goods to the customers in the Company-operated cafés.

r. Operating leases
Operating lease payments are recognized as expense on a straight-line basis over the lease term. Leasehold inducements are amortized to rent expense on a straight-line basis over the lease term. For the purposes of determining the lease term, the Company considers option periods for which failure to renew the lease imposes an economic penalty on the Company of such an amount that the renewal appears to be reasonably assured at the inception of the lease.

s. Long-term incentive plan and Directors' deferred share unit plan
Units granted under the management long-term incentive plan vest over a three-year period and are paid out in cash at the end of the 3 year vesting period or upon termination of the individual. Units are granted based on a weighted average price of the Company's shares prior to the grant date. The fair value of the grant is amortized over the respective vesting period using the graded amortization method. Compensation expense is adjusted for changes in fair value of the Company's share price thereafter. Any dividends paid by the Company during the vesting period will be accrued based on the total number of units granted. Forfeitures are adjusted and accounted in the period incurred. Amounts recognized are recorded in operating expenses.

Units granted under the Directors' deferred share unit plan have graded vesting for each month of service completed over the course of one year. Units are paid out in cash upon the termination of the director. Units are granted based on a weighted average price of the Company's shares prior to the grant date. The fair value of the grants is amortized over the respective vesting period using the graded amortization method. Compensation expense is adjusted for changes in fair value of the Company's share price thereafter. Any dividends paid by the Company during the vesting period will be accrued based on the total number of units granted. Amounts recognized are recorded in operating expenses.

Recorded values of both plans are presented as Accounts payable and accrued liabilities in the Statements of Financial Position.

t. Impairment of financial assets
At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired.

The criteria used to determine if there is objective evidence of an impairment loss include:
• significant financial difficulty of the borrower/lessee;
• delinquencies in interest or principal payments; and
• it becomes probable that the borrower/lessee will enter bankruptcy or other financial reorganization.

If such evidence exists, the Company recognizes an impairment loss for assets carried at amortized cost as follows:

The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's effective interest rate. The carrying value of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Notes receivable and leases receivable are assessed for impairment on an individual basis based on the ability of the debtor/lessee to make the required payments and the value of the security. When there is no longer reasonable assurance that a note receivable or lease receivable will be collected, its carrying value is reduced and a charge is recorded in operating expenses.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent years if the amount of the loss decreases and the decrease can be related objectively to an event's occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

u. Impairment of non-financial assets
Property and equipment and intangible assets without indefinite lives are tested for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Assets with indefinite lives are subject to an annual impairment test or any time an impairment indicator exists. The Company has selected December as the mandatory annual test date.

For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units or "CGUs"). The recoverable amount of each particular CGU is the higher of an asset's fair value less costs to sell and value in use. Management has determined its cash generating units are:

- Franchising, distribution, and wholesale; and
- Company-operated cafés. Each Company-operated café is considered a separate CGU.

The impairment analysis involves comparing the carrying value of the CGUs with their estimated recoverable amounts. An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. Impairment losses for CGUs reduce first the carrying value of any goodwill allocated to that CGU. Any remaining impairment loss is charged pro rata to the other assets in the CGU.

The Company evaluates impairment losses, other than goodwill impairment, for potential reversals when events or circumstances warrant such consideration.

v. Related parties

For the purposes of these financial statements, a party is considered related to the Company if such party or the Company has the ability to, directly or indirectly, control or exercise significant influence over the other entity's financial and operating decisions, or if the Company and such party are subject to common influence. Related parties may be individuals or other entities. All transactions with related parties are recorded at fair value.

w. Dividends

Dividends on common shares are recognized in the Company's financial statements in the period in which the dividends are approved by the Board of Directors.

3. CHANGES IN ACCOUNTING POLICIES

The Company has adopted the following standards effective December 30, 2012, the first day of fiscal 2013, and they had no material effect on financial results:

- IFRS 7, Financial Instruments: Disclosures (amended);
- IFRS 10, Consolidated Financial Statements;
- IFRS 11, Joint Arrangements;
- IFRS 12, Disclosure of Interests in Other Entities;
- IFRS 13, Fair Value Measurement;

Summary of the significant new standards

IFRS 7 was amended to harmonize the disclosure requirements with those of the Financial Accounting Standards Board. The standard sets out objectives to enhance disclosures about offsetting of financial assets and liabilities.

IFRS 10 replaces the consolidation requirements in IAS 27, Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. It provides a single model to be applied in the control analysis for all investees.

IFRS 12 integrates the disclosure requirements on interests in other entities and requires a parent company to disclose information about significant judgements and assumptions it has made in determining whether it has control, joint control, or significant influence over another entity and the type of joint arrangement when the arrangement has been structured through a separate vehicle. An entity should also provide these disclosures when changes in facts and circumstances affect the entity's conclusion during the reporting period.

IFRS 13 replaces the fair value measurement guidance contained in individual IFRS with a single source of fair value measurement guidance. The standard clarifies the definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements.

Accounting standards not yet adopted
IFRS 9 replaces the guidance in IAS 39, Financial Instruments: Recognition and Measurement on the classification and measurement of financial assets and financial liabilities. The standard eliminates the current categorization of financial assets. Financial assets will be categorized at inception as measured at amortized cost or measured at fair value. Subsequent re-measurement of assets measured at fair value will be recognized in profit or loss. The mandatory effective date of this standard has been deferred and has not been determined.

The Company is in the process of determining the extent of the impact of these standards on its financial statements.

4. SHARE CAPITAL

Second Cup is authorized to issue an unlimited number of common shares. Common shares are classified as equity and have $nil par value. Incremental costs directly attributable to the issue of new common shares are shown in equity as a deduction, net of tax, from the proceeds.

5. MANAGEMENT OF CAPITAL

The capital structure of the Company consists of $11,089 (2012 - $11,037) in Long-term debt, an unused but available $2,000 operating credit facility, and $45,964 (2012 - $56,700) in Shareholders' equity, which comprises share capital, contributed surplus, and retained earnings (deficit).

The Company's objectives relating to the management of its capital structure are to:
- safeguard its ability to continue as a going concern;
- maintain financial flexibility in order to preserve its ability to meet financial obligations;
- maintain a capital structure that provides financing options to the Company when the need arises to access capital;
- ensure it has sufficient cash and cash equivalents to pay declared dividends to its shareholders; and
- deploy capital to provide an adequate return to its shareholders.

The Company's primary uses of capital are to finance increases in non-cash working capital and capital expenditures.

The Company determines the appropriate level of long-term debt in the context of its cash flows and overall business risks. The Company has historically generated sufficient cash flows to pay quarterly dividends to its shareholders. In order to maintain or modify the capital structure, Second Cup may adjust the amount of dividends paid to its shareholders.

Under the term loan and operating facility, the Company is required to comply with a number of covenants and restrictions, including the requirements to meet certain financial ratios. These financial ratios are discussed in note 15. To date, the Company has complied with these ratios. There were no changes in the Company's approach to capital management during the period.

6. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial instruments
The following summarizes the nature of certain risks applicable to the Company's financial instruments:

Financial instrument	Risks
Financial assets	
Cash and cash equivalents	Credit and interest rate
Trade and other receivables	Credit
Notes and leases receivable	Credit
Financial liabilities	
Interest rate swap	Credit, liquidity, and interest rate
Accounts payable and accrued liabilities	Liquidity, currency, and commodity
Gift card liability	Liquidity
Deposits from franchise partners	Liquidity
Term loan	Liquidity and interest rate

Fair value of financial instruments
The fair values of cash and cash equivalents, trade and other receivables, accounts payable and accrued liabilities and gift card liability approximate their carrying values due to their short-term maturity. The fair value of notes and leases receivable approximates their carrying value as the implicit interest used to discount the base value is considered to be based on an appropriate credit and risk rate pertaining to the debtor.

The fair value of the Company's term loan approximates its carrying value less transaction costs due to the floating interest rate of the term loan. The following table summarizes the financial instruments measured at fair value:

Interest rate swap		**2013**		**2012**
Opening fair value	$	(96)	$	(302)
Additions during the period		(159)		-
Realized during the period		96		-
Change in value		19		206
Closing fair value	$	(140)	$	(96)

Financial instruments that are measured subsequent to initial recognition at fair value are to be categorized in Levels 1 to 3 in the fair value hierarchy, based on the degree to which the fair value is observable. The three levels of the fair value hierarchy are:

- Level 1 - inputs derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 - fair value derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value for the interest rate swap, classified as a Level 2, was derived using market valuation reports provided by a tier one Canadian bank.

As at December 29, 2012		**Level 1**		**Level 2**		**Level 3**
Interest rate swap	$	-	$	(96)	$	-

As at December 28, 2013		**Level 1**		**Level 2**		**Level 3**
Interest rate swap	$	-	$	(140)	$	-

There were no transfers between Level 1 and Level 2 in the period.

Credit risk
a. Cash and cash equivalents, and interest rate swap
Credit risk associated with cash and cash equivalents, and the interest rate swap is managed by ensuring these assets are placed with institutions of high creditworthiness.

b. Trade and other receivables, notes and leases receivable
The Company's trade and other receivables, notes and lease receivable primarily comprise amounts due from franchise partners. Credit risk associated with these receivables is mitigated as a result of the review and evaluation of franchise partner account balances beyond a particular age. Prior to accepting a franchise partner, the Company undertakes a detailed screening process which includes the requirement that a franchise partner has sufficient financing. The risk is further mitigated due to a broad franchise partner base that is spread across the country which limits the concentration of credit risk.

Other receivables may include amounts owing from large organizations where often those organizations have a simultaneous vendor relationship with the Company's franchise partners. Credit risk is mitigated as a result of the Company directing and maintaining certain controls over the vendor relationship with the franchise partners.

Management accounts for a specific bad debt provision when the expected recovery is less than the actual receivable. The bad debt expense is calculated on a specific identification basis.

An analysis of aging of the Company's trade and other receivables from billing date net of an allowance for doubtful accounts is as follows:

	0-30 Days	31-60 Days	61-90 Days	> 90 Days	Total
2013	$ 4,151	$ 151	$ 38	$ 28	$ 4,368
2012	4,324	138	121	33	4,616

The Company's trade and other receivables included a combined allowance for doubtful accounts of $663 (December 29, 2012 - $223). Trade and other receivables are further discussed in note 7.

The payment maturity dates of the Company's notes and leases receivable from December 28, 2013 net of an allowance for doubtful accounts are as follows:

	< 90 Days	90 Days to < 1 year	1 year to < 2 years	2 years and after	Total
2013	$ 57	$ 163	$ 238	$ 463	$ 921
2012	70	195	229	512	1,006

The Company's notes and leases receivable included a combined allowance for doubtful accounts of $110 (December 29, 2012 - $189). Notes and leases receivable are further discussed in note 8.

Liquidity risk
The Company manages liquidity risk through regular monitoring of dividends, forecast and actual cash flows, monitoring maturity dates of financial assets and liabilities, and also the management of its capital structure and debt leverage ratios as outlined in note 15. The Company's main source of income is royalty receipts from its franchise partners.

Interest rate risk
The Company's financial instruments exposed to interest rate risk earn and bear interest at floating rates. The Company entered into an interest rate swap agreement to minimize risk on its long-term debt.

Interest expense on the term loan was adjusted to include the payments made or received under the interest rate swap agreement.

Currency risk
The Company transacts with a small number of vendors that operate in foreign currencies. The Company believes that due to low volumes of transactions, low number of vendors, and low magnitude of spend, the impact of currency risk is not material.

Commodity risk
The Company is directly and indirectly exposed to commodity market risk. The exposure relates to the changes in coffee commodity prices given it is a material input for the Company's product offerings. The direct risk pertaining to Company-operated cafés is not considered material given that there is a relatively small number of cafés. The direct exposure pertaining to the wholesale business is mitigated given that the Company has the ability to adjust its sales price if commodity prices rise over a threshold level. The indirect risk exists where franchise partner profitability may be impacted, thus potentially resulting in an impeded ability to collect accounts receivable or the need for other concessions to be made to the franchise partner. The Company mitigates this risk by entering fixed price purchase commitments through coffee commodity brokers and by having the ability to adjust retail selling prices.

Sensitivity analysis
The Company completes an assessment of sensitivity of its financial position and performance to changes in market variables, such as interest rates, as a result of changes in the fair value of cash flows associated with financial instruments. The sensitivity analysis provided discloses the effect on net income for the period ended December 28, 2013, assuming that a reasonably possible change in the relevant risk variable has occurred as at December 28, 2013.

The following table shows the Company's exposure to interest rate risk and the pre-tax effects on net income (loss) for a full fiscal year of a 1% change in interest rates, which management believes is reasonably possible:

	Pre-tax effects on net income (loss) - increase (decrease)		
	Liability amount	1% decrease in interest rates	1% increase in interest rates
Term loan	$ 11,000	$ 110	$ (110)
Interest rate swap	140	(110)	110
		$ -	$ -

7. TRADE AND OTHER RECEIVABLES

	2013	2012
Trade and other receivables	$ 5,031	$ 4,839
Less: Allowance for doubtful accounts	(663)	(223)
Trade and other receivables - net	$ 4,368	$ 4,616

During the period, the Company recorded $316 (2012 - $422) as bad debt expense pertaining to trade and other receivables.

8. NOTES AND LEASES RECEIVABLE

	2013	2012
Notes receivable - current	$ 229	$ 314
Lease receivable - current	45	27
Less: Allowance for doubtful accounts - current	(54)	(76)
Notes and leases receivable - current	220	265
Notes receivable - long-term	421	633
Lease receivable - long-term	308	221
Less: Allowance for doubtful accounts - long-term	(28)	(113)
Notes and leases receivable	$ 921	$ 1,006

During the period, the Company recorded $nil (2012 - $nil) as bad debt expense pertaining to notes and leases receivable. The Company discounts its notes and leases receivable using an effective discount rate ranging between eight and nine percent.

9. INVENTORIES

	2013	2012
Merchandise held for resale	$ 133	$ 131
Supplies	21	24
	154	155
Less: Provision for obsolete inventory	(31)	(18)
	$ 123	$ 137

During the period, the Company recorded $237 (2012 - $287) as inventory write-downs.

10. PROPERTY AND EQUIPMENT

	Leasehold improvements	Equipment, furniture, fixtures and other	Computer hardware	Total
Net carrying value				
As at December 31, 2011				
Cost	$ 1,228	$ 3,042	$ 276	$ 4,546
Accumulated depreciation	(431)	(478)	(159)	(1,068)
As at December 31, 2011	797	2,564	117	3,478
Additions	851	857	50	1,758
Disposals - original cost	(177)	(297)	-	(474)
Disposals - accumulated depreciation	20	34	-	54
Capitalized to lease	-	(194)	-	(194)
Impairment charge (note 17)	(345)	(17)	-	(362)
Depreciation	(200)	(446)	(70)	(716)
As at December 29, 2012	$ 946	$ 2,501	$ 97	$ 3,544
Cost	$ 1,902	$ 3,408	$ 326	$ 5,636
Accumulated depreciation	(956)	(907)	(229)	(2,092)
As at December 29, 2012	$ 946	$ 2,501	$ 97	$ 3,544
Net carrying value				
As at December 29, 2012				
Cost	$ 1,902	$ 3,408	$ 326	$ 5,636
Accumulated depreciation	(956)	(907)	(229)	(2,092)
As at December 29, 2012	946	2,501	97	3,544
Additions	882	1,118	117	2,117
Disposals - original cost	(760)	(249)	-	(1,009)
Disposals - accumulated depreciation	29	17	-	46
Capitalized to lease	-	(143)	-	(143)
Impairment charge (note 17)	(299)	-	-	(299)
Depreciation	(150)	(516)	(83)	(749)
As at December 28, 2013	$ 648	$ 2,728	$ 131	$ 3,507
Cost	$ 1,725	$ 4,134	$ 443	$ 6,302
Accumulated depreciation	(1,077)	(1,406)	(312)	(2,795)
As at December 28, 2013	$ 648	$ 2,728	$ 131	$ 3,507

11. INTANGIBLE ASSETS

	Trademarks	Franchise rights	Software	Total
Net carrying value				
As at December 31, 2011				
Cost	$ 86,905	$ 1,331	$ 574	$ 88,810
Accumulated amortization	-	(707)	(165)	(872)
As at December 31, 2011	86,905	624	409	87,938
Additions (acquired)	-	-	180	180
Capitalized to lease	-	-	(15)	(15)
Impairment charge (note 17)	(12,850)	-	-	(12,850)
Amortization	-	(283)	(168)	(451)
As at December 29, 2012	$ 74,055	$ 341	$ 406	$ 74,802
Cost	$ 74,055	$ 1,331	$ 739	$ 76,125
Accumulated amortization	-	(990)	(333)	(1,323)
As at December 29, 2012	$ 74,055	$ 341	$ 406	$ 74,802
Net carrying value				
As at December 29, 2012				
Cost	$ 74,055	$ 1,331	$ 739	$ 76,125
Accumulated amortization	-	(990)	(333)	(1,323)
As at December 29, 2012	74,055	341	406	74,802
Additions (acquired)	-	-	787	787
Disposals - original cost	-	-	(123)	(123)
Disposals - accumulated amortization	-	-	41	41
Capitalized to lease	-	-	(22)	(22)
Impairment charge (note 17)	(13,253)	-	-	(13,253)
Amortization	-	(283)	(219)	(502)
As at December 28, 2013	$ 60,802	$ 58	$ 870	$ 61,730
Cost	$ 60,802	$ 1,331	$ 1,381	$ 63,514
Accumulated amortization	-	(1,273)	(511)	(1,784)
As at December 28, 2013	$ 60,802	$ 58	$ 870	$ 61,730

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of:

	2013	2012
Accounts payable - trade	$ 1,953	$ 1,280
Accrued salaries, wages, benefits, and incentives	362	577
Sales tax payable	335	235
Accrued liabilities	1,936	1,031
	$ 4,586	$ 3,123

13. PROVISIONS

	Headlease liabilities	Café leases	Other	Total
As at December 31, 2011	$ 255	$ 499	$ -	$ 754
Provisions charged during the period	-	852	-	852
Provisions utilized during the period	(46)	(429)	-	(475)
As at December 29, 2012	$ 209	$ 922	$ -	$ 1,131
Current portion	$ 82	$ 366	$ -	$ 448
Long-term portion	127	556	-	683
As at December 29, 2012	$ 209	$ 922	$ -	$ 1,131
As at December 29, 2012	$ 209	$ 922	$ -	$ 1,131
Provisions charged during the period	-	895	681	1,576
Provisions utilized during the period	(81)	(399)	-	(480)
As at December 28, 2013	$ 128	$ 1,418	$ 681	$ 2,227
Current portion	$ 57	$ 412	$ 378	$ 847
Long-term portion	71	1,006	303	1,380
As at December 28, 2013	$ 128	1,418	681	2,227

The provisions for café leases are dependent on the individual circumstances specific to each lease or arrangement, such as lease settlement terms. Uncertainties exist in the amount of café lease related provisions where onerous arrangements exist with franchise partners that are continuously being re-evaluated and negotiated by management and thus the amount of provision may increase or decrease. The associated cash outflows pertaining to other provisions are substantially short term in nature and do not extend beyond two years. Headlease liabilities do not have any associated cash outflows.

14. OTHER LIABILITIES

	2013	2012
Deferred revenue - current	$ 678	$ 681
Leasehold inducements - current	39	39
Other liabilities - current	717	720
Deferred revenue - long-term	47	31
Leasehold inducements - long-term	381	390
Other liabilities	$ 1,145	$ 1,141
Deferred revenue	$ 725	$ 712
Leasehold inducements	420	429
Other liabilities	$ 1,145	$ 1,141

15. LONG-TERM DEBT

	2013	2012
Face value of long-term debt	$ 11,000	$ 11,000
Fair value of interest rate swap	140	96
Unamortized transaction costs	(51)	(59)
	$ 11,089	$ 11,037

On September 26, 2013, the Company renegotiated its term loan and operating credit facilities, including an extension of the maturity of the credit facilities to September 30, 2016. The revised credit facilities are comprised of an $11,000 non-revolving term credit facility, fully drawn, and an undrawn $2,000 revolving operating credit facility. The term credit facilities are collateralized by substantially all the assets of the Company. As a result of the renegotiated term loan, the Company recognized an additional $29 pertaining to transaction costs during 2013.

Pursuant to the terms of the Company's operating credit facility and term loan, the Company is subject to certain financial and other customary covenants.

The Company has requirements to maintain:

- a ratio of senior debt to EBITDA ratio ("Leverage Ratio");
- a fixed charge coverage ratio;
  both of which are based on a trailing four-quarter basis; and
- a maximum amount of permitted distributions and purchases of the Company's own stock based on a trailing cumulative EBITDA, plus a carry-forward legacy surplus of permitted distributions.

During the periods ended December 28, 2013 and December 29, 2012, the Company was in compliance with all financial and other covenants of the Company's operating credit facility and term loan.

The $11,000 non-revolving term credit facility bears interest at the bankers' acceptance ("BA") rate plus a margin range of 2.25% to 3.25% depending on the Company's Leverage Ratio. As at December 28, 2013, the applicable margin pertaining to the aforementioned range is 2.75%. As at December 28, 2013, the full amount of the $11,000 non-revolving term credit facility was drawn.

The $2,000 operating credit facility bears interest at the BA rate plus a range of 2.25% to 3.25% depending on the Company's Leverage Ratio. As at December 28, 2013, the applicable margin pertaining to the aforementioned range is 2.75%. As at December 28, 2013, no advances had been drawn on this facility.

The Company had an interest rate swap agreement with a notional value of $11,000 that expired on April 1, 2013, which fixed the interest rate on the Company's non-revolving term credit facility at 3.04% per annum plus the margin noted above, which resulted in a fixed effective interest rate of 5.79%. As at December 29, 2012, the balance of $96 was recorded as a liability.

On September 30, 2013, the Company entered into an interest rate swap agreement with a notional value of $11,000 that expires on September 30, 2016. The swap fixed the interest rate on the Company's non-revolving term credit facility at 2.07% per annum plus the margin noted above, which resulted in a fixed effective interest rate of 4.82%.

16. OPERATING EXPENSES

	2013	2012
Head office		
Salaries, wages, benefits, and incentives	$ 6,866	$ 6,540
Head office overheads	2,906	2,306
Occupancy and lease costs	1,756	1,614
Professional fees	1,075	1,150
Research and innovation	550	476
Bad debts and other (recovery)	(161)	709
Depreciation of property and equipment	566	506
Amortization of intangible assets	502	451
Restructuring	883	-
	14,943	13,752
Company-operated cafés		
Occupancy and lease costs	1,187	885
Other	588	500
Depreciation of property and equipment	183	210
(Gain) loss on disposal of capital related items	(197)	70
	1,761	1,665
	$ 16,704	$ 15,417

During the period, the Company realized $797 (2012 - $nil) in recoveries as a result of the change in estimate of the gift card breakage rate which is included in bad debts and other (recovery). The effect of such a change in estimate on future periods cannot be reasonably determined. The Company recorded $883 (2012 - $nil) of restructuring costs pertaining to the reconstitution of the board of directors and change in chief executive officers.

17. IMPAIRMENT CHARGES

a. Impairment of trademarks and goodwill

During the interim quarter ended June 29, 2013, the Company identified impairment indicators, which were primarily a result of the decline in its stock price and a decline in sales in comparison to internal projections.

The trademarks and goodwill were allocated fully to the franchising, distribution, and wholesale business CGU. The CGU's recoverable amount has been determined using fair value less costs to sell.

Key assumptions

The discounted cash flow methodology uses estimates and assumptions that are sensitive to change and require judgement. This methodology used to test impairment is classified as Level 3 per the hierarchy described in note 6. These key judgements include estimates of discount rates, forecast growth in system sales and other estimates impacting future cash flows. Changes in these estimates and assumptions may have a significant impact on recoverable amounts. General market uncertainty and the competitive operating environment for the Company and other similar retail entities were also factors taken into account in the analysis. The changes in the market growth rates reflect the current general economic pressures now impacting the national economy.

The Company uses probability weighted cash flow projections based on financial forecasts covering a five-year period. These projections are approved by the board of directors based on management expectations of potential outcomes. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The following are key assumptions used in the fair value less costs to sell calculation where an impairment charge was incurred in the respective period:

	2013	2012
Forecast same café sales	-3.1% to 2.0%	-2.0% to 4.0%
Forecast system-wide café sales	-0.8% to 4.8%	-2.0% to 8.0%
Average growth rate used to extrapolate cash flows beyond the forecast period	2.0%	2.0%
Discount rate	11% to 13%	11.5%

The valuation of the franchising, distribution, and wholesale business CGU is based on probabilities assigned to forecasted cash flows and includes key assumptions above. The Company recognized an impairment charge of $13,253 (2012 - $12,850) to trademarks and $nil (2012 - $2,444) to goodwill. The carrying value of goodwill as at December 28, 2013 and December 29, 2012 was $nil with a corresponding accumulated impairment amount of $2,444 respectively.

The sensitivity analysis of a change in management's key assumptions is reflected below:

	2013		2012	
Key assumption	**Low growth**	**High growth**	**Low growth**	**High growth**
System sales of cafés	-0.8% to 2.0%	-0.1% to 4.8%	0.0% to 2.0%	3.0% to 7.3%
Discount rate	11.0%	13.0%	11.0%	13.0%
Incremental increase (decrease) to impairment charges	$ 2,130	$ (7,842)	$ 1,796	$ (5,749)

b. Impairment of leasehold improvements, equipment, furniture, fixtures, and other

Impairment indicators were identified when an individual Company-operated café was experiencing poor performance directly impacting cash flows. The Company completes its impairment analysis based on historical and forecasted performance measures for each café with impairment indicators. The asset's recoverable amount has been determined using value in use. The recoverable amount was compared to the net book value of the assets. This methodology used to test impairment is classified as Level 3 per the hierarchy described in note 6. As a result of the impairment test, impairment charges of $299 (2012 - $362) were recorded to assets that were not able to be redeployed to a different CGU as the carrying amount exceeded the recoverable amount. A sensitivity of 2% increase or decrease in sales for each CGU pertaining to the impacted assets would not have had an impact on the impairment recorded. The impacted assets were adjusted to a carrying value of $nil.

c. Summary of impairment charges

	2013	2012
Trademarks	$ 13,253	$ 12,850
Goodwill	-	2,444
Leasehold improvements	299	345
Equipment, furniture, fixtures and other	-	17
	$ 13,552	$ 15,656

18. INTEREST AND FINANCING

	2013	2012
Interest expense	$ 566	$ 482
Amortization of deferred financing costs	38	82
Interest income	(88)	(61)
	$ 516	$ 503

19. INCOME TAXES (RECOVERY)

Income taxes are recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. Income taxes, as reported, differs from the amount that would be computed by applying the combined Canadian federal and provincial statutory income tax rates to income before income taxes. The reasons for the differences are as follows:

	2013	2012
Loss before income taxes	$ (7,638)	$ (8,753)
Combined Canadian federal and provincial tax rates	26.51%	26.50%
Tax recovery at statutory rate	(2,025)	(2,320)
Increased (reduced) by following differences		
Change in tax rates	(3)	480
Non-deductible permanent differences	1,749	2,363
Other	10	128
Income taxes (recovery)	$ (269)	$ 651
Current income taxes	$ 1,503	$ 1,644
Deferred income taxes (recovery)	(1,772)	(993)
Income taxes (recovery)	$ (269)	$ 651

The Company's blended weighted average statutory income tax rate is aggregate of the following:

	2013	2012
Basic federal rate	% 15.00	% 15.00
Weighted average provincial rate	11.51	11.50
Combined Canadian federal and provincial tax rates	% 26.51	% 26.50

The movement in deferred income tax (assets) and liabilities during the year is as follows:

	Property and equipment	Trademarks	Intangible assets	Other	Total
As at December 31, 2011	$ 1,147	$ 9,349	$ 158	$ (471)	$ 10,183
Charged (credited) to the income statement	391	(1,294)	(68)	(22)	(993)
As at December 29, 2012	1,538	8,055	90	(493)	9,190
Charged (credited) to the income statement	266	(1,754)	(75)	(209)	(1, 772)
As at December 28, 2013	$ 1,804	$ 6,301	$ 15	$ (702)	$ 7,418

20. BASIC AND DILUTED LOSS PER SHARE

Loss per share is based on the weighted average number of shares outstanding during the period. Basic and diluted loss per share is determined as follows:

	2013	2012
Net loss	$ (7,369)	$ (9,404)
Weighted average number of shares issued and outstanding	9,903,045	9,903,045
Basic and diluted loss per share	$ (0.74)	$ (0.95)

21. SUPPLEMENTAL CASH FLOW INFORMATION

	2013	2012
Changes in non-cash working capital (inflow (outflow)):		
Trade and other receivables	$ 248	$ 722
Notes and leases receivable	248	(400)
Inventories	14	(58)
Prepaid expenses and other assets	505	(501)
Accounts payable and accrued liabilities	1,463	(780)
Provisions	1,212	349
Other liabilities	(65)	46
Gift card liability	(665)	207
Deposits from franchise partners	(602)	447
Income taxes	(180)	(1,191)
	$ 2,178	$ (1,159)
Cash payments for capital expenditures		
Purchase of property and equipment	$ (2,117)	$ (1,758)
Purchase of intangible assets	(787)	(180)
	$ (2,904)	$ (1,938)
Supplementary information		
Interest paid	$ 522	$ 689
Income taxes paid	$ 1,687	$ 2,835

22. CONTINGENCIES, COMMITMENTS AND GUARANTEES

Second Cup has lease commitments for Company-operated cafés and acts as the head tenant on most leases, which it in turn subleases to franchise partners. To the extent the Company may be required to make rent payments due to headlease commitments, a provision has been recognized (note 13). The Company's lease commitments at December 28, 2013 are as follows:

	Headlease commitments	Sublease to franchisees	Net
December 28, 2014	$ 19,627	$ 18,144	$ 1,483
December 28, 2015	18,328	17,004	1,324
December 28, 2016	16,254	15,033	1,221
December 28, 2017	14,222	13,030	1,192
December 28, 2018	12,159	11,076	1,083
Thereafter	32,694	29,142	3,552
	$ 113,284	$ 103,429	$ 9,855

The Company believes it will have sufficient resources to meet the net commitment of $9,855.

Second Cup is involved in litigation and other claims arising in the normal course of business. Management must use its judgement to determine whether or not a claim has any merit, the amount of the claim and whether to record a provision, which is dependent on the potential success of the claim. Second Cup believes it will not incur any significant loss or expense with such claims. However, there can be no assurance that unforeseen circumstances will not result in significant costs. The outcome of these actions is not determinable at this time, and adjustments, if any, will be recorded in the period of settlement.

The Coffee "C" contract is the world benchmark for Arabica coffee. The contract prices physical delivery of exchange grade green beans from one of 19 countries of origin in a licensed warehouse to one of several ports in the U.S. and Europe, with stated premiums/discounts. Second Cup sources high altitude Arabica coffee which tends to trade at a premium above the "C" coffee commodity price. Second Cup has contracts with third party companies to purchase the coffee that is sold in all Second Cup cafés. In terms of these supply agreements, Second Cup has guaranteed a minimum volume of coffee purchases of $5,621 USD (2012 - $4,421 USD) during fiscal 2014. The coffee purchase commitment is comprised of three components: unapplied futures commitment contracts, fixed price physical contracts and flat price physical contracts.

Second Cup has entered into a distribution agreement and has partnered with a vendor to wholesale its product through grocery and other retail outlets across Canada. As a result of the distribution agreement, the Company is required to pay a portion of one-time listing fees in the amount of up to $1,050 in 2014.

Second Cup is the primary coordinator of café construction costs on behalf its franchise partners and for Company-operated cafés. As at December 28, 2013, there is $1,433 of contractual commitments pertaining to construction costs for new locations and renovations. The Company finances construction costs for franchise projects from deposits received from franchise partners and corporate projects from the Company's cash flows.

23. RELATED PARTIES

The Company has identified related parties as key management, members of the board of directors, and shareholders that effectively exercise significant influence on the Company. Such related parties include any entities acting with or on behalf of the aforementioned parties.

In 2013, the Company incurred a total of $153 in legal expenditures incurred on behalf of shareholders and related companies with respect to the reconstitution of the board of directors. These items were recorded at their exchange amount as restructuring expenses (note 16).

Compensation of key management

Key management is defined as the senior management team and the Board of Directors. The following summarizes the compensation expense of key management personnel and the composition thereof:

	2013	2012
Salaries and short-term employee benefits	$ 1,875	$ 2,139
Termination costs	681	-
Share-based compensation	185	170
Total compensation	$ 2,741	$ 2,309

24. LONG-TERM INCENTIVE PLAN AND DIRECTORS' DEFERRED SHARE UNIT PLAN

The fair value of the units outstanding is determined based on the market value of the underlying common shares of the Company.

A summary of the status of the Company's long-term incentive plan is presented below:

	Notional units	Recorded value
Notional units outstanding as at December 31, 2011	88,763	$ 418
Units forfeited	(3,723)	(19)
Units paid out	(32,682)	(175)
Units granted in lieu of dividends	6,205	41
Change in fair value		(9)
Notional units outstanding as at December 29, 2012	58,563	$ 256
Expensed in the period		$ 130

	Notional units	Recorded value
Notional units outstanding as at December 29, 2012	58,563	$ 256
Units forfeited	(3,770)	(16)
Units paid out	(29,857)	(138)
Units granted in lieu of dividends	4,936	22
Change in fair value		(3)
Notional units outstanding as at December 28, 2013	29,872	$ 121
Expensed in the period		$ 61

The weighted average price of units granted in lieu of dividends was $4.51 (2012 - $6.83).

A summary of the status of the Company's directors' deferred share unit plan is presented below:

	Notional units	Recorded value
Notional units outstanding as at December 31, 2011	14,398	$ 89
Deferred units granted	9,018	55
Units granted in lieu of dividends	1,760	12
Change in fair value		(27)
Notional units outstanding as at December 29, 2012	25,176	$ 129
Expensed in the period		$ 40

	Notional units	Recorded value
Notional units outstanding as at December 29, 2012	25,176	$ 129
Deferred units granted	30,820	157
Units granted in lieu of dividends	2,487	11
Change in fair value		(44)
Notional units outstanding as at December 28, 2013	58,483	$ 253
Expensed in the period		$ 124

The weighted average price of deferred units granted combined with units granted in lieu of dividends was $5.01 (2012 - $6.22).

25. SUBSEQUENT EVENT

On March 7, 2014 the Board of Directors of Second Cup approved a quarterly dividend of $0.085 per common share, payable on March 28, 2014 to shareholders of record at the close of business on March 21, 2014.

The Second Cup Ltd.

SHAREHOLDER INFORMATION

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Canada L4V 1R8

Registrar and Transfer Agent

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

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President and Chief Executive Officer

Steve Boyack
Vice President, Finance and Chief Financial Officer

Dan Caldarone
Vice President, General Counsel and Corporate Secretary

Rita Toporowski
Vice President, Corporate Planning and Development

Wayne Vanderhorst
Vice President, Franchise Development

Tom Zacharias
Vice President, Operations

SECOND CUP

Printed on environmentally-
responsible paper that contains
FSC certified 50% post-
consumer and 50% virgin fiber.