SECOND CUP COFFEE CO.™

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ANNUAL REPORT 2014


SECOND CUP
COFFEE CO.™

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LETTER FROM THE CHAIRMAN

I feel very proud of our company's accomplishments over the past year. While much work remains in our quest to restore Second Cup to a position of leadership, we can now build on a much more solid foundation.

When I returned as Chairman last year, Second Cup was in a prolonged period of slow and steady decline. The quality of the store locations was superb and there were some very capable franchisees, but the stores were tired and the team was dispirited. Since then, an enormous amount of positive change has occurred and this was badly needed.

For any organization to change, there must be inspired leadership and Alix Box is a very strong CEO. Alix has assembled a senior management team that is driven to perform up to the highest standards of excellence. There has been a profound change in culture at Second Cup. The team is moving quickly and many important changes were implemented in 2014. At the Board level, we recognized the needs and prioritized positive structural change over short-term profitability for 2014. Without the pressure of delivering short-term profits, Alix and her team were able to take actions designed to materially enhance the potential for long-term value creation.

In mid-2014, after a comprehensive self-examination, corporate overhead was cut by about 35%, leaving a more nimble streamlined central support group. Instead of benefitting from the cost reductions directly, the entirety of the savings was passed along to provide a needed boost in franchisee profitability. After several years of erosion in store profits, this was a meaningful change for franchisees and signalled that their success was a priority for the future.

A bold new three year strategic plan was unveiled featuring aggressive targets for growth and value creation. Recognizing the large scale of the opportunity, we felt it was not wise to continue paying dividends. In addition to ceasing payment of dividends, we fortified the balance sheet by raising $8 million of equity. Each of the directors participated in the equity offering and collectively acquired the maximum number of shares permitted to insiders. This is an indication of our confidence in the future of Second Cup.

The company's success will be driven by operating great stores. Innovation is important in the specialty coffee business and we saw some excellent product innovation and enhancement. More importantly, the company opened a radically different "store of the future" in Toronto that is off to a great start. It is critical to have a store model that will be the preferred destination for customers. We now have a fabulous template that will be continuously improved. You will see it rolling out in new and renovated Second Cup stores in the coming years.

Throughout this year of change, underlying cash flow remained positive. Same store sales are clearly improving and I believe will be returned to positive comparisons soon. There is a new spirit of trust and enthusiasm building between franchisees and the company.

Much work needs to be done before we feel satisfied with Second Cup's position and performance. From my vantage point, the company has advanced further than expected over the past year.

While we are seeing some very encouraging signs, this will be a journey and some degree of patience is required. I am optimistic that ultimately this journey will prove highly rewarding.

I applaud Alix and her team for the tremendous progress achieved to date. We greatly appreciate the support of our shareholders.

Michael Bregman

Chairman

LETTER FROM THE PRESIDENT & CEO

When I joined Second Cup a year ago in the role of president, I anticipated a year of enormous change. The process and the pace of our revolution has been exciting and I am extremely pleased with our progress to date. We completed all that we set out to do in 2014. We have begun a fundamental transformation of the company to return Second Cup to its pre-eminent place in the market while delivering enhanced shareholder value through long-term growth in profitability. Our goal quite simply is to be the best – in all that we do.

Last June, after a comprehensive review of our talent and our requirements, we undertook a major reorganization of Coffee Central, recruiting new and highly talented people to the executive team and reducing staffing costs by approximately 35%. The costs saved by this re-organization were passed on to the franchisees as an important and necessary first step in improving their profitability and rebuilding a positive, trusting relationship.

Over the second half of the year, we developed a three-year Strategic Plan which is the road map for the company's transformation and growth through 2017. Our vision is to be the premium coffee brand in Canada, and the brand most passionately committed to quality and innovation. One of the key strategies is to re-imagine the brand at every touchpoint, to create the ultimate coffee experience.

One of the fundamental pillars of our strategic plan involved the design and launch of our "store of the future". On December 5th, in downtown Toronto we opened our first "store of the future" to critical acclaim from the media, franchisees and consumers. The café sets a new standard by returning coffee to the core of the business, focusing attention on quality and innovation, and creating an individualized experience for customers. The opening of this new café within the first year of our transformation represents a major accomplishment. Moreover, the performance of this new concept store has been very gratifying. It is a game changer that will serve as the basis for new stores and renovations

As a result of our many positive changes, I am delighted to see a sense of renewed optimism and enthusiasm among our franchisees. We have taken steps to improve collaboration with our franchisees, empowering them to influence strategic company decisions and to help direct our marketing plans.

While much has been accomplished, much more remains to be done. In 2014 we invested heavily to establish a solid foundation upon which to build long term growth in sales and profitability. With much of this investment behind us, we are now in a position to implement measures to achieve our objectives.

A premium café experience also requires the highest level of operational excellence, and we continue to take steps to improve the day-to-day operations in our cafés, along with the recruitment of outstanding new franchisees.

Our revolutionary transformation is continuing in 2015. Food and beverage innovation are essential elements in re-imagining the premium coffee experience. We will continue to bring innovative, authentic coffee experiences to Canadians like our successful launch of Flat White, which has become a popular beverage choice in our cafés. We are thrilled that in the first quarter of 2015, 65 percent of cafés now have a new bakery menu, offering higher quality, artisanal baked goods, locally produced and delivered fresh daily, This summer, we will launch a new cold beverage line that has had enthusiastic customer response in market tests. As well, this spring we will introduce "Second Cup Coffee Co. Rewards", our new loyalty program. The program, including an elegant mobile app and payment solution, will provide customers with a more rewarding coffee experience. It also allows us to be more targeted in our marketing and promotional campaigns.

When I joined Second Cup, I was convinced that with the right plan and the right team, the company had a bright future. After a year that has been both challenging and extremely rewarding, I am even more convinced that we will succeed in our revolution to make more Canadians fall in love with Second Cup by delivering the most premium coffee experience.

I thank the Board of Directors for their incredible support and guidance over the past year. I also thank our franchisees for embracing change and for their collaboration in our revolution. Finally, I want to recognize and thank my management team for their relentless hard work and the passion they bring to their jobs every day.

Alix Box

President & CEO


HOT CHOCOLATE

Revolutionizing the coffee experience.

CAFÉ OF THE FUTURE

Being the best.

Our goal at Second Cup Coffee Co.™ is to be the best.

For us, that means putting coffee at the core of the business, focusing on quality, innovation and creating an individual experience for our customers. We're creating a premium brand experience with a unique independent spirit. The new café at King and John Streets in Toronto sets a new standard for the ultimate coffee experience in Canada, North America and the world.

Revolutionizing the coffee experience.

Welcome.

Bright, warm and welcoming with a neutral palette featuring natural materials inviting you in, then we add a dash of optimism with fun, unexpected bursts of brilliant colour — like the espresso machine.

A warm welcome.

Theater in motion.

The Steam Punk brewer has been thrilling coffee aficionados in some of the most exclusive cafés around the globe, and has been featured in the hottest trendsetting media. Second Cup Coffee Co. is the first national retailer to introduce the phenomenal brewer to Canada.

The Steam Punk

Milk on tap.

Custom design and built for Second Cup Coffee Co., the milk bar replaces messy dairy cartons and jugs.

Stylish & functional

The slow bar.

Take your time. Enjoy the slow bar.

This is where Second Cup Coffee Co. handcrafted beverages shine with an interactive seating area for customers. You're invited to relax and learn about coffee and the process of making a perfect cup from the trained baristas who will share their knowledge and answer questions from customers. The slow bar features a selection of premium coffees exclusive to Second Cup Coffee Co. including estate blends and limited-edition microlots.

Wireless Charging.

Built into the counters to help customers quickly charge their personal devices while enjoying the café environment.

Beautifully integrated amenities

SUPERIOR QUALITY

Coffee is our craft.

Our passion for coffee is only matched by our passion for superior quality.

Being the coffee authority, Second Cup Coffee Co. combines passion with commitment, expertise with innovation and quality. We're here to help our customers discover the most life enriching coffee experiences in the world, so we go above and beyond to find the very best coffee – anywhere – for our cafés. And once we have discovered exceptional offerings like the superb La Minita Tarrazú or delicate Ethiopian YirgZ, there's nothing we like better than bring it to our customers and sharing the story behind the bean. For us, it's all part of providing the ultimate coffee experiences. Every sip of every cup, every day.

Revolutionizing the coffee experience.

Artfully hand-baked and made locally

Locally sourced.

Recently introduced, and soon to be rolled out nationwide, our high-quality, delicious food offerings are hand-crafted in local bakeries and feature a modern take on classic tastes. Healthy Oatmeal and Hearty Granola Bar where customers can customize their choice and new breakfast items like toast; hand-sliced artisanal breads, toasted with variety of a delicious toppings.

The art of the pour-over.

Hand-crafted, customized technique that produces a noticeably more delicate and complex brew than customary drip. Ideal for cupping and tasting the very best coffees in the world.

Beautifully crafted pour-over station.

Revolutionizing the coffee experience.

Uncompromising quality.

At Second Cup Coffee Co., we are obsessed with superior coffee quality. We use nothing but the highest grade of specialty Arabica coffees that come from some of the most socially and environmentally conscious farms around the globe.

It's this obsession that ensures we keep bringing you the very best coffee in every cup.

It all begins with the bean

Revolutionizing the coffee experience.

INNOVATION

Contstantly evolving.

Innovation is always on brew at Second Cup Coffee Co.

We are driven to inspire our customers, our franchisees and the coffee community every day. In 2014, Second Cup Coffee Co. led the category when we were the first national coffee chain to add Flat White to our espresso menu. This innovative launch excited customers and motivated Canadians to discover why the Flat White is called the espresso lover's espresso. Second Cup Coffee Co. also introduced Canadians to the Piaggio. These unique Italian mini-trucks helped us launch the Flat White in eye-catching European style as they travelled to communities across the country. And of course, the café of the future has coffee innovation at the heart of its modern design with its coffee-centric slow bar, ground-breaking Steam Punk brewing system, meticulous pour-over station, and unique milk bar. And this is just a taste of the innovation to come from Second Cup Coffee Co. We are dedicated to being the coffee brand most passionately committed to quality and innovation. This year will see even more excitement within our cafés as we continue to curate sensational new discoveries to share with coffee lovers across Canada.

Revolutionizing the coffee experience.

We brought the Flat White to espresso lovers across Canada.

Bold, rich, velvety and creamy, the Flat White truly is the "Espresso lovers espresso."

Flat White Piaggio.

Italian in origin and custom built in Ireland, these little Piaggio Apes convert into elegant, attention-grabbing sampling stations designed to bring a whole new level of engagement to local communities. Espresso lovers, your day has finally arrived.... literally.

The Flat White Piaggio Ape 50

"There is a renewed spirit and we feel inspired and optimistic about the future of Second Cup. The strategic plan addresses everything that we need to do. We look forward to breathing new life into our amazing locations."

Harry Sidhu, a long standing Second Cup franchisee and member of the Advisory Council.

COLLABORATION

Working together to learn and to grow.

Collaboration is one of our pillars at Second Cup.

To us, that means connecting on a meaningful level with all our partners and customers to help make Second Cup Coffee Co. even better. Whether that means standing shoulder to shoulder and picking coffee cherries in Costa Rica; sharing our strategic growth plans with franchisees at our convention; working with Canadian artists to bring our philosophies to life; joining forces with our Franchise Advisory Council to benefit all members of the Second Cup Coffee Co. family; or experiencing the genuine connection that our franchisees have within their communities, Second Cup Coffee Co. is dedicated to working together to make our company stronger and better every day. It is also this ongoing dialogue that will help us develop a real relationship with our customers and create that individual approach that will set Second Cup Coffee Co. apart. By working together, we can all win.

Revolutionizing the coffee experience.

Artist series cups

Creativity

Optimism

Collaboration

We worked with emerging Canadian artists on the design of our new colourful take-away cups.

We provided nothing more than a single word as inspiration, and the artists were invited to express themselves with their own authentic interpretation of our brand pillars: Collaboration, Creativity, Optimism, Community and Superior Quality.

Coffee harvest.

Annual visit to Hacienda La Minita where Franchisees experience the coffee harvest process from cherry to cup, furthering coffee education for our franchisees.

FINANCIAL HIGHLIGHTS

In thousands of Canadian dollars, except number of cafés and per share amounts

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 27, 2014.

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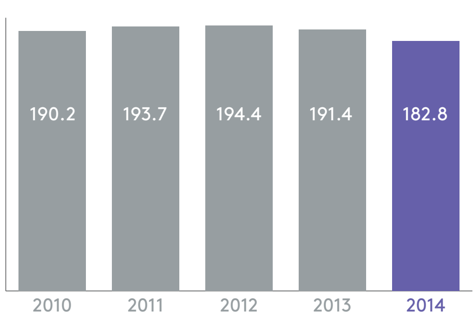
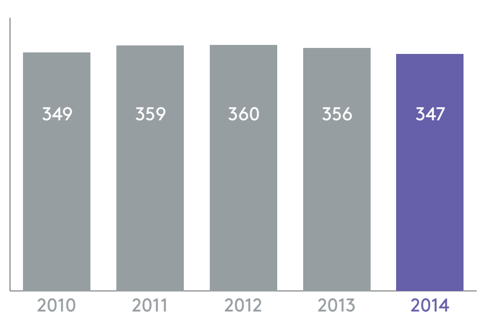
Impairment charges	**–**	$299	**$29,708**	$13,552
Acquisition of certain franchise cafés	**$692**	–	**$692**	–
Operating (loss) income[1]	**($521)**	$1,891	**($30,897)**	($7,122)
Adjusted EBITDA[1]	**$1,068**	$3,345	**$4,605**	$8,846
Net (loss) income and comprehensive (loss) income	**($469)**	$1,177	**($27,032)**	($7,369)
Basic and diluted earnings (loss) per share as reported[2]	**($0.04)**	$0.12	**($2.66)**	($0.74)
Adjusted basic and diluted earnings per share[1]	**$0.03**	$0.22	**$0.20**	$0.54
Total Assets – end of period	**$53,449**	$77,340	**$53,449**	$77,340
Number of weighted average common shares issued and outstanding	**10,879,012**	9,903,045	**10,151,716**	9,903,045

1 See the section "Definitions and discussion on certain non-GAAP measures" for further analysis.
2 Earnings per share is calculated using the weighted average number of common shares outstanding

System wide sales
(in millions of Canadian dollars)



Number of Second Cup cafés
(in Canada)



MANAGEMENT'S DISCUSSION AND ANALYSIS

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Management's Discussion and Analysis ("MD&A") may constitute forwardlooking statements within the meaning of applicable securities legislation. The terms the "Company", "Second Cup", "we", "us", or "our" refer to The Second Cup Ltd. Forwardlooking 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. Forwardlooking 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 forwardlooking statements: competition; availability of premium quality coffee beans; the ability to attract qualified franchisees; 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 franchisees; 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 forwardlooking 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 forwardlooking statements and, as a result, the forward-looking statements may prove to be incorrect.

As these forwardlooking 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 5, 2015 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 27, 2014, 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 a Canadian specialty coffee retailer with 347 cafés operating under the trade name Second Cup™ in Canada, of which 35 are Company-operated and the balance are operated by franchisees who are selected and trained to retail 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 in Canada, excluding the Territory of Nunavut.

The Company 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 website is www.secondcup.com. The common shares are listed on the Toronto Stock Exchange under the symbol "SCU".

The 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 5, 2015, the issued share capital consisted of 12,830,945 common shares, an increase of 2,297,900 shares from the previous year.

Additional information including the 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.

CORE BUSINESS, STRATEGY, AND PERFORMANCE DRIVERS

Strategic imperatives and key performance drivers

Second Cup's new vision of being the coffee brand most passionately committed to quality and innovation will drive management's strategies and actions going forward. Coffee will be at the core of the offering and the brand will win customers' hearts through more "personalized experiences".

The work to transform the business commenced earlier this year with the hiring of a new management team, business restructuring, roll-out of an initial improvement to franchisee unit profitability as a result of reduced royalty and coop advertising fees, and design and implementation of the first café of the future. The strategic plan will be executed in two phases over the next three years. The first phase will focus on "laying the groundwork" for growth: driving same store sales through product innovation, improved operations, brand and loyalty building initiatives, while concurrently honing and beginning to roll out the café of the future concept to new locations and renovated cafes.

CAPABILITIES

This section documents factors that affect the 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

In conjunction with the official unveiling of the café of the future, the Company launched its new logo and branding in December of 2014. The updated brand — Second Cup Coffee Co.™ — reflects a new independent spirit, a commitment to deliver the world's finest coffee, and the Company's vision to be the coffee brand most passionately committed to quality and innovation. The new logo is designed to convey the elevated premium status of the brand, and all touch points both inside and outside of the café have been modernized.

A proudly Canadian company since 1975 with 347 cafés across Canada, Second Cup Coffee Co.™, is a specialty coffee retailer. The Company maintains its commitment to the communities it operates in, celebrating the franchisees local ownership and focus on providing quality and friendly service to each customer in every café.

The Café of the Future

Located in downtown Toronto, the new café of the future is an important milestone in the Company's transformation and a first step in its three-year strategic plan. The new design revolves around the Company's brand pillars of superior quality, optimism, collaboration, creativity and community, and focuses on the individual customer experience. Features of the new cafe include a Slow Bar, where Customers can interact with baristas and taste coffees made from new brewing technologies, an expanded portfolio of coffees, new baked goods hand-crafted in local bakeries, modern layout and architectural design, built-in charging stations for electronic devices, custom music program, community wall mural created by local artists that reflects and celebrates the neighborhood, and a stylish new employee dress code.

The people

The franchise network consists of approximately 4,000 team members. Team members range from baristas, managers, and franchisees at the cafés, and support personnel employed at the Coffee Central (head office). Baristas and franchisees complete extensive training and certification to deliver a quality product to our customers. Franchisees 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 Second Cup's commitment to natural and healthy products.

The coffee portfolio currently contains 19 varieties of coffee, including eight single-origin & estate coffees as well as proprietary blends like Paradiso® and Espresso Forte. The cafés offer a wide variety of hand crafted espresso-based beverages including espressos, cappuccinos, lattes and the ever popular Vanilla Bean Latte and Moccaccino. Second Cup is committed to developing and introducing new drinks, an example of which is the Flat White, an internationally popular espresso based drink which Second Cup was the first to market nationally in Canada. The Company has a long history of partnering with coffee producers, and buying direct from farm or mill, and has Canadian exclusivity to sell San Agustin, Fazenda Vista Alegre, and La Minita Tarrazú; La Minita is considered by many to be the most carefully processed coffee in the world. In 2014 the Company introduced single serve capsules in a variety of roasts for at home consumption.

Second Cup prides itself that virtually all of its coffee, espresso and tea beverages 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, 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;
- 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. On August 5th, 2014, the Company announced the suspension of its dividend in order to retain cash resources for redeployment into investments that will maximize long-term growth in share value.

On November 27th, 2014, the Company announced the closing of a private placement offering. Pursuant to the offering, the Company issued a total of 2,927,900 common shares, which included a 15% overallotment option for gross proceeds of $8,052. Net proceeds of $7,652 will be used to fund the Company's strategic growth plan and for general corporate purposes.

The 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. The credit facilities mature on September 30, 2016.

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 certain covenants which are defined in the agreements:

- a ratio of senior debt to EBITDA ratio ("Leverage Ratio"); and
- 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.

As a result of the Company's restructuring, certain one-time costs and the strategic decision to take back a number of cafes, the fixed coverage and leverage ratios were negatively impacted resulting in non-compliance with these covenants as at December 27th, 2014. As a result the debt has been classified as current.

Subsequent to year end, the Company received a waiver of this non-compliance from its lender and also received an amendment to its banking agreement which reset certain covenants for the next twelve months.

Under the amendment the Company must maintain a Leverage ratio, adjusted for permitted cash balances, of less than 1.75 to 1 and also a fixed charge ratio of greater than 1 for fiscal 2015 and then reverts back to the original covenants of a Leverage ratio of less than 1.75 to 1 and a fixed charge ratio of greater than 1.5.

The facility under the amendment, assuming compliance with revised covenants continues to mature on September 30, 2016 and bears interest at 2.25% to 3.25% margin based on the current covenant ratios. The unused operating facility of $2,000 also continues to be in place.

For the year ended 2014, interest expense was 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 27, 2014, the applicable margin pertaining to the aforementioned range is 3.25% (December 28, 2013 – 2.75%)

The Company has an interest rate swap agreement with a notional value of $11,000 that expires on September 30, 2016. The swap fixes the interest rate on the Company's non-revolving term credit facility at 2.07% per annum plus the margin noted above, which results in a fixed effective interest rate of 5.32%.

As at December 27, 2014, there was an interest rate swap liability of $143 recorded in the statements of financial position (December 28, 2013 – $140).

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 who 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, gift and loyalty card transactions, and head office financial and administrative functions. The 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.

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Number of weighted average common shares issued and outstanding	**10,879,012**	9,903,045	**10,151,716**	9,903,045

1 See the section "Definitions and discussion on certain non-GAAP measures" for further analysis.
2 Earnings per share is calculated using the weighted average number of common shares outstanding

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	2012	2013	2014	Average
First quarter	24.2	24.5	**24.0**	24.2
Second quarter	24.4	24.9	**25.1**	24.8
Third quarter	23.9	23.5	**23.9**	23.8
Fourth quarter	27.5	27.1	**27.0**	27.2
	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		52 weeks ended	
	December 27, 2014	December 28, 2013	December 27, 2014	December 28, 2013
Number of cafés – beginning of period	**349**	351	**356**	360
Cafés opened	**1**	6	**9**	15
Cafés closed	**(3)**	(1)	**(18)**	(19)
Number of cafés – end of period	**347**	356	**347**	356

The Company ended the Year with thirty five (2013 – ten) Company-operated cafés.

Fourth Quarter

System sales of cafés

System sales of cafés for the 13 weeks ended December 27, 2014 were $49,427 compared to $51,898 for the 13 weeks ended December 28, 2013 representing a decrease of $2,471 or 4.8%. The decrease is attributable to decreased same café sales and to the reduced store count.

Same café sales

During the Quarter, same café sales declined by 3.9%, compared to a decline of 4.3% in the comparable Quarter of 2013. The decrease in sales is the result of a decrease in customer transactions.

Analysis of revenue

Total revenue for the Quarter was $8,427 (2013 – $8,038) and consisted of royalty revenue, revenue from sale of goods, and services and other revenue.

Royalty revenue for the Quarter was $3,067 (2013 – $3,816). The reduction in royalty revenue of $750 is primarily a result of the new royalty incentive introduced in August, as well as lower café sales, and the increased mix of corporately owned cafés. The new royalty incentive rewards cafés that display exceptional operational standards and performance with a reduced royalty charge.

Revenue from the sale of goods, which consists of revenue from Company-operated cafés and from wholesale revenue was $3,619 (2013 – $1,526). The increase of $2,093 was due to the increased number of Company-operated cafés, and to sales of branded coffee in grocery channels. The latter revenue stream commenced in January 2014 and was expanded late in the third quarter, with the launch of two new K-Cup compatible skus.

Services and other revenue for the Quarter was $1,741 (2013 – $2,696). The decrease of $955 in services and other revenue was primarily due to reduced levels of new store openings and store ownership changes. The decrease was partly offset with increased licensing revenue from the sale of 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 wholesale channels, plus the cost of direct labour in the Company-operated cafés. Cost of goods sold was $2,781 (2013 – $1,089). This increase of $1,692 is due to the higher number of Company-operated cafés and the costs associated with wholesale coffee that did not exist in the prior year.

Operating expenses

Operating expenses include Coffee Central expenses and the overhead expenses of Company-operated cafés. Total operating expenses for the Quarter were $5,085 (2013 – $3,876), an increase of $1,209.

Coffee Central

Coffee Central expenses for the Quarter were $3,862 (2013 – $3,523). The $339 increase was due to more overhead expenses, mainly as a result of one-time transformation projects, depreciation, and operational provisions.

Company-operated cafés

Company-operated café expenses for the Quarter were $1,223 (2013 – $353). The $870 increase is due to the greater number of Company-operated cafés in comparison to the prior period, as well as a loss on acquisition of cafés acquired.

Provisions for café closures

Provisions for café closures were $391 (2013 – $105). The Company recorded provisions for eleven underperforming cafés for estimated lease exit costs and severances. Additional provisions were recorded in the fourth quarter relating to three underperforming cafés for estimated lease exit costs and severances. Four of these cafés were closed in 2014.

Restructuring

Restructuring charges of $nil (2013 – $883) were primarily related to severance costs in the prior year.

Impairment charges

The Company recognized $nil impairment charges in the quarter (2013 – $299).

Acquisition of certain franchise cafés

The Company acquired franchise cafés in the Quarter which resulted in a loss of $692.

Interest and financing

The Company incurred interest and financing expenses of $106 (2013 – $254). The decrease in interest and financing expenses relates to costs realized at renewal of the interest rate swap in the fourth quarter of 2013.

Income taxes (recovery)

Current income tax recovery of $201 (2013 – expense of $427) and deferred income tax expense of $42 (2013 – expense of $33) were recorded in the Quarter. Current income tax recovery relates to the loss incurred in the year.

Adjusted EBITDA

Adjusted EBITDA for the Quarter was $1,068 (2013 – $3,345). The decrease of $2,277 was caused mainly by a reduction in royalty revenue, as well as operational provisions.

Net income (loss)

The Company's net loss for the Quarter was $469 or $0.04 loss per share, compared to a net income of $1,177 or $0.12 per share in 2013. The decrease in net income of $1,646 or $0.16 per share was mainly due to closed café and operational provisions taken in the quarter as well as losses on disposal of corporate cafés vs. a gain 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 $182,782 compared to $191,434 for 2013, representing a decrease of $8,652 or 4.5%. The decrease is attributable to decreased same café sales and to the reduced store count.

Same café sales

For the year, there was a decline of 4.7% compared to a decline of 3.6% in 2013. The nature of the decrease is consistent to what was discussed above in the Quarter.

Analysis of revenue

Total revenues for the Year were $28,172 (2013 – $27,188).

Royalty revenue for the Year was $12,350 (2013 – $14,117). The reduction in royalty revenue of $1,767 was mainly a result of the new royalty incentive introduced in the third quarter, as well as lower café sales, and the mix of corporately owned cafés (35 corporately-owned this year vs. 10 last year).

Revenue from the sale of goods was $9,287 (2013 – $5,506) for the Year. The increase in revenue from the sale of goods was mainly due to the new revenue stream from branded coffee in grocery channels. The increase was also attributable to the increased number of Company-operated cafés.

Services and other revenue for the year was $6,535 (2013 – $7,565). The $1,030 decrease in services and other revenue was primarily due to lower revenues from cafe network activity as discussed above in the quarterly comments.

Cost of goods sold

Cost of goods sold was $7,679 (2013 – $4,054). The $3,625 increase relates to product costs pertaining to wholesale coffee sold in grocery channel, and the greater number of Company-operated cafés active during the period.

Operating expenses

Total operating expenses for the year were $17,194 (2013 – $15,342), an increase of $1,852.

Coffee Central

Coffee Central expenses for the year were $14,307 (2013 – $13,581). The $726 increase relates mainly to provisions for operational expenses.

Company-operated cafés

Company-operated café expenses for the year were $2,887 (2013 – $1,761). The increase is due to the larger number of Company-operated cafés, as well as a loss on acquisition of cafés in the fourth quarter.

Restructuring

Restructuring charges of $2,166 (2013 – $883) were primarily related to severance costs during the first half of the fiscal year.

Provision for café closures

Provisions for café closures were $1,630 (2013 – $479). The Company recorded provisions for eleven underperforming cafés for estimated lease exit costs and severances. Four of these cafés were closed in the period.

Impairment charges

The Company incurred impairment charges of $29,708 (2013 – $13,552). During the third quarter of 2014 the Company recognized an impairment charge of $29,658 to its trademark assets. The impairment charge had no impact on the Company's liquidity, cash flow, borrowing capability or operations. The remaining $50 related to an impairment of property and equipment.

Acquisition of certain franchise cafés

The Company acquired franchise cafés which resulted in a loss of $692, as discussed for the Quarter.

Interest and financing

The Company incurred interest and financing expenses of $478 (2013 – $516). The decrease in interest and financing expenses was discussed above in the Quarter.

Income taxes (recovery)

Current income taxes recovery of $339 (2013 – expense of $1,503) and deferred income tax recoveries of $4,004 (2013 – $1,772) 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 $4,605 (2013 – $8,846). The decrease of $4,241 was driven mostly by a decrease in royalty revenue, as well as retail listing fees incurred and provisions for operational expenses.

Net loss

The Company's net loss for the Year was $27,032 or $2.66 loss per share, compared to net loss of $7,369 or $0.74 loss per share in 2013. The unfavorable change in net loss of $19,663 or $1.92 per share was mainly due to impairment charges, restructuring charges, retail listing fees incurred, and reduced royalty revenue. This was offset partially by the margin realized in the current year from the wholesale of coffee in the grocery channel.

A reconciliation of net loss to adjusted EBITDA is provided in the section "Definitions and discussion of certain non-GAAP financial measures".

Dividend

As Second Cup transforms towards a new era of growth in sales and profitability, the Company is seeing the emergence of attractive opportunities to invest capital. Accordingly, the Company believes it is prudent to retain available cash resources for redeployment into investments that will maximize long-term growth in share value. Given this renewed focus on growth, the Board of Directors decided to continue the dividend suspension announced with the release of the second quarter 2014 results.

SELECTED QUARTERLY INFORMATION

(in thousands of Canadian dollars, except Number of cafés, Same café sales, and per share amounts)	Q4 2014[2]	Q3 2014	Q2 2014	Q1 2014
System sales of cafés[1]	**$49,427**	**$43,596**	**$45,829**	**$43,930**
Same café sales[1]	**(3.9%)**	**(3.3%)**	**(5.0%)**	**(6.9%)**
Number of cafés – end of period	**347**	**349**	**357**	**357**
Total revenue	**$8,427**	**$6,686**	**$6,435**	**$6,624**
Operating income (loss)[1]	**($521)**	**($30,214)**	**($388)**	**$226**
Adjusted EBITDA[1]	**$1,068**	**$1,079**	**$1,516**	**$941**
Net income (loss) for the period	**($469)**	**($26,230)**	**($390)**	**$56**
Basic and diluted earnings (loss) per share	**($0.04)**	**($2.65)**	**($0.04)**	**$0.01**
Dividends declared per share	**–**	**–**	**–**	**$0.085**
	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 (loss) income[1]	$1,891	$1,361	($11,401)	$1,027
Adjusted EBITDA[1]	$3,345	$1,671[3]	$2,122	$1,334
Net (loss) income for the period	$1,177	$918	($10,152)	$688
Basic and diluted (loss) earnings per share	$0.12	$0.09	($1.03)	$0.07
Dividends declared per share	$0.085	$0.085	$0.085	$0.085

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 provisions for café closures. Comparative amounts were amended in order to provide adequate comparative figures.

LIQUIDITY AND CAPITAL RESOURCES

Second Cup collects royalties based on the franchisees portion of System sales of cafés, franchise fees, and other amounts from its franchisees and also generates revenues from its Company-operated cafés. The performance of Second Cup franchisees 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		52 weeks ended	
	December 27, 2014	December 28, 2013	December 27, 2014	December 28, 2013
Cash flows provided by operating activities	**$729**	$2,822	**$452**	$7,621
Cash flows provided by investing activities	**(805)**	(801)	**(1,860)**	(1,604)
Cash flows used by financing activities	**7,509**	(842)	**5,825**	(3,396)
Increase (decrease) in cash and cash equivalents during the period	**$7,433**	$1,179	**$4,417**	$2,621

Fourth Quarter

Cash generated by operating activities was $729 for the Quarter compared to $2,822 for the same Quarter in 2013. The reduction in cash provided of $2,093 is attributable to changes in non-cash working capital as a result of increases in provisions for café closures, as well as lower royalty revenues.

During the Quarter, cash used by investing activities was $805 compared to cash used of $801 for the same Quarter in 2013.

Financing activities resulted in $7,509 cash generated (2013 – cash usage of $842). The increase in cash provided of $8,351 was due to the issuance of common shares, as well as the suspension of dividend payments.

Year

Cash generated by operating activities was $452 for the Year compared to $7,621 for the same period last year. The reduction of $7,169 was caused by a decrease in royalty revenue, a reduction in deferred income taxes as a result of impairment write downs, and a decrease in non-cash working capital.

During the Year, cash used by investing activities was $1,860 compared to cash used of $1,604 for the same period in 2013. The increase in cash flow of $256 was primarily the result of fewer proceeds generated from the disposal of property plant and equipment vs the prior year.

Financing activities resulted in cash generated of $5,825 (2013 – usage of $3,396). The increase in cash flow of $9,221 was a result of the common share issuance, as well as the suspension of dividends to re-invest in long-term strategic growth initiatives as discussed above.

Working capital as at

	December 27, 2014	December 28, 2013
Current assets	**$16,430**	$11,402
Current liabilities	**23,684**	11,061
Working capital	**($7,254)**	$341

The Company's working capital deficit of $7,254 as of December 27, 2014, decreased by $7,595 from December 28, 2013 as a result of the reclassification of long-term debt to current, which was partly offset by the cash provided from the common share issuance. Working capital before the reclassification of long-term debt of $3,864 increased by $3,523 from December 28, 2013.

The Company had cash and cash equivalents of $10,918 at December 27, 2014 (December 28, 2013 – $6,501). The increase was primarily due to the common share issuance (discussed above) and the suspension of dividend payments. The Company continues to believe it has sufficient financial resources to pay operating expenses.

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 franchisees	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

Trade and other receivables, and notes and leases receivable primarily comprise amounts due from franchisees. Credit risk associated with these receivables is mitigated as a result of the review and evaluation of franchisee account balances beyond a particular age. Prior to accepting a franchisee, the Company undertakes a detailed screening process which includes the requirement that a franchisee have sufficient capital and financing. The risk is further mitigated due to a broad franchisee 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 franchisees. Credit risk is mitigated as a result of the Company directing and maintaining certain controls over the vendor relationship with the franchisees.

(ii) Liquidity risk

Liquidity risk is managed through regular monitoring of forecasts and actual cash flows, monitoring maturity dates of financial assets and liabilities, and also the management of capital structure and debt leverage ratios as outlined above. The main source of income is royalty receipts from franchisees.

(iii) Interest rate risk

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 and commodity risk

Transactions occur 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 directly and indirectly exposed to changes in coffee commodity prices given it is a material input for the Company's product offerings. The direct exposure is mitigated given the ability to adjust its sales price as commodity prices change. Risk is mitigated by entering fixed price forward purchase commitments and by adjusting selling prices.

Contingencies, commitments and guarantees

Second Cup has lease commitments for Company-operated cafés and also acts as the head tenant on most leases, which it in turn subleases to franchisees. To the extent the Company may be required to make rent payments due to headlease commitments, a provision has been recognized.

	Headlease commitments	Sublease to franchisees	Net
December 26, 2015	$19,904	$17,257	$2,647
December 31, 2016	17,684	15,174	2,510
December 30, 2017	15,772	13,728	2,044
December 29, 2018	13,661	11,908	1,753
December 28, 2019	11,902	10,332	1,570
Thereafter	28,118	23,674	4,444
	$107,041	$92,073	$14,968

The Company believes it has sufficient resources to meet the net commitment of $14,968.

The Company is involved in litigation and other claims arising in the normal course of business. Judgment must be used 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. It is believed that no significant losses or expenses will be incurred 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.

Contracts are in place with third party companies to purchase the coffee that is sold in all cafés. In terms of these supply agreements, there is a guaranteed minimum volume of coffee purchases of $2,965 USD (2013 – $5,621 USD) for the subsequent 12 months. The coffee purchase commitment comprises three components: unapplied futures commitment contracts, fixed price physical contracts and flat price physical contracts.

The Company 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, there is a requirement to pay a portion of one-time listing fees in the amount of up to $708 in 2015.

Due to the Company acting as the primary coordinator of café construction costs on behalf its franchisees and for Company-operated cafés, there is $302 (2013 – $1,433) of contractual commitments pertaining to construction costs for new locations and renovations as at the end of the fiscal year. Construction costs financed for franchise projects are from deposits received from franchisees and for corporate projects from the Company's cash flows.

Related parties

Related parties are identified 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.

Certain transactions occurred between a Company controlled by a board member, and one of the Company's vendors. For the year ended December 27, 2014, the said vendor purchased $4,835 of product in the ordinary course of business.

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.

As at October 31, 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 27, 2014, 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 13 weeks ended December 27, 2014 and up to the date of the approval of the Unaudited Condensed Interim 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 Unaudited Condensed Interim Financial Statements for external purposes in accordance with IFRS.

As at October 31, 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 27, 2014 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 13 weeks ended December 27, 2014 and up to the date of the approval of the Unaudited Condensed Interim 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

Estimates for the useful lives of property and equipment are 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 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 franchisee 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 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.

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

Second Cup faces competition for café locations and franchisees from its competitors and from franchisors and operators of other businesses. The success of franchisees is significantly influenced by the location of their cafés. There can be no assurance that current 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 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 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. There is no assurance that future sites will produce the same results as past sites. There is also no assurance that a franchisee 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 the business.

A shortage in supply or an increase in the price of premium quality coffee beans could adversely affect operations. 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 the Company 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 changes 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.

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 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 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.

2014 was a year of transformation and great change for Second Cup. Major initiatives set out in May at the Annual General Meeting, specifically: the restructuring of Coffee Central, improvements to the franchise model, the launch of the new café of the future including new branding, and the development of the three-year plan, have been completed. Much remains to be done, but the foundation has been set and the Company is poised to gain ground in 2015.

DEFINITIONS AND DISCUSSION ON CERTAIN NON-GAAP FINANCIAL MEASURES

In this MD&A, the Company reports certain non-IFRS measures such as system sales of cafés, same café sales, operating income (loss), EBITDA, adjusted EBITDA, and adjusted earnings per share.

System sales of cafés

System sales of cafés comprise the net revenue reported to Second Cup by franchisees of Second Cup cafés and by Company-operated cafés. This measure is useful in assessing the operating performance of the entire Company network, such as capturing the net change of the overall café network.

Changes in system sales of cafés result from the number of cafés and same café sales (as described below). The primary factors influencing the number of cafés within the network include the availability of quality locations and the availability of qualified franchisees.

Same café sales

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

Operating income (loss)

Operating income (loss) represents Revenue, less Cost of goods sold, less Operating expenses, and less Impairment charges. This measure is not defined under IFRS, although the measure is derived from input figures in accordance with IFRS. Management views this as an indicator of financial performance that excludes costs pertaining to Interest and financing, and Income taxes.

EBITDA and Adjusted EBITDA

EBITDA represents earnings before interest, taxes, depreciation, and amortization. As there is no generally accepted method of calculating EBITDA, this measure is not necessarily comparable to similarly titled measures reported by other issuers. EBITDA is presented as management believes it is a useful indicator of the Company's ability to meet debt service and capital expenditure requirements, and evaluate liquidity. Management interprets trends in EBITDA as an indicator of relative financial performance. EBITDA should not be considered by an investor as an alternative to net income or cash flows as determined in accordance with IFRS.

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

Restructuring charges, if incurred, are a reconciling item in the calculation of adjusted EBITDA as management believes such costs are non-recurring and not an indicative performance measure directly linked to the Company's business operations.

Provision for café closures, if incurred, are a reconciling item in the calculation of adjusted EBITDA as management believes that while such costs may be recurring, they could be larger than normal during this period of transformation of the business and are not an indicative performance measure directly linked to the Company's business operations from ongoing cafés.

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

	13 weeks ended		52 weeks ended	
	December 27, 2014	December 28, 2013	December 27, 2014	December 28, 2013
Net income (loss)	**($469)**	$1,177	**($27,032)**	($7,369)
Interest and financing	**106**	254	**478**	516
Income taxes (recovery)	**(159)**	460	**(4,343)**	(269)
Depreciation of property and equipment	**288**	206	**933**	749
Amortization of intangible assets	**95**	142	**339**	502
Loss (gain) on disposal of property and equipment	**124**	(181)	**34**	(197)
EBITDA	**($15)**	$2,058	**($29,591)**	($6,068)
Impairment charges	**–**	299	**29,708**	13,552
Provision for café closures	**391**	105	**1,630**	479
Restructuring charges	**–**	883	**2,166**	883
Acquisition of certain franchise cafés	**692**	–	**692**	–
Adjusted EBITDA	**$1,068**	$3,345	**$4,605**	$8,846

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

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

	13 weeks ended		52 weeks ended	
	December 27, 2014	December 28, 2013	December 27, 2014	December 28, 2013
Net income (loss)	**($469)**	$1,177	**$(27,032)**	($7,369)
Restructuring charges	**–**	883	**2,166**	883
Provision for café closures	**391**	105	**1,630**	479
Impairment charges	**–**	299	**29,708**	13,552
Acquisition of certain franchise cafés	**692**	–	**692**	–
Tax effect of adjusting items	**(287)**	(302)	**(5,124)**	(2,157)
Adjusted earnings	**$327**	$2,162	**$2,040**	$5,388
Weighted average number of shares issued and outstanding (unrounded)	**10,879,012**	9,903,045	**10,151,716**	9,903,045
Adjusted basic and diluted earnings per share	**$0.03**	$0.22	**$0.20**	$0.54

For the 13 and 52 weeks ended December 27, 2014, there were 535,000 outstanding share option awards (13 and 52 weeks ended December 28, 2013 – nil).

AUDITED FINANCIAL STATEMENTS

For the 52 weeks ended December 27, 2014 and December 28, 2013

INDEPENDENT AUDITOR'S REPORT

March 6, 2015

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 27, 2014 and December 28, 2013 and the statements of operations and comprehensive 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 (IFRS), 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 27, 2014 and December 28, 2013 and its financial performance and its cash flows for the years then ended in accordance with IFRS.

Yours truly,

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

STATEMENTS OF FINANCIAL POSITION

As at December 27, 2014 and December 28, 2013

(Expressed in thousands of Canadian dollars)

	2014	2013
ASSETS		
Current assets		
Cash and cash equivalents	**$10,918**	$6,501
Trade and other receivables (note 8)	**4,026**	4,368
Notes and leases receivable (note 9)	**81**	220
Inventories (note 10)	**221**	123
Prepaid expenses and other assets	**485**	190
Income tax recoverable	**699**	–
	16,430	11,402
Non-current assets		
Notes and leases receivable (note 9)	**302**	701
Property and equipment (note 11)	**4,380**	3,507
Intangible assets (note 12)	**32,337**	61,730
Total assets	**$53,449**	$77,340
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 13)	**$6,011**	$4,586
Provisions (note 14)	**1,937**	847
Other liabilities (note 15)	**512**	717
Income tax payable	**–**	138
Gift card liability	**3,727**	3,895
Deposits from franchisees	**378**	878
Current Portion of long-term debt (note 16)	**11,119**	–
	23,684	11,061
Non-current liabilities		
Provisions (note 14)	**1,133**	1,380
Other liabilities (note 15)	**368**	428
Long-term debt (note 16)	**–**	11,089
Deferred income taxes (note 20)	**3,270**	7,418
Total liabilities	**28,455**	31,376
SHAREHOLDERS' EQUITY	**24,994**	45,964
Total liabilities and shareholders' equity	**$53,449**	$77,340

Contingencies, commitments and guarantees (note 23).
See accompanying notes to financial statements

Approved by the Directors March 5, 2015

Michael Bregman, Director

Rael Merson, Director

STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

For the periods ended December 27, 2014 and December 28, 2013

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

	2014	2013
Revenue		
Royalties	$12,350	$14,117
Sale of goods	9,287	5,506
Services and other	6,535	7,565
	28,172	27,188
Cost of services	7,679	4,054
Gross profit	20,493	23,134
Operating expenses (note 17)	17,194	15,342
Income before the following:	3,299	7,792
Restructuring and other charges (note 14)	2,166	883
Provisions for café closures (note 14)	1,630	479
Impairment charges (note 18)	29,708	13,552
Loss on acquisition of certain franchise cafés (note 4)	692	–
Loss before interest and financing expenses	(30,897)	(7,122)
Interest and financing (note 19)	478	516
Loss before income taxes	(31,375)	(7,638)
Income tax recovery (note 20)	(4,343)	(269)
Net loss and comprehensive loss for the period	($27,032)	($7,369)
Basic and diluted loss per share (note 21)	($2.66)	($0.74)

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the periods ended December 27, 2014 and December 28, 2013
(Expressed in thousands of Canadian dollars)

	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Total
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
Net loss for the period	–	–	(27,032)	(27,032)
Dividends to shareholders	–	–	(1,684)	(1,684)
Stock option plan expense (note 25)	–	92	–	92
Issuance of common shares, net of transaction costs (note 5)	7,652	–	–	7,652
Balance – December 27, 2014	**$8,652**	**$61,649**	**($45,309)**	**$24,992**

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

For the periods ended December 27, 2014 and December 28, 2013

(Expressed in thousands of Canadian dollars)

	2014	2013
CASH PROVIDED BY (USED IN)		
Operating activities		
Net loss for the period	($27,032)	($7,369)
Items not involving cash		
Depreciation of property and equipment	933	749
Amortization of intangible assets	339	502
Share-based compensation expense	92	–
Deferred income taxes	(4,004)	(1,772)
Loss (gain) on disposal of capital related items	186	(197)
Movement in fair value of interest rate swap	3	44
Impairment charges	29,708	13,552
Other	7	(9)
Changes in non-cash working capital (note 22)	220	2,121
Cash provided by operating activities	452	7,621
Investing activities		
Proceeds from disposal of capital related items	234	1,240
Proceeds from disposal of intangible assets	84	–
Cash payments for capital expenditures (note 22)	(1,575)	(2,117)
Cash payments for intangible assets (note 22)	(750)	(787)
Proceeds from repayment of notes receivable	69	13
Proceeds from repayment of leases receivable	78	57
Investment in notes receivable	–	(10)
Cash provided by investing activities	(1,860)	(1,604)
Financing activities		
Dividends paid to shareholders	(1,684)	(3,367)
Issuance of common shares, net (note 5)	7,509	–
Deferred financing charges	–	(29)
Cash provided by (used in) financing activities	5,825	(3,396)
Increase in cash and cash equivalents during the period	4,417	2,621
Cash and cash equivalents – Beginning of the period	6,501	3,880
Cash and cash equivalents – End of the period	$10,918	$6,501

See accompanying notes to financial statements. Supplemental cash flow information is provided in note 22.
Information on non-cash transactions and supplemental cash flow information are described further in notes 5 and 22, respectively

NOTES TO THE FINANCIAL STATEMENTS

For the periods ended December 27, 2014 and December 28, 2013
(Expressed in thousands of Canadian dollars, except per share amounts)

1. ORGANIZATION AND NATURE OF BUSINESS

The Second Cup Ltd. ("Second Cup" or "the Company") is a Canadian specialty coffee retailer with 347 cafés operating under the trade name Second Cup™ in Canada, of which thirty-five are Company-operated and the balance operated by franchisees.

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

The Company was incorporated under the Business Corporations Act (Ontario) in 2011 and is domiciled in Canada. The address of its registered office and principal place of business is 6303 Airport Road, 2nd Floor, Mississauga, Ontario, L4V 1R8. The Company hereafter refers to its head office activities as "Coffee Central". 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 (the "financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the Internation Accounting Standards Board ("IASB"). The financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period. The Company's functional currency is the Canadian dollar.

The Company'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.

The Company 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 are netted on the Statement of Financial Position in accounts payable if there is a surplus, or in accounts recievable if there is a deficit to the extent that the Company will recover the deficit from franchisees within one year. 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, designated for a specific purpose and the Company is acting as an agent.

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 and non-current assets derived in its country of domicile, Canada. Operating revenues are comprised 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 judgement

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 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 restructuring charges; 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 as to whether the carrying value of assets is recoverable. The recoverable amount of a cash generating unit ("CGU") is calculated as the higher of the fair value less costs of disposal, and its value in use. Fair value 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 CGUs.

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

The Company's impairment test include key assumptions related to the scenarios discussed above. Further details are provided in note 18 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 based on historical and budgeted operating results and income tax laws existing at the reporting 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

The useful lives of property and equipment are 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 amount of depreciation recorded in respect of the Company's property and equipment in the future.

(iv) Café lease provisions

Café lease provisions are based on the evaluation of the likelihood and measurement of settlements, temporary payouts, or sub-leasing. Management works with landlords and franchisees to obtain adequate information needed to make these assessments.

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 liabilities are derecognized when obligations are discharged, cancelled or they expire.

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. Hedge accounting is not used.

On 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 franchisees	Other financial liabilities	Amortized cost
Term credit facility	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.

(ii) Derivative financial instruments: derivatives are used in the form of interest rate swaps to manage risks related to its variable rate long-term debt. Unrealized fair value gains and losses pertaining to the interest rate swap are included in interest income (expense).

(iii) Transaction costs: Long-term debt is accounted for 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 or loss are recognized immediately. Transaction costs associated with instruments recognized at amortized cost are amortized over the expected life of the instrument. This classification has been selected 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 certain franchisees relating to point of sale systems ("POS"). The lease term is for the major part of the economic life of the POS although the title is not transferred. Leases are recognized as finance type leases and recorded as leases 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 an average cost basis. 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 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 assets:

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. 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 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, the 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 franchisees of Second Cup as at the date of acquisition, including royalties and franchise fees. Franchise rights are reviewed for impairment at any time that 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 of the asset:

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.

j. Provisions

Provisions are recognized when: there is 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 the 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. Evaluations are performed to identify onerous contracts and, where applicable, provisions are recorded for such contracts. A summary of the provisions 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 the Company for franchised operations at the date of acquisition. These liabilities were recorded at estimated fair value based on the net present value of the future estimated negative cash flows when the Company is required to cover rental arrears of its franchisees, to terminate unfavourable leases or to cover shortfalls if a location is sublet to a third party. These liabilities are amortized over the average remaining length of these existing lease agreements.

(ii) Café leases

The Company has lease commitments since it acts as the head tenant on café leases. A provision for liability is recorded for lease related costs in the following cases; a) the lease contract specifies an ongoing or termination fee, or b) rents in arrears to the landlord. Provisions are based on the best estimate of future cash outflows. When operations are terminated and the landlord does not allow premature exit of 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.

(iii) Onerous Contracts

Assessments to identify onerous contracts are performed, whereby the committed costs associated with the fulfillment of the arrangement exceed the remaining economic benefit. The provision amount is based on the present value of estimated future losses to be incurred as a result of the contract.

(iv) Other

Other provisions include amounts related to restructuring or terminations of employees, potential lawsuits and any other provisions.

k. 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.

Cash received from franchisees for franchise administration fees for the commencement of a new franchise term or a pending transfer arrangement are deferred as deposits from franchisees 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.

l. Income taxes

Income taxes comprise current and deferred income taxes. Income taxes are recognized in the Statements of Operations and Comprehensive Loss except to the extent that they relate 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.

m. Gift card liability

The gift card program 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 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. Gift cards do not have an expiration date and outstanding unused balances are not depleted.

When it is determined 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. The 2014 analysis determined that a breakage rate of 3% was applicable to gift card sales, which is consistent with 2013 estimates. 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 income is fully allocated to the Co-op Fund.

n. Deposits from franchisees

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

o. Revenue recognition

Revenue is recognized when it is probable that 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 products are sold based on agreed percentage royalty rates 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 is recognized as the products are delivered to customers. The Company sells products in grocery stores through wholesalers. Revenue earned by the Company through the sale of these goods is recognized, net of any retail listing fees, when the products are delivered to the wholesaler.

(iii) Services

Services revenue includes initial franchise fees, renewal fees, transfer fees earned on the sale of cafés from one franchisee to another, construction administration fees, product licensing 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 franchisee. 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 franchisees. 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 branded products sold by third parties, product licensing or wholesale revenue is recognized when goods are shipped from the distributor or manufacturer.

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

p. Cost of goods sold

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

q. 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, option periods are considered 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.

r. 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 each year's vesting period or upon termination of the individual's service. Units are granted based on a weighted average price of the Company's shares for the twenty days immediately 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 during the vesting period will be accrued based on the total number of units granted. Forfeitures are adjusted and accounted for 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 on the five most recent days preceding 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 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.

s. 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, an impairment loss is recognized 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.

t. 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. December has been selected 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 CGUs. The recoverable amount of each particular CGU is the higher of an asset's fair value less costs of disposal and value in use. CGUs have been:

- 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.

Impairment losses, other than goodwill impairment, are evaluated for potential reversals when events or circumstances warrant such consideration.

u. 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.

v. Dividends

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

For share option awards granted as part of the stock option plan, a fair value is determined at the date of grant and that fair value is recognized in the financial statements. Proceeds arising from the exercise of share option awards are credited to share capital, as are the recognized grant-date fair values of the exercised share option awards. Share option awards which are determined to be settled on a net-equity basis are accounted for as equity instruments. Share option awards which are determined to be settled on a net-cash settlement basis are accounted for as liability instruments. The stock option plan was introduced in May 2014 and is further discussed in note 25.

w. Reclassification

Certain comparable figures have been reclassified to conform to the current period's financial statement presentation. Reclassification has been identified to better capture the substance of the balances. Restructuring charges and provisions for café closures were separately presented on the face of the Statements of Operations and Comprehensive Income (Loss). Previous presentation had these costs recorded as operating expenses. The proceeds from repayment of leases receivable were separately presented on the face of the Cash Flow Statement. Previous presentation had these amounts recorded as changes in non-cash working capital.

3. CHANGES IN ACCOUNTING POLICIES

New accounting standards, amendments and interpretations

Effective December 29, 2013, the Company elected to early adopt the following new standards, amendments and International Financial Reporting Interpretations Committee interpretations, each with an effective date of January 1, 2014:

International Accounting Standard ("IAS") 32, Financial instruments: Presentation ("IAS 32")

The amendments to IAS 32 clarify the requirements for offsetting a financial asset and liability in the financial statements. The implementation of these amendments did not have a significant impact on the Company.

IAS 36, Impairment of assets ("IAS 36")

The amendments to IAS 36 clarify the requirement to disclose information about the recoverable amount of assets for which an impairment loss has been recognized or reversed. The implementation of these amendments has been reflected in note 18.

During the period ended December 27, 2014, the Company adopted the following amendments resulting from the Annual Improvements to IFRS:

IFRS 2, Share-based payment ("IFRS 2")

The amendments to IFRS 2 clarify the definition of vesting conditions, and are effective for share-based payment transactions for which the grant date is on/after July 1, 2014. The implementation of these amendments did not have a significant impact on the Company.

IFRS 3, Business combinations ("IFRS 3")

The amendments to IFRS 3 clarify the treatment of contingent consideration in a business combination, and are effective for business combinations where the acquisition date is on or after July 1, 2014. The implementation of these amendments did not have a significant impact on the Company.

Recent accounting pronouncements not yet effective

IFRS 15, Revenue ("IFRS 15")

In May, 2014, the IASB issued IFRS 15. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. IFRS 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. The standard will also address accounting for loyalty programs, warranties and breakage.

Application of IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2017 and is to be applied using the retrospective or the modified transition approach. Early adoption is permitted. Management is currently assessing the impact of this standard.

4. ACQUISITION OF CERTAIN FRANCHISE CAFÉS

On November 6, 2014, the Company acquired 17 franchise cafés, via a Personal Property Security Act foreclosure, in exchange for a note receivable and accounts receivable owed by the franchisee.

The net assets have been recorded based on estimated fair value and resulted in a loss of $692 upon acquisition of the franchise cafés as summarized below:

Gross accounts receivable	$1,658
Less: Provision recorded in previous period	(603)
Carrying value of notes and accounts receivable owing prior to transaction	1,055
Fair value of assets acquired and liabilities assumed:	
Cash	15
Inventory	67
Property, equipment and leaseholds	456
Net assets acquired	538
Loss on settlement of notes and accounts receivable	(517)
Transaction and other costs incurred	(175)
Loss recorded in operating expenses	($692)

5. SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares. Common shares are classified as equity and have no 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.

On November 27, 2014, the Company closed a private placement offering of 2,927,900 common shares at an average share price of $2.75, for gross proceeds of $8,052. The resulting increase in share capital of $7,652 is net of transaction costs of $543, with an associated tax benefit of $143. Shares outstanding at the year ended December 27, 2014 are 12,830,945 (2013 – 9,903,045).

6. MANAGEMENT OF CAPITAL

The capital structure of the Company consists of $11,000 (2013 – $11,000) in debt classified as short-term debt, an unused but available $2,000 operating credit facility, and $24,994 (2013 – $45,964) in Shareholders' equity, which comprises share capital, contributed surplus, and retained earnings (deficit). The classification of the debt as short-term has led primarily to the working capital deficit of ($7,254) compared to prior year working capital balance of $341.

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;
- deploy capital to provide an adequate return to its shareholders.

The Company's primary uses of capital are to finance increases in working capital and capital expenditures. As a result of the company's restructuring, certain one-time costs and the decision to take back a number of cafes, the fixed coverage and leverage ratios were negatively impacted resulting in non-compliance with these covenants outlined in its bank agreement. Subsequent to year-end, the company received a waiver of this non-compliance and an amendment to terms of the facility from its lender (see notes 7b and 16).

7. 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 franchisees	Liquidity
Term credit facility	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 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	2014	2013
Opening fair value	($140)	($96)
Additions during the period	–	(159)
Realized during the period	–	96
Change in fair value	(3)	19
Closing fair value	($143)	($140)

Financial instruments that are measured subsequent to initial recognition at fair value are to be categorized in Levels 1 to 3 of 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.

	Level 1	Level 2	Level 3
As at December 28, 2013			
Interest rate swap	$–	($140)	$–
As at December 27, 2014			
Interest rate swap	$–	($143)	$–

There were no changes between levels in the period ended December 27, 2014 versus the period ended December 28, 2013.

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

Trade and other receivables and notes and lease receivable primarily comprise amounts due from franchisees. Credit risk associated with these receivables is mitigated as a result of the review and evaluation of franchisee account balances beyond a particular age. Prior to accepting a franchisee, the Company undertakes a detailed screening process which includes the requirement that a franchisee has sufficient financing. The risk is further mitigated due to a broad franchisee 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 franchisees. Credit risk is mitigated as a result of the Company directing and maintaining certain controls over the vendor relationship with the franchisees.

Specific bad debt provisions are accounted for 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 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
Gross amount as at December 27, 2014	$4,188	$315	$141	$471	$5,115
Allowance for doubtful accounts	(393)	(87)	(138)	(471)	(1,089)
Net amount 2014	$3,795	$228	$3	$–	$4,026
Gross amount as at December 28, 2013	$4,280	$279	$140	$332	$5,031
Allowance for doubtful accounts	(129)	(128)	(102)	(304)	(663)
Net amount 2013	$4,151	$151	$38	$28	$4,368

Trade and other receivables include a combined allowance for doubtful accounts of $1,089 (December 28, 2013- $663). Trade and other receivables are further discussed in note 8.

The payment maturity dates of the notes and leases receivable from December 27, 2014 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
2014	$20	$62	$79	$222	$383
2013	57	163	238	463	921

Notes and leases receivable included a combined allowance for doubtful accounts of $2 (December 28, 2013 – $110). Notes and leases receivable are further discussed in note 9.

Liquidity risk

Liquidity risk is managed through regular monitoring of 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 16. The Company's main source of income is royalty receipts from its franchisees, as well as sales from goods and services.

Interest rate risk

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.

Commodity and currency risk

The Company purchases certain products, such as coffee, in U.S. dollars, thereby exposing the company to risks associated with fluctuations in currency exchange rates. The Company is also 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 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 franchisee 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 franchisee. This risk is mitigated 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 periods ended December 27, 2014 and December 28, 2013, assuming that a reasonably possible change in the relevant risk variable has occurred as at December 27, 2014 and December 28, 2013, respectively.

The following table shows the 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
		$–	$–

8. TRADE AND OTHER RECEIVABLES

	2014	2013
Trade and other receivables	**$5,115**	$5,031
Less: Allowance for doubtful accounts	**(1,089)**	(663)
Trade and other receivables – net	**$4,026**	$4,368

During the period, $961 (2013 – $316) was recorded as bad debt expense pertaining to trade and other receivables.

9. NOTES AND LEASES RECEIVABLE

	2014	2013
Notes receivable – current	**$20**	$229
Lease receivable – current	**62**	45
Less: Allowance for doubtful accounts – current	**(1)**	(54)
Notes and leases receivable – current	**81**	220
Notes receivable – long-term	**21**	421
Lease receivable – long-term	**282**	308
Less: Allowance for doubtful accounts – long-term	**(1)**	(28)
Notes and leases receivable – long-term	**302**	701
Notes and leases receivable	**$383**	$921

During the period, $nil (2013 – $nil) was recorded as bad debt expense pertaining to notes and leases receivable. Notes and leases receivable are discounted using an effective discount rate ranging between eight and nine percent.

10. INVENTORIES

	2014	2013
Merchandise held for resale	**$176**	$133
Supplies	**45**	21
	221	154
Less: Provision for obsolete inventory	**–**	(31)
	$221	$123

During the period, $nil (2013 – $237) was recorded as inventory write-downs.

11. PROPERTY AND EQUIPMENT

	Leasehold improvements	Equipment, furniture, fixtures and other	Computer hardware	Total
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 from operations	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 18)	(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
Net carrying value				
As at December 29, 2013				
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
Additions from operations	731	661	267	1,659
Additions from franchise stores reacquired (note 4)	158	298	–	456
Disposals – original cost	(124)	(357)	(1)	(482)
Disposals – accumulated depreciation	95	196	–	291
Capitalized to lease	–	(74)	–	(74)
Capitalized to lease – accumulated depreciation	–	6	–	6
Impairment charge (note 18)	(50)	–	–	(50)
Depreciation	(124)	(710)	(99)	(933)
As at December 27, 2014	**1,334**	**2,748**	**298**	**4,580**
Cost	**2,440**	**4,662**	**709**	**7,811**
Accumulated depreciation	**(1,106)**	**(1,914)**	**(411)**	**(3,431)**
As at December 27, 2014	**$1,334**	**$2,748**	**$298**	**$4,380**

12. INTANGIBLE ASSETS

	Trademarks	Franchise rights	Software	Total
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 18)	(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
Net carrying value				
As at December 29, 2013				
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
Additions (acquired)	–	–	750	750
Disposals – original cost	–	–	(176)	(176)
Disposals – accumulated amortization	–	–	46	46
Capitalized to lease	–	–	(16)	(16)
Impairment charge (note 18)	(29,658)	–	–	(29,658)
Amortization	–	(58)	(281)	(339)
As at December 27, 2014	**$31,144**	**$–**	**$1,193**	**$32,337**
Cost	**$31,144**	**$1,331**	**$1,939**	**$34,414**
Accumulated amortization	**–**	**(1,331)**	**(746)**	**(2,077)**
As at December 27, 2014	**$31,144**	**$–**	**$1,193**	**$32,337**

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of:

	2014	2013
Accounts payable – trade	**$1,902**	$1,953
Accrued liabilities	**3,593**	1,936
Accrued salaries, wages, benefits, and incentives	**322**	362
Sales tax payable	**194**	335
	$6,011	$4,586

14. PROVISIONS

	Headlease liabilities	Café leases (a)	Other (b)	Total
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
As at December 28, 2013	$128	$1,418	$681	$2,227
Provisions charged during the period	–	2,893	1,847	4,740
Provisions utilized during the period	(57)	(1,752)	(2,089)	(3,898)
As at December 27, 2014	**$71**	**$2,559**	**$439**	**$3,069**
Current portion	**$41**	**$1,457**	**$439**	**$1,937**
Long-term portion	**31**	**1,102**	**–**	**1,133**
As at December 27, 2014	**$72**	**$2,559**	**$439**	**$3,070**

a. Café Leases

Provisions for café leases are estimates for costs to be incurred by the Company as a result of the following circumstances; a) closure of cafés, and b) franchisee failure to make payment of occupancy costs at an operational café.

Provisions for café closures of $1,630 (2013 – $479) were charged in the year and reflected in the Provisions for café closures line on the Statement of Operations and Comprehensive Loss. These amounts comprise estimated lease exit costs and severances relating to the closure of eleven underperforming cafés. Four of the eleven cafés were closed during the period and the remainder have been identified as onerous contracts. The provisions for onerous contracts reflect the net future losses that the Company expects to incur as a result of the arrangements, whereby the lease exit costs exceed projected benefit from royalty revenue and other income.

The remainder of the café lease provisions charged of $1,263 (2013 – $416) is reflected in the Operating Costs line on the Statement of Operations and Comprehensive Loss. These costs are expected to be incurred by the Company for operational franchise-owned cafés. In these circumstances, lease and other occupancy costs are not expected to be fully paid by the franchisee, and the Company has liability on the café headlease. These provisions are dependent on the individual circumstances specific to each lease or arrangement.

b. Other

Included in the Other provisions are provisions for restructuring charges. Restructuring amounts of $1,847 were charged in the year relating primarily to severances; these costs are reflected in the Restructuring and Other Costs line on the Statement of Operations and Comprehensive Loss. Portions of these provisions have been settled throughout the course of the year. Remaining severance is expected to be settled by mid 2015.

15. OTHER LIABILITIES

	2014	2013
Deferred revenue – current	**$473**	$678
Leasehold inducements – current	**39**	39
Other liabilities – current	**512**	717
Deferred revenue – long-term	**20**	47
Leasehold inducements – long-term	**348**	381
Other liabilities – long-term	**$368**	$428
Deferred revenue	**$493**	$725
Leasehold inducements	**387**	420
Other liabilities	**$880**	$1,145

16. BORROWINGS

	2014	2013
Face value of borrowings	**$11,000**	$11,000
Fair value of interest rate swap	**143**	140
Unamortized transaction costs	**(24)**	(51)
	$11,119	$11,089

The 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. The credit facilities mature on September 30, 2016.

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 is required to maintain certain covenants which are defined in the agreements:

- 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.

As a result of the company's restructuring, certain one-time costs and the decision to take back a number of cafes, the fixed coverage and leverage ratios were negatively impacted resulting in non-compliance with these covenants as at December 27th, 2014. As a result, the debt has been classified as current.

Subsequent to year end, the company received a waiver of this non-compliance from its lender and also received an amendment to its banking agreement, which reset certain covenants for the next twelve months.

Under the amendment the company must maintain a Leverage ratio, adjusted for permitted cash balances up to $5 million, maintained on account with the lender, of less than 1.75 to 1 and also a fixed charge ratio of greater than 1 for fiscal 2015. After which time the covenants revert back to the original covenants of a Leverage ratio of less than 1.75 to 1 and a fixed charge ratio of greater than 1.5.

The facility under the amendment, (assuming continued compliance with revised covenants) continues to mature on September 30, 2016 and bears interest at the bankers' acceptance ("BA") plus a margin range of 2.25% to 3.25% based on the Company's leverage ratio. The unused operating facility of $2,000 also continues to be in place.

As at December 27, 2014, the applicable margin pertaining to the aforementioned range is 3.25% (December 28, 2013 – 2.75%).

The Company has an interest rate swap agreement with a notional value of $11,000 that expires on September 30, 2016. The swap fixes the interest rate on the Company's non-revolving term credit facility at 2.07% per annum plus the margin noted above, which results in a fixed effective interest rate of 5.32%.

As at December 27, 2014, there was an interest rate swap liability of $143 recorded in the Statements of Financial Position (December 28, 2013 – $140).

17. OPERATING EXPENSES

	2014	2013
Coffee Central		
Salaries, wages, benefits, and incentives	$6,496	$6,866
Coffee Central overheads	6,700	5,647
Depreciation of property and equipment	772	566
Amortization of intangible assets	339	502
	14,307	13,581
Company-operated cafés		
Occupancy/lease costs and other	2,692	1,775
Depreciation of property and equipment	161	183
(Gain) loss on disposal of capital related items	34	(197)
	2,887	1,761
	$17,194	$15,342

18. IMPAIRMENT CHARGES

a. Impairment of trademarks

During the interim quarter ended September 27, 2014, impairment indicators were identified, primarily the decline in its stock price and a decline in sales in comparison to internal projections and performed an impairment test which resulted in a charge of $29,658.

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

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 7. 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.

Probability weighted cash flow projections are used based on financial forecasts covering a three-year period. These projections are approved by the Board of Directors based on management's expectations of potential outcomes. Cash flows beyond the three-year period are extrapolated using the estimated growth rates stated below. The following are key assumptions used in the fair value less costs of disposal calculation where an impairment charge was incurred in the respective period:

	2014	2013
Forecast same café sales	**–6.0% to 6.6%**	–3.1% to 2.0%
Forecast system-wide café sales	**–9.5% to 17.3%**	–0.8% to 4.8%
Average growth rate used to extrapolate cash flows beyond the forecast period	**0.0% to 3.0%**	2.0%
Discount rate	**13% to 17%**	11% to 13%

The valuation of the franchising, distribution, and wholesale business CGU is based on various probabilities assigned to forecasted cash flows and includes the key assumptions above. The Company recognized an impairment charge of $29,658 (2013 – $13,253) to trademarks. The sensitivity analysis of a change in management's key assumptions is reflected below:

	2014		2013	
Key assumption	**Low growth**	**High growth**	**Low growth**	**High growth**
System sales of cafés	**–9.5% to 0.1%**	**–0.7% to 17.3%**	–0.8% to 2.0%	–0.1% to 4.8%
Discount rate	**13.0%**	**17.0%**	11.0%	13.0%
Incremental increase (decrease) to impairment charges	**$6,943**	**($30,159)**	$2,130	($7,842)

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. Impairment analysis is 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 7. As a result of the impairment test, impairment charges of $50 for the year ended December 27, 2014 (2013 – $nil) 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

	2014	2013
Trademarks	**$29,658**	$13,253
Leasehold improvements	**–**	299
Equipment, furniture, fixtures and other	**50**	–
	$29,708	$13,552

19. INTEREST AND FINANCING

	2014	2013
Interest expense	$544	$566
Amortization of deferred financing costs	27	38
Interest income	(93)	(88)
	$478	$516

20. INCOME TAXES

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

	2014	2013
Loss before income taxes	($31,374)	($7,638)
Combined Canadian federal and provincial tax rate	26.49%	26.51%
Tax recovery at statutory rate	(8,311)	(2,025)
Increased (reduced) by following differences		
Change in tax rates	(5)	(3)
Non-deductible permanent differences	3,945	1,749
Other	28	10
Income tax recovery	($4,343)	($269)
Current income tax expense (recovery)	($339)	$1,503
Deferred income tax recovery	(4,004)	(1,772)
Income tax recovery	($4,343)	($269)

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

	2014	2013
Basic federal rate	15.00%	15.00%
Weighted average provincial rate	11.49%	11.51%
Combined Canadian federal and provincial tax rates	26.49%	26.51%

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 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
Charged (credited) to the income statement	(13)	(3,933)	(15)	(43)	(4,004)
Charged (credited) to equity	–	–	–	(144)	(144)
As at December 27, 2014	$1,791	$2,368	$–	($889)	$3,270

21. 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:

	2014	2013
Net loss	**($27,032)**	($7,369)
Weighted average number of shares issued and outstanding	**10,151,716**	9,903,045
Basic and diluted loss per share	**($2.66)**	($0.74)

22. SUPPLEMENTAL CASH FLOW INFORMATION

	2014	2013
Changes in non-cash working capital inflow (outflow):		
Trade and other receivables	**$177**	$248
Notes and leases receivable	**(150)**	191
Inventories	**(31)**	14
Prepaid expenses and other assets	**(295)**	505
Accounts payable and accrued liabilities	**1,426**	1,463
Provisions	**899**	1,212
Other liabilities	**(301)**	(65)
Gift card liability	**(168)**	(665)
Deposits from franchisees	**(500)**	(602)
Income taxes	**(837)**	(180)
	$220	$2,121
Cash payments for capital expenditures		
Cash payments for capital expenditures	**($1,575)**	($2,117)
Cash payments for intangible assets	**(750)**	(787)
	($2,325)	($2,904)
Supplementary information		
Interest paid	**$540**	$522
Income taxes paid	**$674**	$1,687

23. CONTINGENCIES, COMMITMENTS AND GUARANTEES

The Company has lease commitments for Company-operated cafés and acts as the head tenant on most leases, which it in turn subleases to franchisees. To the extent the Company may be required to make rent payments due to headlease commitments, a provision has been recognized (note 14). The lease commitments as at December 27, 2014 are as follows:

	Headlease commitments	Sublease to franchisees	Net
December 26, 2015	$19,904	$17,257	$2,647
December 31, 2016	17,684	15,174	2,510
December 30, 2017	15,772	13,728	2,044
December 29, 2018	13,661	11,908	1,753
December 28, 2019	11,902	10,332	1,570
Thereafter	28,118	23,674	4,444
	$107,041	$92,073	$14,968

The Company believes it has sufficient resources to meet the net commitment of $14,968.

The Company is involved in litigation and other claims arising in the normal course of business. Judgment must be used 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. It is believed that no significant losses or expenses will be incurred 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.

Contracts are in place with third party companies to purchase the coffee that is sold in all cafés. In terms of these supply agreements, there is a guaranteed minimum volume of coffee purchases of $2,965 USD (2013 – $5,621 USD) for the subsequent 12 months. The coffee purchase commitment comprises three components: unapplied futures commitment contracts, fixed price physical contracts and flat price physical contracts.

The Company 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, there is a requirement to pay a portion of one-time listing fees in the amount of up to $708 in 2015.

Due to the Company acting as the primary coordinator of café construction costs on behalf its franchisees and for Company-operated cafés, there is $302 (2013 – $1,433) of contractual commitments pertaining to construction costs for new locations and renovations as at the end of the fiscal year. Construction costs financed for franchise projects are from deposits received from franchisees and for corporate projects from the Company's cash flows.

24. RELATED PARTIES

Related parties are identified 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.

Certain transactions occur between a Company controlled by a board member, and one of the Company's vendors. For the year ended December 27, 2014, the said vendor purchased $4,835 of product in the ordinary course of business.

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:

	2014	2013
Salaries and short-term employee benefits	**$2,125**	$1,875
Termination costs	**1,040**	681
Share-based compensation	**194**	185
Total compensation	**$3,359**	$2,741

25. SHARE-BASED COMPENSATION

Stock option plan

The stock option plan was introduced in May 2014 to advance the interests of the Company by:

- providing eligible persons with incentives;
- encouraging share ownership by participants;
- increasing the proprietary interest of participants in the success of the Company;
- encouraging participants to remain with the Company or its affiliates; and
- attracting new directors and employees.

Stock options are to be settled on a net-equity basis. Compensation expense for stock awards is recognized using the fair value when the stock awards are granted using the Black-Scholes option pricing model. All options vest in tranches and are amortized over the awards' vesting period using the accelerated expense attribution method. Recognition of the expense is recorded as a charge to operating expenses with a corresponding increase to contributed surplus.

The following weighted average assumptions have been used to estimate the weighted average fair value per award of $0.48 granted for year ended December 27, 2014:

	Assumption
Risk-free interest rate (%)	1.94
Volatility (%)	31.49
Expected term (years)	6.5

The following table below summarizes all activity for the year ended December 27, 2014:

	Number of share options outstanding	Weighted average share option price
As at December 28, 2013	–	$–
Granted	535,000	4.21
As at December 27, 2014	535,000	$4.21
Stock option plan expense during the 52-week period		$92

The range of exercise prices for share options outstanding at the end of the period is $3.53 to $4.54. There were no share options exercizable at the end of the period. As at December 27, 2014, the weighted average years to expiration are ten years. Share award options are able to be exercised upon vesting.

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

The fair value of the units outstanding is determined based on the fair 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 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

	Notional units	Recorded value
Notional units outstanding as at December 28, 2013	29,872	$121
Units forfeited	–	–
Units paid out	(27,963)	(96)
Units granted in lieu of dividends	–	–
Change in fair value	–	(18)
Notional units outstanding as at December 27, 2014	**1,909**	**$7**
Expensed (recovery) in the period		**($18)**

There were no units granted in lieu of dividends in 2014. In 2013, the weighted average price of units granted in lieu of dividends was $4.51.

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 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

	Notional units	Recorded value
Notional units outstanding as at December 28, 2013	58,483	$253
Deferred units granted	39,354	170
Units granted in lieu of dividends	–	–
Units exercised	(58,483)	(253)
Change in fair value	–	(50)
Notional units outstanding as at December 27, 2014	**39,354**	**$120**
Expensed in the period		$120

The weighted average price of deferred units granted combined with units granted in lieu of dividends was $4.32 (2013 – $5.01).

SHAREHOLDER INFORMATION

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Registrar and Transfer Agent
Computershare Trust Company
of Canada

Auditors
PricewaterhouseCoopers LLP

Market Information
Shares Listed:
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THE SECOND CUP LTD.
Board of Directors

Michael Bregman (1) (2)
Chairman

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

Committees of the Board
(1) Audit Committee
(2) Governance, Human Resources and Compensation Committee

THE SECOND CUP LTD.
Senior Management Team

Alix Box
President and
Chief Executive Officer

Sandra Clarke
Interim Vice President, Finance
and Chief Financial Officer

Vanda Provato
Vice President, Marketing

Chris Sonnen
Vice President, Operations

Wayne Vanderhorst
Vice President,
Franchise Development

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