The Second Cup Ltd.

Unaudited Condensed Interim Financial Statements

For the thirteen and twenty-six weeks ended June 29, 2013

Notice to Reader

The management of The Second Cup Ltd. ("Second Cup" or the "Company") is responsible for the preparation of the accompanying condensed interim financial statements. The condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards, which became the reporting standard for publicly accountable enterprises for years beginning on or after January 1, 2011 and are considered by management to present fairly the financial position, financial performance and cash flows of Second Cup.

These condensed interim financial statements have not been reviewed by an auditor. These condensed interim financial statements are unaudited and include all adjustments, consisting of normal and recurring items that management considers necessary for a fair presentation of the financial position, financial performance and cash flows.

(Signed)

Stacey Mowbray
President and Chief Executive Officer, The Second Cup Ltd.

(Signed)

Steve Boyack
Interim Chief Financial Officer, The Second Cup Ltd.

July 31, 2013

The Second Cup Ltd.

Condensed Interim Statements of Financial Position

(Unaudited, expressed in thousands of Canadian dollars)

	June 29, 2013	December 29, 2012
Assets		
Current assets		
Cash and cash equivalents	$ 6,376	$ 3,880
Trade and other receivables	2,103	4,616
Notes and leases receivable	218	265
Inventories	205	137
Prepaid expenses and other assets	134	695
Income tax recoverable	58	-
	9,094	9,593
Non-current assets		
Notes and leases receivable	721	741
Property and equipment	3,186	3,544
Intangible assets (note 5)	61,451	74,802
Total assets	$ 74,452	$ 88,680
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 3,142	$ 3,313
Provisions	420	365
Other liabilities	409	189
Income tax payable	-	318
Gift card liability	3,709	4,560
Deposits from franchise partners	1,763	1,904
	9,443	10,649
Non-current liabilities		
Deferred income tax liabilities	7,471	9,190
Provisions	601	683
Other liabilities	417	421
Interest rate swap (note 3)	-	96
Term loan (note 3)	10,968	10,941
Total liabilities	28,900	31,980
Shareholders' equity	45,552	56,700
Total liabilities and shareholders' equity	$ 74,452	$ 88,680

Contingencies, commitments and guarantees (note 7) and subsequent events (note 14).
See accompanying notes to unaudited condensed interim financial statements.

Approved by the Directors Michael Rosicki, Director James Anas, Director

The Second Cup Ltd.

Condensed Interim Statements of (Loss) Income and Comprehensive (Loss) Income

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

	13 weeks ended		26 weeks ended	
	June 29, 2013	**June 30, 2012**	**June 29, 2013**	**June 30, 2012**
Revenue				
Royalty revenue	$ 3,519	$ 3,700	$ 7,016	$ 7,378
Revenue from sale of goods	1,328	966	2,617	1,866
Services revenue	1,789	1,509	3,249	2,939
	6,636	6,175	12,882	12,183
Cost of goods sold	956	729	1,923	1,405
Gross profit	5,680	5,446	10,959	10,778
Operating expenses (note 4)	3,828	3,383	8,080	7,173
Impairment of trademarks (note 5)	13,253	-	13,253	-
Operating (loss) income	(11,401)	2,063	(10,374)	3,605
Interest income	(22)	(17)	(35)	(39)
Interest expense	117	160	207	298
Net interest expense	95	143	172	259
(Loss) income before income taxes	(11,496)	1,920	(10,546)	3,346
Income taxes (recovery) (note 6)				
Current	415	422	637	773
Deferred	(1,759)	656	(1,719)	699
	(1,344)	1,078	(1,082)	1,472
Net (loss) income and comprehensive (loss) income for the period	(10,152)	842	(9,464)	1,874
Basic and diluted (loss) earnings per share (note 8)	$ (1.03)	$ 0.09	$ (0.96)	$ 0.19

See accompanying notes to unaudited condensed interim financial statements.

The Second Cup Ltd.

Condensed Interim Statements of Changes in Shareholders' Equity

(Unaudited, expressed in thousands of Canadian dollars)

	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Total
Balance - December 31, 2011	$ 1,000	$ 61,557	$ 8,845	$ 71,402
Net income for the period	-	-	1,874	1,874
Dividends to shareholders	-	-	(2,971)	(2,971)
Balance - June 30, 2012	$ 1,000	$ 61,557	$ 7,748	$ 70,305
Balance - December 29, 2012	$ 1,000	$ 61,557	$ (5,857)	$ 56,700
Net loss for the period	-	-	(9,464)	(9,464)
Dividends to shareholders	-	-	(1,684)	(1,684)
Balance - June 29, 2013	$ 1,000	$ 61,557	$ (17,005)	$ 45,552

See accompanying notes to unaudited condensed interim financial statements.

The Second Cup Ltd.

Condensed Interim Statements of Cash Flows

(Unaudited, expressed in thousands of Canadian dollars)

	13 weeks ended June 29, 2013	13 weeks ended June 30, 2012	26 weeks ended June 29, 2013	26 weeks ended June 30, 2012
Cash provided by (used in)				
Operating activities				
Net (loss) income for the period	$ (10,152)	$ 842	$ (9,464)	$ 1,874
Items not involving cash				
Amortization of deferred financing charges	5	20	27	38
Amortization of intangible assets	120	112	237	220
Depreciation of property and equipment	173	159	356	317
Amortization of provisions	(18)	(23)	(36)	(45)
Deferred income taxes	(1,759)	656	(1,719)	699
Gain on disposal of property and equipment	(23)	-	(16)	(1)
Impairment charges	13,253	-	13,253	7
Movement in fair value of interest rate swap	(1)	(41)	(96)	(106)
Income taxes	182	(173)	(376)	(1,675)
Leasehold Inducements	(186)	-	(86)	-
Changes in non-cash working capital (note 9)	1,643	790	2,196	248
	3,237	2,342	4,276	1,576
Investing activities				
Investment in notes receivable	-	-	(10)	-
Proceeds from disposal of property and equipment	817	170	822	195
Proceeds from repayment of leases receivable	10	5	21	9
Proceeds from repayment of notes receivable	-	134	13	152
Purchase of property and equipment	(304)	(494)	(800)	(616)
Purchase of software	(117)	(39)	(142)	(128)
	406	(224)	(96)	(388)
Financing activities				
Dividends paid to shareholders	(842)	(1,485)	(1,684)	(2,971)
Repayment of note payable	-	-	-	(18)
Deferred financing charges	-	(47)	-	(47)
Payments on long-term lease	-	-	-	(2)
	(842)	(1,532)	(1,684)	(3,038)
Increase (decrease) in cash and cash equivalents during the period	2,801	586	2,496	(1,850)
Cash and cash equivalents - Beginning of period	3,575	3,029	3,880	5,465
Cash and cash equivalents - End of period	$ 6,376	$ 3,615	$ 6,376	$ 3,615

See accompanying notes to unaudited condensed interim financial statements

1. Organization and Nature of Business

The Second Cup Ltd. ("Second Cup" or "the Company") is Canada's largest specialty coffee café franchisor (as measured by the number of cafés) with 362 cafés operating under the trade name, Second Cup™, in Canada, of which ten are Company operated and the balance are operated by franchise partners who are selected and trained to retail Second Cup's product offering.

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

Second Cup is incorporated and domiciled in Canada. The address of its registered office is 6303 Airport Road, 2nd Floor, Mississauga, Ontario, L4V 1R8. The Company's website is www.secondcup.com.

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

The common shares of the Company are listed on the Toronto Stock Exchange under the symbol "SCU".

2. Basis of Preparation

These unaudited condensed interim financial statements for the 13 and 26 weeks ended June 29, 2013 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as applicable to condensed interim financial reports including International Accounting Standard 34, Interim Financial Reporting ("IAS 34") and should be read in conjunction with the Company's audited annual financial statements for the year ended December 29, 2012, which have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board.

The accounting policies applied in these unaudited condensed interim financial statements are consistent with those of the previous financial year, except as described in the interim financial statements for the period ended March 30, 2013 pertaining to the adoption of new IFRS. The accounting policies are based on IFRS issued and outstanding as of July 31 2013, the date the Board of Directors approved the unaudited condensed interim financial statements.

3. Term Loan and Operating Facility

On June 12, 2012, the Company renegotiated its term loan and operating credit facilities, including an extension of the maturity of the credit facilities to May 31, 2015 and a decrease in interest rates. The revised credit facilities comprise 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 $11,000 non-revolving term credit facility bears interest at the bankers' acceptance rate plus 2.75%. As at June 29, 2013, the full amount of the $11,000 non-revolving term credit facility was drawn.

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

The $2,000 operating credit facility bears interest at the bankers' acceptance rate plus 2.75%. As at June 29, 2013, no advances had been drawn on this facility.

The Company had an interest rate swap agreement with a notional value of $11,000 that expired on April 1, 2013, which fixed the interest rate on the Company's non-revolving term credit facility at 3.04% per annum plus the margin noted above, which results in a fixed effective interest rate of 5.79%. As at June 29, 2013, the fair value of this contract due to expiry is a $0 liability to the Company (December 29, 2012 - $96), which is recorded as a liability on the Company's Unaudited Condensed Interim Statements of Financial Position and the fair value movement of the interest rate swap has been recorded as a non-cash credit to income.

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, including requirements to maintain a ratio of senior debt to EBITDA and to maintain a trailing four-quarter fixed charge coverage ratio. During the period ended June 29, 2013, the Company was in compliance with all financial and other covenants of the Company's operating credit facility and term loan.

In accordance with IFRS 7, Financial Instruments: Disclosures ("IFRS 7"), the term loan is presented net of transaction costs. Transaction costs are amortized to the Unaudited Condensed Interim Statements of (Loss) Income and Comprehensive (Loss) Income using the effective interest method.

	June 29, 2013	December 29, 2012
Face value of long-term debt	$ 11,000	$ 11,000
Unamortized transaction costs	(32)	(59)
	$ 10,968	$ 10,941

At maturity on May 31, 2015, the fair value of the term loan will equal its face value.

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

4. Operating Expenses

Expenses by nature

	13 weeks ended		26 weeks ended	
	June 29, 2013	**June 30, 2012**	**June 29, 2013**	**June 30, 2012**
Head office				
Salaries, wages, benefits and incentives	$ 1,667	$ 1,250	$ 3,591	$ 3,376
Travel and franchise partner meetings	189	439	541	636
Head office overheads	265	239	483	476
Occupancy and lease costs	235	99	590	331
Professional fees	111	128	287	309
Legal costs	111	158	149	245
Depreciation of property and equipment	135	122	272	245
Research and innovation	128	221	449	221
Amortization of intangible assets	120	112	237	220
Bad debt expense	52	114	48	179
Advertising and franchise development	118	55	253	172
Obsolete inventory	263	128	276	128
	3,394	3,065	7,176	6,538
Company cafés				
Lease costs	287	186	575	366
Other	93	65	182	133
Depreciation of property and equipment	37	37	83	72
Advertising and local marketing	40	30	80	58
(Gain) loss on disposal of property and equipment	(23)	-	(16)	(1)
Impairment of property and equipment	-	-	-	7
	434	318	904	635
Operating expenses	$ 3,828	$ 3,383	$ 8,080	$ 7,173

5. Impairment of Trademarks

During the 13 weeks ended June 29, 2013, the Company identified impairment indicators which were primarily a result of the decline in its stock price and decline in sales in comparison to internal projections.

During the reporting periods presented, the Company had two cash generating units ("CGU") - corporate cafés and franchise business. The trademarks of $74,802 were allocated fully to the franchise business CGU. The CGU's recoverable amount has been determined using fair value less costs to sell.

Key assumptions

The discounted cash flow methodology uses estimates and assumptions that are sensitive to change and require judgement. This methodology used to test impairment is classified as Level 3 per the hierarchy described in Note 10. 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

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

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.

These calculations use cash flow projections based on financial forecasts covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The following are key assumptions used in the fair value less costs to sell calculation:

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

The valuation of the franchise business CGU is based on probabilities assigned to forecasted cash flows and includes key assumptions above. The Company recognized an impairment charge of $13,253 to trademarks in the quarter ended June 29, 2013.

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

Sensitivity

Key assumption	Low growth	High growth
System wide café sales	-0.8% to 2%	0.1% to 4.8%
Discount rate	11.0%	13.0%
Impact on impairment loss	Additional impairment loss of $2,130	Reduction to impairment loss of $7,842

6. Income Taxes

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year.

Income tax expense as reported differs from the amount that would be computed by applying the combined Canadian federal and provincial statutory income tax rates to income before income taxes. The reasons for the differences are as follows:

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

	13 weeks ended		26 weeks ended	
	June 29, 2013	**June 30, 2012**	**June 29, 2013**	**June 30, 2012**
(Loss) income before income taxes	$ (11,496)	$ 1,920	$ (10,546)	$ 3,346
Combined Canadian federal and provincial tax rates	26.504%	26.44%	26.504%	26.44%
Tax provision at statutory rate	(3,047)	508	(2,795)	885
Increased (reduced) by following differences				
Change in tax rates	-	458	-	458
Deferred income tax assets and liabilities not previously recognized	(31)	-	(31)	-
Non-deductible permanent differences	1,759	3	1,762	6
Other	(25)	109	(18)	123
Income tax (recovery) expense	$ (1,344)	$ 1,078	$ (1,082)	$ 1,472

7. Contingencies, Commitments and Guarantees

Second Cup has lease commitments for Company-operated cafés and acts as the head tenant on leases, which it in turn subleases to franchise partners. To the extent that the Company may be required to make rent payments due to headlease commitments, a provision has been recognized. The Company's lease commitments at June 29, 2013 are as follows:

	Headlease commitments	Sublease to franchisees	Net
June 29, 2014	$ 19,645	$ 18,135	$ 1,510
June 29, 2015	18,432	17,166	1,266
June 29, 2016	16,536	15,337	1,199
June 29, 2017	14,535	13,355	1,180
June 29, 2018	12,380	11,294	1,086
Thereafter	34,600	30,656	3,944
	$ 116,128	$ 105,943	$ 10,185

The Company believes it will have sufficient resources to meet the net commitment of $10,185.

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

The Coffee "C" contract is the world benchmark for Arabica coffee. The contract prices physical delivery of exchange grade green beans from one of 19 countries of origin in a licensed warehouse to one of several ports in the U.S. and Europe, with stated premiums / discounts. Second Cup sources high altitude Arabica coffee which tends to trade at a premium above the "C" coffee commodity price. Second Cup has contracts with third party companies to purchase the coffee that is sold in all Second Cup cafés. In terms of these supply agreements, Second Cup has guaranteed a minimum volume of coffee purchases amounting to $6,280 (December 29, 2012 - $4,421). The coffee purchase commitment represents purchase commitments made up to the end of May 2014. The coffee purchase commitment is comprised of three components: unapplied futures commitment contracts, fixed price physical contracts and flat price physical contracts.

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

Second Cup has entered into a marketing agreement with a third party through 2014 and has committed to spend $200 per year on advertising placed in various media offered by the third party over the term of the agreement.

Second Cup is the primary coordinator of café construction costs on behalf its franchise partners and for corporate cafés. As at June 29, 2013, there is $1,728 of contractual commitments pertaining to construction costs for new locations and renovations. The Company finances construction costs for franchise projects from deposits received from franchise partners and corporate projects from the Company's cash flows.

8. Basic and Diluted Earnings Per Share

Earnings per share are based on the weighted average number of shares outstanding during the period. Basic and diluted earnings per share are determined as follows:

	13 weeks ended		26 weeks ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Net (loss) income	$ (10,152)	$ 842	$ (9,464)	$ 1,874
Weighted average number of shares issued and outstanding	9,903,045	9,903,045	9,903,045	9,903,045
Basic and diluted (loss) earnings per share	$ (1.03)	$ 0.09	$ (0.96)	$ 0.19

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

9. Supplementary Cash Flow Information

Changes in non-cash working capital (inflow/(outflow))	**13 weeks ended June 29, 2013**	**13 weeks ended June 30, 2012**	**26 weeks ended June 29, 2013**	**26 weeks ended June 30, 2012**
Trade and other receivables	$ 1,008	$ 907	$ 2,513	$ 2,049
Notes and leases receivable	24	12	43	18
Inventories	81	(252)	(68)	(261)
Prepaid expenses and other assets	53	(101)	561	(22)
Accounts payable and accrued liabilities	378	(23)	(172)	(892)
Provisions	70	(52)	91	(107)
Other long-term liabilities	(54)	65	220	37
Gift card liability	(51)	(48)	(851)	(861)
Deposits from franchisees	134	282	(141)	287
	$ 1,643	$ 790	$ 2,196	$ 248
Supplementary information:				
Interest paid	$ 113	$ 182	$ 274	$ 366
Income taxes paid	$ 233	$ 595	$ 1,013	$ 2,448

10. Financial Instruments and Financial Risk Management

Financial instruments

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, notes and leases receivable, accounts payable and accrued liabilities, gift card liability, other liabilities, term loan, deposits from franchise partners, and the interest rate swap.

Categories of financial instruments

The Company has designated each of its significant categories of financial instruments outstanding as follows:

	June 29, 2013	**December 29, 2012**
Financial assets		
Loans and receivables		
Cash and cash equivalents	$ 6,376	$ 3,880
Trade and other receivables	2,103	4,616
Notes and leases receivable	939	1,006
Financial liabilities		
Financial liabilities designated as fair value through profit and loss		
Interest rate swap	-	96

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

Other financial liabilities		
Accounts payable and accrued liabilities	3,142	3,313
Gift card liability	3,709	4,560
Deposits from franchise partners	1,763	1,904
Term loan	10,968	10,941

Financial liabilities designated as fair value through profit and loss

	June 29, 2013	December 29, 2012
Opening fair value	$ 96	$ 302
Additions during the period	-	-
Realized during the period	-	-
Change in value	(96)	(206)
Closing fair value	$ -	$ 96

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 interest charged is considered to be based on market rates.

The fair value of the Company's term loan approximates its carrying value less transaction costs due to the floating interest rate of the term loan.

IFRS 7 requires financial instruments that are measured subsequent to initial recognition at fair value to be grouped in Levels 1 to 3 in the fair value hierarchy, based on the degree to which the fair value is observable. The three levels of the fair value hierarchy are:

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

The fair value for the interest rate swap, classified as a Level 2, was derived using a discounted cash flow model that considers various observable inputs including time to maturity, forward interest rates and credit spreads.

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

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

As at June 29, 2013	**Level 1**	**Level 2**	**Level 3**
Interest rate swap	$ -	$ -	$ -

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

The Company's financial instruments are exposed to credit risk, liquidity risk and interest rate risk.

Credit Risk

The Company's financial instruments exposed to credit risk include cash and cash equivalents, trade and other receivables, leases receivable and notes receivable. The Company places its cash with institutions of high creditworthiness. The Company's trade and other receivables, leases receivable and notes receivable primarily comprise amounts due from franchise partners. Based on experience, management believes its trade and other receivables, leases receivable and notes receivable credit risk exposure is limited. Credit risk from trade and other receivables, leases receivable and notes receivable is minimized as a result of the review and evaluation of franchise partner account balances beyond a particular age. Management accounts for a specific bad debt provision when the expected recovery is less than the actual accounts receivable.

An analysis of aging of the Company's trade and other receivables from payment due date as at June 29, 2013 net of allowance for doubtful accounts is as follows:

	0-30 Days	**31-60 Days**	**61-90 Days**	**>90 Days**	**Total**
Total	$ 1,711	$ 286	$ 56	$ 50	$ 2,103

The Company's trade and other receivables included a combined allowance for doubtful accounts of $175 (December 29, 2012 - $223).

The creditworthiness of new franchise partners is reviewed during the application process. A new franchise partner requires a minimum 30% of their investment in unencumbered cash, written confirmation of financing for the remaining 70% from their bank and a deposit of $100 to accompany the signed franchise agreement.

The payment due dates of the Company's notes and leases receivable from June 29, 2013 net of allowance for doubtful accounts are as follows:

	0-30 Days	**31-60 Days**	**61-90 Days**	**>90 Days**	**Total**
Total	$ 18	$ 18	$ 18	$ 885	$ 939

The Company's notes and leases receivable included a combined allowance for doubtful accounts of $131 (December 29, 2012 - $189).

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

Liquidity Risk
Liquidity risk is the risk the Company will encounter difficulty in meeting obligations as they come due associated with its financial liabilities. The Company manages liquidity risk through regular monitoring of dividends, forecast and actual cash flows, and also the management of its capital structure and senior leverage ratios as outlined in note 3. The Company's main source of income is royalty receipts from its franchise partners.

Interest Rate Risk
Interest rate risk is the risk the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company is exposed to interest rate risk on its cash and cash equivalents and term loan, which earn and bear interest at floating rates. The Company entered into an interest rate swap agreement to minimize risk which expired on April 1, 2013.

Interest expense on the term loan was adjusted to include the payments made or received under the interest rate swap agreement. The interest rate swap agreement is recognized in the Statements of Financial Position at its estimated fair value. During the 26 weeks ended June 29, 2013, the Company recorded a net interest recovery of $96 on the Company's Unaudited Condensed Interim Statements of (Loss) Income and Comprehensive (Loss) Income relating to the interest rate swap.

Sensitivity Analysis
IFRS 7 requires disclosure of a sensitivity analysis to illustrate the sensitivity of the Company's 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 the Company's financial instruments. The sensitivity analysis provided discloses the effect on net income for the period ended June 29, 2013, assuming that a reasonably possible change in the relevant risk variable has occurred as at June 29, 2013.

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

	Pre-tax effects on net income - increase (decrease)		
	Gross amount of liability	**1% decrease in interest rates**	**1% increase in interest rates**
Term loan	$ 11,000	$ 110	$ (110)

11. Long-term Incentive Plan and Directors' Deferred Share Unit Plan ("LTIP" and "DSUP")

Shares granted under the LTIP vest after the completion of a three-year period and are paid in cash on December 15 of each year after full vesting. Shares are granted based on the weighted average price of the Company's shares for the 20 trading days prior to the grant date. The fair value of the shares outstanding is determined based on the market value of the underlying shares of the Company.

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

A summary of the status of the Company's LTIP is presented below:

	26 weeks ended June 29, 2013		
	Notional shares		**Fair value**
Notional shares outstanding at December 29, 2012	58,563	$	256
Shares granted in lieu of dividends	1,967		9
Notional shares forfeited	(1,840)		(8)
Change in fair value	-		(44)
Notional shares outstanding as at June 29, 2013	58,690	$	213
Recovery in current period		$	11

Shares granted under the DSUP vest on the last day of the year in which they are granted and are paid out in cash when an individual ceases to be a director. Shares are granted based on the weighted average price of the Company's shares for the five trading days prior to the grant date. The fair value of the shares outstanding is determined based on the market value of the underlying shares of the Company.

A summary of the status of the Company's DSUP is presented below:

	26 weeks ended June 29, 2013		
	Notional shares		**Fair value**
Notional shares outstanding at December 29, 2012	25,176	$	129
Deferred share units granted	30,820		157
Shares granted in lieu of dividends	1,980		9
Change in fair value	-		(60)
Notional shares outstanding at June 29, 2013	57,976	$	235
Expensed in current period		$	43

12. Segmented Reporting

The Company's business is classified as one operating segment that is reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The Company is structured as a franchisor with all of its operating revenues derived in 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.

13. Seasonality of Operations

The Company’s business is seasonal with revenues and operating income generally lower in the first quarter of the fiscal year due in part to post-holiday consumer spending patterns. Historically, revenue has been highest 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 for the full fiscal year.

14. Subsequent Events

On July 31, 2013 the Board of Directors of Second Cup approved a quarterly dividend of $0.085 per common share, payable on August 30, 2013 to shareholders of record at the close of business on August 16, 2013.