The following Management's Discussion and Analysis ("MD&A") has been prepared as of May 2, 2013 and is intended to assist in understanding the financial performance and financial condition of The Second Cup Ltd. ("Second Cup" or the "Company") for the 13 weeks (the "Quarter") ended March 30, 2013, and should be read in conjunction with the unaudited condensed interim financial statements of the Company and accompanying notes for the Quarter, as well as the audited annual financial statements of Second Cup and MD&A for the year ended December 29, 2012 and the Annual Information Form, which are available at www.sedar.com. Past performance may not be indicative of future performance. All amounts are presented in thousands of Canadian dollars, unless otherwise indicated and have been prepared in accordance with International Financial Reporting Standards ("IFRS").

In this MD&A, the Company also reports certain non-IFRS measures such as system sales of cafés, same café sales growth and EBITDA. System sales of cafés and same café sales are discussed below under "System Sales". EBITDA represents earnings before interest, taxes, depreciation, amortization and impairment charges. As there is no generally accepted method of calculating EBITDA, the measure as calculated by the Company might not be comparable to similarly titled measures reported by other issuers. EBITDA is presented as management believes it is a useful indicator of the Company's ability to meet debt service and capital expenditure requirements and because management interprets trends in EBITDA as an indicator of relative financial performance. EBITDA should not be considered by an investor as an alternative to net income or cash flows as determined in accordance with IFRS.

CONTENTS

OVERVIEW AND BUSINESS OF SECOND CUP

Second Cup is Canada's largest specialty coffee café franchisor and retailer (as measured by the number of cafés) with 361 cafés operating under the trade name Second Cup™ in Canada, of which ten are Company-operated and the balance are operated by franchise partners who are selected and trained to retail Second Cup's product offering.

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

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."

As at May 2, 2013, the Company's issued share capital consisted of 9,903,045 common shares, unchanged from year end.

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

BASIS OF PRESENTATION

The unaudited condensed interim financial statements for the Quarter have been prepared in accordance with 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.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4 of the audited annual financial statements for the year ended December 29, 2012.

The accounting policies applied in these unaudited condensed interim financial statements are consistent with those of the previous financial year, except as described below and are based on IFRS issued and outstanding as of May 2, 2013, the date the Board of Directors approved the unaudited condensed interim financial statements.

Changes in accounting policies

The Company has adopted IFRS 13, Fair Value Measurement ("IFRS 13"). IFRS 13 provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on December 30, 2012 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at December 30, 2012.

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 comprise the sale of goods from Company-operated cafés and the sale of goods through ancillary channels, royalties and other service fees. Management is organized based on the Company's operations as a whole rather than the specific revenue streams.

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

FINANCIAL HIGHLIGHTS

The following table sets out selected IFRS financial information and other data of the Company and should be read in conjunction with the unaudited condensed interim financial statements of the Company for the 13 weeks ended March 30, 2013.

(in thousands of Canadian dollars, except number of cafés and per share amounts)	**13 weeks ended March 30, 2013**	**13 weeks ended March 31, 2012**
System sales of cafés[1]	$46,954	$47,101
Number of cafés - end of period	361	355
Same café sales (decline) growth[1]	(3.3%)	0.4%
Total revenue	$6,246	$6,008
Gross profit	$5,279	$5,332
Operating expenses	$4,252	$3,790
Operating income	$1,027	$1,542
Amortization of property, equipment and intangible assets	300	266
Loss (gain) on disposal of property and equipment	7	(1)
Impairment of property and equipment	-	7
Income before interest, tax, depreciation, amortization and impairment ("EBITDA")[1]	$1,334	$1,814
Income before income taxes	$950	$1,426
Current income tax charge	222	351
Deferred income tax charge	40	43
Net income for the period	$688	$1,032
Basic and diluted earnings per share as reported	$0.07	$0.10
Total assets	$86,917	$101,785

[1] "System sales of cafés", "Same café sales (decline) growth" and "EBITDA" are not recognized performance measures under IFRS and, accordingly, may not be comparable to similar computations as reported by other issuers.

SYSTEM SALES

Overview of System Sales

System sales comprise the gross revenue reported to Second Cup by franchisees of Second Cup cafés and by cafés owned by Second Cup. Sales are reported by franchisees to Second Cup on a weekly basis without audit or other form of independent assurance. Second Cup's substantiation of sales reported by its franchisees is through analytical and financial reviews performed by management, comparison to sales data on the Point of Sales System ("POS"), on-site visits and analyses of raw materials purchased by the cafés as reported by authorized vendors.

Increases in system sales result from the addition of new cafés and same café sales growth. System sales from existing cafés are primarily dependent on pricing, product and marketing initiatives undertaken by Second Cup, maintaining operational excellence within the café network and general market conditions, including weather, disposable consumer income, consumer confidence, recessionary and inflationary trends, job security and unemployment, equity market levels, consumer credit availability and competitive activities. The primary factors influencing the number of cafés added to the Second Cup café network include the availability and cost of high quality locations, competition from other specialty coffee retailers and other businesses for prime locations, and the availability of qualified franchisees.

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

Analysis of System Sales and Same Café Sales Growth

System sales for the 13 weeks ended March 30, 2013 were $46,954 compared to $47,101 for the 13 weeks ended March 31, 2012, representing a decrease of $147 or 0.3%. The total number of cafés at the end of the Quarter was 361 compared to 355 cafés at the end of the first quarter of 2012.

Same café sales represents the percentage change, on average, in retail sales at cafés (franchised and Company-operated) operating system wide that have been open for 15 or more months. It is one of the key metrics the Company uses to assess its performance and provides a useful comparison between quarters. The two principal factors that affect same café sales growth are changes in customer traffic and changes in average check. These factors are dependent upon existing cafés maintaining operational excellence within each Second Cup café, general market conditions, pricing and marketing programs undertaken by Second Cup.

During the Quarter, Second Cup continued to be impacted by increased competitive activity resulting in a same café sales decline of 3.3%, compared to an increase of 0.4% in the comparable quarter of 2012.

Management is not aware of any reliable third party comparable data on the trends affecting the Canadian specialty coffee market or the performance of Second Cup's competitors in the Canadian specialty coffee market during the year.

Seasonality of System Sales

The following table shows the percentage of annual system sales achieved, on average, in each fiscal reporting quarter over the last three fiscal years:

% of Annual System Sales	2010	2011	2012	Average
First quarter	23.8	23.5	24.2	23.9
Second quarter	24.4	24.4	24.4	24.4
Third quarter	24.0	24.0	23.9	23.9
Fourth quarter	27.8	28.1	27.5	27.8
	100.0	100.0	100.0	100.0

Historically, revenue has been higher in the fourth quarter, which includes the holiday sales periods of November and December. Because of this seasonality, the results for any quarter are not necessarily indicative of what may be achieved for any other quarter or for the full fiscal year.

CAFÉ NETWORK

	13 weeks ended March 30, 2013	13 weeks ended March 31, 2012
Number of cafés - beginning of period	360	359
Cafés opened	4	2
Cafés closed	(3)	(6)
Number of cafés - end of period	361	355
Number of cafés renovated	3	4

During the Quarter, three cafés (2012 - four) were renovated there were four café openings (2012 - two) and three café closures (2012 - six) of which two were store-in-store kiosks and are part of a plan to exit these locations.

INCOME, OPERATING EXPENSES AND NET INCOME

Analysis of Revenues

Total revenues for the Quarter were $6,246 (2012 - $6,008) and consisted of royalty revenue, revenue from sale of goods and services revenue.

Royalty revenue for the Quarter was $3,497 (2012 - $3,678). The reduction in royalty revenue of $181 was mainly due to a decrease in system sales and a reduction in the effective royalty rate (excluding sales from Company-operated cafés) from 8.0% in 2012 to 7.7% in the Quarter partially as a result of the revised royalty structure for new cafés. New cafés that opened in 2011 and 2012 pay a royalty rate of 3% in the first year, a rate of 6% in the second year and, thereafter, a rate of 9%. In addition the effective royalty rate was impacted by café specific arrangements in place during the period.

Revenue from the sale of goods, which consists of revenue from Company-operated cafés was $1,289, compared to $900 for the 13 weeks ended March 31, 2012. The increase in revenue from the sale of goods was mainly due to ten Company-operated cafés in the Quarter compared to seven in 2012.

Services revenue for the Quarter was $1,460 (2012 - $1,430). Services revenue includes initial franchise fees, renewal fees, transfer fees earned on the sale of cafés from one franchise partner to another, construction administration fees, product licensing revenue, purchasing coordination fees and other ancillary fees (IT support, tuition and construction black line drawings). The $30 increase in services revenue is mainly due to an increase in product licensing revenue, initial franchise fees, renewal fees and other ancillary fees offset by decreases in transfer fees and purchasing coordination fees. The increase in product licence revenue was as a result of the new partnership with Kraft Canada Inc. to produce, market and sell Second Cup signature blend coffees and lattes across Canada using the TASSIMO T-Disc on-demand beverage system.

Cost of Goods Sold

Cost of goods sold represents the product cost of goods sold in corporate cafés plus the cost of direct labour to prepare and deliver the goods to the customers in the cafés. Cost of goods sold as a percentage of revenue from the sale of goods in the Quarter was 75% (2012 - 75%).

Operating Expenses

Operating expenses include the head office expenses of Second Cup and the overhead expenses of Company-operated cafés. Total operating expenses were $4,252 (2012 - $3,790), an increase of $462.

Head Office Operating Expenses

Head office expenses of Second Cup increased by $309 (8.9%) in the Quarter to $3,782 from $3,473 in 2012. Comparatively, the major expenses for the Quarter were salaries, wages and benefits $1,924 (2012 - $2,126), occupancy and lease costs $355 (2012 - $232), travel and franchise partner meetings $352 (2012 - $197), research and innovation $321 (2012 - $34), head office overheads $215 (2012 - $237), professional fees $176 (2012 - $147), amortization of property and equipment $137 (2012 - $123), advertising and franchise development $135 (2012 - $117), amortization of intangible assets $117 (2012 - $108), legal costs $38 (2012 - $87), inventory markdowns $13 (2012 - $nil), and bad debt expense recovery $1 (2011 - $65 expense). All material changes in operating expenses are explained in the table below.

Expenses	*Increase / Decrease in Expenses*	*Explanation for Change*
Salaries, wages and benefits	Decrease of $202	Reduction in employee incentives and long-term incentive plan ("LTIP") offset by an increase in severance costs.
Bad debt expense	Decrease of $66	Recovery of amounts previously provided for.
Legal costs	Decrease of $49	Reduction in leasing activity, general matters and litigation costs.
Research and innovation	Increase of $287	New expenditure on test concepts and initiatives to build the brand and drive growth.
Travel and franchise partner meetings	Increase of $155	2013 annual franchise partner convention held in first quarter versus the second quarter in 2012.
Occupancy and lease costs	Increase of $123	Increase in vacant properties.

Corporate Café Operating Expenses

The overhead expenses in Company-operated cafés for the Quarter increased by $153 to $470 from $317 in 2012. Comparatively, the expenses for the Quarter were lease costs $288 (2012 - $180), other operating expenses $89 (2012 - $68), amortization of property and equipment $46 (2012 - $35), advertising and local marketing $40 (2012 - $28), a loss on disposal of property and equipment $7 (2012 - $1 gain) and a loss of $nil (2012 - $7) on the impairment of property and equipment. The increase in café operating expenses was mainly due to ten Company-operated cafés in the Quarter compared to seven in 2012.

Other Income and Expenses

The Company incurred interest expense of $159 (2012 - $179) on the term loan and derivative interest rate swap, and $22 (2012 - $18) in amortization of deferred financing charges relating to the term loan. The Company also recorded non-cash income of $95 (2012 - $65) for the movement in the fair value of the derivative interest rate swap that fixes the interest rate on the Company's term loan. The Company earned other interest income of $13 (2012 - $22) primarily due to interest earned from short-term highly liquid bank investments with original maturities of three months or less and from notes receivable.

Income Taxes

Current income taxes of $222 (2012 - $351) and deferred income taxes of $40 (2012 - $43) were recorded in the Quarter.

EBITDA

EBITDA for the Quarter was $1,334 (2012 - $1,814). The decrease in EBITDA was due to a decrease in gross profit of $53 and an increase in operating expenses of $427 (excluding amortization, loss on disposal of property and equipment and impairment charges) as discussed above.

Net Income

The Company's net income for the Quarter was $688 or $0.07 per share, compared to net income of $1,032 or $0.10 per share in 2012. The decline in net income of $344 or $0.03 per share was mainly due to an increase of $287 in research and innovation expenditure on the impending loyalty program and the new café design project, an increase of $175 in other operating expenses, and a $53 decrease in gross profit, offset by a $39 decrease in net interest expense and a $132 decrease in income taxes.

Reconciliation of Net Income to EBITDA for the 13 Weeks Ended

	March 30, 2013	**March 31, 2012**
Net income	$688	$1,032
Net interest expense	77	116
Income taxes	262	394
Amortization of property and equipment	183	158
Amortization of intangible assets	117	108
Loss (gain) on disposal of property and equipment	7	(1)
Impairment of property and equipment	-	7
EBITDA	$1,334	$1,814

Dividend

On May 2, 2013, the Board of Directors of Second Cup approved a quarterly dividend of $0.085 per common share, payable on May 31, 2013 to shareholders of record at the close of business on May 17, 2013. The dividend will be considered an eligible dividend for income tax purposes.

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

SELECTED QUARTERLY INFORMATION

A discussion of the Company's previous interim results can be found in the Company's quarterly MD&A reports available at www.sedar.com.

(in thousands of Canadian dollars, except number of cafés and per share amounts)	*Q1 2013*	*Q4 2012*[1]	*Q3 2012*	*Q2 2012*
System sales of cafés[2]	$46,954	$53,515	$46,389	$47,382
Same café sales (decline) growth[2]	(3.3%)	(4.2%)	(2.8%)	(1.5%)
Number of cafés at end of period	361	360	358	356
Total revenue	$6,246	$7,785	$6,378	$6,175
Operating income (loss) for the period	$1,027	($12,988)	$1,133	$2,063
Amortization of property and equipment and intangible assets	300	324	306	271
Loss on disposal of property and equipment	7	42	29	-
Impairment of property and equipment	-	355	-	-
Impairment of goodwill and trademarks	-	15,294	-	-
EBITDA[2]	$1,334	$3,027	$1,468	$2,334
Net income (loss) before income taxes	$950	($13,116)	$1,017	$1,920
Current income tax charge	222	596	275	422
Deferred income tax (recovery) charge	40	(1,688)	(4)	656
Net income (loss) for the period	$688	($12,024)	$746	$842
Basic/diluted earnings (loss) per share	$0.07	($1.21)	$0.08	$0.09
Dividends declared per share	$0.085	$0.085	$0.15	$0.15

	Q1 2012	*Q4 2011*[1,3]	*Q3 2011*[3]	*Q2 2011*[3]
System sales of cafés[2]	$47,101	$54,404	$46,369	$47,294
Same café sales growth (decline)[2]	0.4%	1.2%	(0.1%)	0.3%
Number of cafés at end of period	355	359	359	350
Total revenue	$6,008	$7,363	$6,138	$6,072
Operating income for the period	$1,542	$3,210	$2,362	$2,506
Amortization of property and equipment and intangible assets	266	287	219	185
(Gain) loss on disposal of property and equipment	(1)	20	9	-
Impairment of property and equipment	7	130	-	-
EBITDA[2]	$1,814	$3,647	$2,590	$2,691
Net income before income taxes	$1,426	$3,116	$2,095	$2,283
Current income tax charge	351	894	511	122
Deferred income tax (recovery) charge	43	(130)	(68)	616
Net income for the period	$1,032	$2,352	$1,652	$1,545
Basic/diluted earnings per share	$0.10	$0.23	$0.17	$0.16
Dividends declared per share	$0.15	$0.15	$0.15	$0.15

[1] The Company's fourth quarter system sales are higher than other quarters due to the seasonality of the business (see "Seasonality of System Sales" above).
[2] "System sales of cafés", "Same café sales growth (decline)" and "EBITDA" are not recognized performance measures under IFRS and, accordingly may not be comparable to similar computations as reported by other issuers.
[3] Results for 2011 include deferred income tax charge (recovery) of $85, ($36) and ($236) in the second, third and fourth quarters respectively, as a result of the Conversion to a public corporation from an income trust structure.

LIQUIDITY AND CAPITAL RESOURCES

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

Cash Flows for the 13 Weeks Ended

	March 30, 2013	**March 31, 2012**
Cash flows provided by (used in) operating activities	$1,039	($766)
Cash flows (used in) investing activities	(502)	(164)
Cash flows (used in) financing activities	(842)	(1,506)
(Decrease) in cash and cash equivalents during the period	($305)	($2,436)

Cash generated by operating activities was $1,039 for the Quarter compared to cash used of $766 for the same quarter last year. The increase is the result of decreases in non-cash working capital, a decrease in net income and a decrease in income tax installments. The final tax installment for the year ended December 29, 2012 totalling $368 was paid in the Quarter whereas the final tax installment for the year ended December 31, 2011 totalling $1,500 was paid in the same quarter last year.

During the Quarter, cash used in investing activities was $502 (2012 - $164). The Company purchased $496 (2012 - $122) of property and equipment primarily for the renovation of a Company-operated café in 2013 and $25 (2012 - $89) of software primarily for POS. The Company received proceeds of $5 (2012 - $25) on the disposal of property and equipment. The Company received proceeds of $24 (2012 - $22) on the repayment of leases and notes receivable.

Financing activities resulted in cash usage of $842 (2012 - $1,506). During the Quarter, Second Cup paid a dividend totalling $842 (2012 - $1,486). During 2012, the Company paid $18 on a note payable to a previous landlord and $2 on a long-term lease.

Working Capital as at

	March 30, 2013	**Dec. 29, 2012**
Current assets	$7,656	$9,593
Current liabilities	8,983	10,649
Working capital (deficiency)	($1,327)	($1,056)

The Company has a working capital deficiency of $1,327 as of March 30, 2013. Second Cup has a gift card program that allows customers to prepay for future purchases by reloading a dollar value onto their gift cards. Current liabilities includes $3,760 (December 29, 2012 - $4,560) gift card liability. The gift cards do not have an expiration date. The Company will honour all Second Cup gift cards presented for payment, but may recognize breakage based on historical redemption patterns. Gift card holders are not entitled to any interest, dividends or returns on prepaid amounts and the Company does not charge a service fee. The gift card program continues to provide a source of working capital.

The Company had cash and cash equivalents of $3,575 at March 30, 2013 (December 29, 2012 - $3,880). The Company continues to believe it has sufficient financial resources to pay future dividends and operating expenses when declared and due.

Term Loan, Operating Credit Facility and Interest Rate Swap

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 March 30, 2013, the full amount of the $11,000 non-revolving term credit facility was drawn.

The $2,000 operating credit facility bears interest at the bankers' acceptance rate plus 2.75%. As at March 30, 2013, no advances had been drawn on this facility.

The Company has an interest rate swap agreement with a notional value of $11,000 maturing on April 1, 2013, which fixes 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 March 30, 2013, the estimated fair value of this contract is a $1 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 on the Company's Unaudited Condensed Interim Statements of Income and Comprehensive 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 March 30, 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 Income and Comprehensive Income using the effective interest method.

OFF-BALANCE SHEET ARRANGEMENTS

Second Cup has lease commitments for Company-operated cafés and also acts as the head tenant on leases, which it in turn, subleases to franchise partners. The Company's lease commitments at March 30, 2013 are as follows:

	Headlease commitments	Sublease to franchisees	Net
March 31, 2014	$ 19,671	$ 18,297	$ 1,374
March 31, 2015	18,571	17,369	1,202
March 31, 2016	16,737	15,551	1,186
March 31, 2017	14,734	13,553	1,181
March 31, 2018	12,657	11,540	1,117
Thereafter	35,976	31,478	4,498
	$ 118,346	$ 107,788	$ 10,558

The Company believes it has sufficient resources to meet the net commitment of $10,558.

Total occupancy and lease costs expensed in the year are as follows:

	13 weeks ended March 30, 2013	13 weeks ended March 31, 2012
Company head office and franchise café locations	$ 355	$ 232
Company-operated cafés	288	180
	$ 643	$ 412

Second Cup is involved in litigation and other claims arising in the normal course of business. Management must use its judgement to determine whether or not a claim has any merit, the amount of the claim and whether to record a provision, which is dependent on the potential success of the claim. Second Cup believes that 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 for ports and growth. Second Cup sources high altitude Arabica coffee which tends to trade at a premium above the "C" coffee commodity price. Second Cup has a contract with a third party company to purchase and roast the coffee that is sold in all Second Cup cafés by franchise partners. In terms of this supply agreement, Second Cup has guaranteed a minimum volume of coffee purchases amounting to $5,705 (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.

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.

MANAGEMENT OF CAPITAL

For a detailed summary of management of capital, refer to those noted in the Company's MD&A for the year ended December 29, 2012 and the Company's most recent audited financial statements, available at www.sedar.com and www.secondcup.com.

There were no changes in the Company's approach to capital management during the Quarter.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Multilateral Instrument 52-109 ("MI 52-109") requires the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") to make certain certifications related to the information contained in the Company's annual filings. Specifically, the CEO and CFO must acknowledge that they are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting ("ICFR") for the Company. The control framework used by the CEO and CFO to design the Company's ICFR is Internal Control Over Financial Reporting - Guidance for Smaller Public Companies as issued by COSO. In addition, in respect of:

(a) Disclosure Controls and Procedures

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

As at March 30, 2013, the Company's management, under the supervision of, and with the participation of, the CEO and CFO, evaluated the design of the disclosure controls and procedures. Based on this evaluation, the CEO and CFO have concluded that, as at March 30, 2013, the Company's disclosure controls and procedures were appropriately designed.

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

(b) Internal Controls Over Financial Reporting

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

As at March 30, 2013, the Company's management, under the supervision of, and with the participation of, the CEO and CFO, evaluated the design of the controls over financial reporting. No material weaknesses in the design of these controls over financial reporting were identified. Based on this evaluation, the CEO and CFO have concluded that, as at March 30, 2013, the Company's controls over financial reporting were appropriately designed and are operating effectively.

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

During the 13 weeks ended March 30, 2013, there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

CRITICAL ACCOUNTING ESTIMATES

For a detailed summary of critical accounting estimates, refer to those noted in the Company's MD&A for the year ended December 29, 2012 and the Company's most recent audited financial statements, available at www.sedar.com and www.secondcup.com.

RISKS AND UNCERTAINTIES

For a detailed summary of risks and uncertainties, refer to those noted in the Company's MD&A for the year ended December 29, 2012 and the Company's most recent audited financial statements, available at www.sedar.com and www.secondcup.com.

OUTLOOK

The information contained in this "Outlook" contains forward-looking statements. Please see "Forward-looking Information" below for a discussion of the risks and uncertainties in connection with forward-looking statements.

The Second Cup business continues to operate in an increasingly competitive marketplace and a challenging consumer environment. For 2013, management will continue to re-invest in the business, specifically a loyalty and communications capability, a coffee revitalization plan, and a new café design. These initiatives will be in test in 2013 with expected roll-outs towards the end of the year. In addition, Second Cup will leverage new and growing commercial opportunities, including the expansion and support of the newly introduced Second Cup signature coffees and lattes using the TASSIMO T-Disc on demand beverage system and expects to increase its product licensing revenue as a result.

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

FORWARD-LOOKING INFORMATION

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

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

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