The Second Cup Ltd.

Audited Financial Statements

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

March 6, 2015

Independent auditor's report

To the Shareholders of
The Second Cup Ltd.

We have audited the accompanying financial statements of The Second Cup Ltd., which comprise the statements of financial position as at December 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,

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215, www.pwc.com/ca

The Second Cup Ltd.

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

The Second Cup Ltd.

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.

The Second Cup Ltd.

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.

The Second Cup Ltd.

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.

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.

2. Summary of significant accounting policies (continued)

b. Segmented information and reporting (continued)

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.

2. Summary of significant accounting policies (continued)

c. Critical accounting estimates and the use of judgement (continued)

(i) Impairment charges(continued)

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.

2. Summary of significant accounting policies (continued)

d. Financial instruments (continued)

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.

2. Summary of significant accounting policies (continued)

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.

2. Summary of significant accounting policies (continued)

i. Intangible assets (continued)

(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.

2. Summary of significant accounting policies (continued)

j. Provisions (continued)

(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.

2. Summary of significant accounting policies (continued)

m. Income taxes (continued)

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

n. Gift card liability

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.

o. 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.

p. 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.

2. Summary of significant accounting policies (continued)

p. Revenue recognition (continued)

(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.

q. 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.

r. Operating leases

Operating lease payments are recognized as expense on a straight-line basis over the lease term. Leasehold inducements are amortized to rent expense on a straight-line basis over the lease term. For the purposes of determining the lease term, 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.

2. Summary of significant accounting policies (continued)

s. Long-term incentive plan and Directors' deferred share unit plan

Units granted under the management long-term incentive plan vest over a three-year period and are paid out in cash at the end of 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.

t. Impairment of financial assets

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

The criteria used to determine if there is objective evidence of an impairment loss include:

- significant financial difficulty of the borrower/lessee;
- delinquencies in interest or principal payments; and
- it becomes probable that the borrower/lessee will enter bankruptcy or other financial reorganization.

If such evidence exists, 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.

2. Summary of significant accounting policies (continued)

t. Impairment of financial assets (continued)

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

u. Impairment of non-financial assets

Property and equipment and intangible assets without indefinite lives are tested for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Assets with indefinite lives are subject to an annual impairment test or any time an impairment indicator exists. 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.

v. Related parties

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

w. Dividends

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

2. Summary of significant accounting policies (continued)

x. Share-based compensation

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.

y. 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.

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

3. Changes in accounting policies (continued)

- *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:

	2014	**2013**
Interest rate swap		
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)

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

7. Financial instruments and financial risk management (continued)

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.

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

7. Financial instruments and financial risk management (continued)

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.

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

7. Financial instruments and financial risk management (continued)

b. Trade and other receivables, notes and leases receivable (continued)

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.

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

7. Financial instruments and financial risk management (continued)

b. Trade and other receivables, notes and leases receivable (continued)

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.

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

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.

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

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 28, 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

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

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 28, 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

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

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

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

14. Provisions (continued)

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

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

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.

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

16. Borrowings (continued)

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.

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

18. Impairment charges (continued)

a. Impairment of trademarks (continued)

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)

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

18. Impairment charges (continued)

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

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

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

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

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

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

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.

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

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.

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

25. Share-based compensation (continued)

Stock option plan(continued)

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.

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

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.

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

26. Long-term incentive plan and directors' deferred share unit plan (continued)

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).