CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

INTRODUCTION

The following MD&A has been prepared as of May 8, 2014 and is intended to assist in understanding the financial performance and financial condition of The Second Cup Ltd. ("Second Cup" or the "Company") for the 13 weeks (the "Quarter") ended March 29, 2014, and should be read in conjunction with the Audited Financial Statements of the Company for the 52 weeks ended December 28, 2013, accompanying notes and the Annual Information Form, which are available at www.sedar.com. Past performance may not be indicative of future performance. All amounts are presented in thousands of Canadian dollars, except Number of cafés, per share amounts or unless otherwise indicated and have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company also reports certain non-IFRS measures such as System sales of cafés, Same café sales, Operating income, EBITDA, Adjusted EBITDA, and Adjusted earnings per share that are discussed in the "Definitions and discussion of certain non-GAAP financial measures" in this MD&A.

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CORE BUSINESS, STRATEGY, AND PERFORMANCE DRIVERS

Core business

Second Cup is a Canadian specialty coffee retailer with 357 cafés operating under the trade name Second Cup™ in Canada, of which 11 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 was incorporated under the Business Corporations Act (Ontario) in 2011. The address of its registered office is 6303 Airport Road, 2nd Floor, Mississauga, Ontario, L4V 1R8. The Company's website is www.secondcup.com. The common shares of the Company are listed on the Toronto Stock Exchange under the symbol "SCU".

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

As at May 8, 2014, the Company's issued share capital consisted of 9,903,045 common shares and was unchanged from the previous year end, December 28, 2013.

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

Strategic imperatives and key performance drivers

The Company's strategic vision is to be Canada's favourite coffee shop. The strategic focus is supported with integrated imperatives that are geared towards future growth. Key objectives are:

- improve café profitability by growth in same café sales and margin enhancements;
- growing and improving our café network;
- new channel development which would build our brand within and outside of cafés; and
- innovation of product offerings.

A summary of the strategic imperatives targeted to fulfil growth objectives are outlined as follows:

(i) Improving café profitability and return on investment

The Company will focus on enhancing both café profitability and return on invested capital. The core foundation to the success of the Company is the success of its franchise partners. Key aspects of the café profitability model along with the capital investment levels for original development and subsequent upgrade will be the focal points. Driving factors included are to build on average café sales and same café sales. Second Cup will work to re-establish trust by building a much more collaborative partnership with its franchise partners. One example is that our Advisory Committee (of elected franchise partners) will now be involved in the decisions of the advertising coop fund expenditures.

(ii) Development and deployment of a new Company web site, loyalty, and customer relationship management programs

Key learnings from the pilot loyalty program, launched in 2013, helped facilitate changes that are being incorporated into a planned re-launch in the Calgary market during our second quarter. The goal of the loyalty program is to increase frequency of visits and attract incremental traffic by rewarding our new and loyal customers. Pilot results will be evaluated to help substantiate the program for national deployment in either late 2014 or early 2015. The Company will develop and launch a new website during the second quarter that will be easier to navigate and offer richer functionality and user benefits. It is built to support the loyalty program integration come national launch.

(iii) Develop a world class café design of the future

Commencing in 2014, a new store design is being developed, one which is very different from the Second Cup we see today. The store design will be aimed to re-invigorate brand identity with much higher standards of excellence and thus to deliver higher levels of financial performance. Stores are to be modern and inviting to our valued customers to truly deliver a world class café experience as part of the fabric of each neighbourhood we serve.

(iv) Distribution of Second Cup coffee in grocery stores and other retail channels

The Company has partnered with Kraft Canada Inc. to distribute coffee in grocery stores across Canada. These product launches commenced in January 2014, and will offer customers more ways to enjoy the quality and variety of coffee from Second Cup. Expansion into the grocery channel broadens our reach to customers in markets that might not have a Second Cup café nearby and better serves current Second Cup guests in-home. The Company aims to explore new avenues that will bring the Second Cup product to end consumers through various channels above and beyond the core café experience.

Change in Chief Executive Officer

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

CAPABILITIES

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

The Second Cup brand

The Company has a well-established and recognizable national brand. A proudly Canadian company since 1975 with 357 cafés across Canada, Second Cup is Canada's second largest specialty coffee company. The Company maintains its commitment to the communities it operates in, and thus we celebrate our franchise partners' local ownership and focus on providing quality and friendly service to each guest that walks into our cafés.

Our people

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

Product

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

The Company offers more than 25 types of coffee including proprietary blends such as Paradiso, Espresso Forte and Holiday Blend. Second Cup also offers a number of single origin estate coffees, including La Minita, from Costa Rica, which is one of the most sought after coffees in the world. Second Cup also offers a wide variety of espresso-based beverages and blender drinks such as espressos, cappuccinos, lattes and iced coffees, and is continually developing variations of these products. Examples of innovative espresso-based beverages and blender drinks developed by Second Cup include the Caramel Corretto®, Chillatte®, Frrrozen Hot Chocolate® and Icepresso Chiller®.

All Second Cup coffees and teas are sustainably certified by third parties, such as Rainforest Alliance Certified™ and Fairtrade USA.

In addition to coffee and other beverages, our cafés carry a variety of complementary products including baked goods, sandwiches, coffee accessories, and gift items.

Locations

Second Cup cafés are geographically dispersed across Canada and are primarily concentrated in large urban centres such as Toronto, Montreal, Edmonton, Calgary, and Ottawa. Second Cup cafés are situated in a wide range of high-traffic, high-visibility locations, consisting of street-fronts, shopping malls, office towers, power and strip centres and non-traditional retail sites such as hospitals, universities, airports, train stations and other transportation venues. Second Cup café sizes range from 200 square foot cappuccino kiosks to 2,500 square foot street-front locations with self-contained customer seating areas and outdoor patios.

Liquidity, capital resources and management of capital

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

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

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

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

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

The Company has requirements to maintain:

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

During the period ended March 29, 2014 the Company was in compliance with all financial and other covenants of the Company's operating credit facility and term loan.
The $11,000 non-revolving term credit facility bears interest at the bankers' acceptance ("BA") rate plus a margin range of 2.25% to 3.25% depending on the Company's Leverage Ratio. As at March 29, 2014 the applicable margin pertaining to the aforementioned range is 2.75%. As at March 29, 2014 the full amount of the $11,000 non-revolving term credit facility was drawn.

The $2,000 operating credit facility bears interest at the BA rate plus a margin range of 2.25% to 3.25% depending on the Company's Leverage Ratio. As at March 29, 2014 the applicable margin pertaining to the aforementioned range is 2.75%. As at March 29, 2014 no advances had been drawn on this facility.

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

Competition

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

Technology

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

FINANCIAL HIGHLIGHTS

The following table sets out selected IFRS and certain non-GAAP financial measures of the Company and should be read in conjunction with the Unaudited Condensed Interim Financial Statements of the Company for the 13 weeks ended March 29, 2014.

(in thousands of Canadian dollars, except Number of cafés, Same café sales, and per share amounts)	**13 weeks ended March 29, 2014**	**13 weeks ended March 30, 2013**
System sales of cafés[1]	$43,930	$46,954
Same café sales[1]	(6.9%)	(3.3%)
Number of cafés - end of period	357	361
Total revenue	$7,612	$6,246
Gross profit	$5,734	$5,279
Operating expenses	$5,508	$4,252
Operating income[1]	$226	$1,027
Restructuring charges	$559	-
Adjusted EBITDA[1]	$941	$1,334
Net income and comprehensive income	$56	$688
Basic and diluted earnings per share as reported	$0.01	$0.07
Adjusted basic and diluted earnings per share[1]	$0.05	$0.07
Total Assets – as at end of period	$76,040	$86,917
Number of common shares issued and outstanding - end of period	9,903,045	9,903,045

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

OPERATIONAL REVIEW

Seasonality of System sales of cafés

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

% of annual System sales of cafés	2011	2012	2013	Average
First quarter	23.5	24.2	24.5	24.1
Second quarter	24.4	24.4	24.9	24.5
Third quarter	24.0	23.9	23.5	23.8
Fourth quarter	28.1	27.5	27.1	27.6
	100.0	100.0	100.0	100.0

Historically, System sales of cafés have been higher in the fourth quarter, which includes the holiday sales periods of November and December. Because of this seasonality, the results for any Quarter are not necessarily indicative of what may be achieved for any other Quarter or Year.

Café network

	13 weeks ended March 29, 2014	13 weeks ended March 30, 2013
Number of cafés - beginning of period	356	360
Cafés opened	5	4
Cafés closed	(4)	(3)
Number of cafés - end of period	357	361
Number of cafés renovated	-	3

The Company ended the Quarter with 11 (2013 - ten) Company-operated cafés.

System sales of cafés

System sales of cafés for the 13 weeks ended March 29, 2014 were $43,930 compared to $46,954 for the 13 weeks ended March 30, 2013, representing a decrease of $3,024 or 6.4%. The decrease is attributable to decreased Same café sales and to the marginally smaller store network.

Same café sales

During the Quarter, Second Cup continued to be impacted by a competitive environment resulting in a Same café sales decline of 6.9%, compared to a decline of 3.3% in the comparable Quarter of 2013. As with other retailers, Second Cup's customer traffic was negatively impacted by the poor weather.

Analysis of revenue

Total revenue for the Quarter was $7,612 (2013 - $6,246) and consisted of royalty revenue, revenue from sale of goods, and services and other revenue.

Royalty revenue for the Quarter was $3,195 (2013 - $3,497). The reduction in royalty revenue of $302 is primarily a result of overall lower System sales of cafés, and to a lesser extent, the mix of cafés with varying royalty rates.

Revenue from the sale of goods, which consists of revenue from Company-operated cafés and wholesale revenue was $2,789 (2013 - $1,289) for the Quarter. The increase of $1,500 in revenue from the sale of goods was mainly due to sales pertaining to the partnership with Kraft Canada Inc. to produce, market, and sell Second Cup branded whole bean and roast & ground coffee in retail channels. The aforementioned revenue stream initiated in January 2014. There were 11 Company-operated cafés at March 29, 2014 (2013 - ten).

Services and other revenue for the Quarter was $1,628 (2013 - $1,460). Services and other revenue includes initial franchise fees, renewal fees, transfer fees earned on the sale of cafés from one franchise partner to another, construction administration fees, product licencing revenue, purchasing coordination fees, and other ancillary fees (such as IT support and training fees). The $168 increase in services and other revenue was primarily due to sales pertaining to the Second Cup branded TASSIMO T-Discs.

Cost of goods sold

Cost of goods sold represents the product cost of goods sold in Company-operated cafés and through the wholesale channel, plus the cost of direct labour to prepare and deliver the goods to the customers in the Company-operated cafés. Cost of goods sold was $1,878 (2013 - $967).

Operating expenses

Operating expenses include Coffee Central expenses and the overhead expenses of Company-operated cafés. Total operating expenses for the Quarter were $5,508 (2013 - $4,252), an increase of $1,256.

Coffee Central

Coffee Central expenses for the Quarter were $5,151 (2013 - $3,782), an increase of $1,369 or 36%. During the Quarter, the Company recorded $559 of restructuring charges pertaining to the change in chief executive officers and other fundamental reorganizations that have a material effect on the nature and focus of the entity's operations. The Company recorded retail listing fees of $988 in the Quarter related to launch of the new wholesale revenue stream of whole bean and roast & ground coffees sold in retail channels.

Company-operated cafés

Company-operated café expenses for the Quarter were $357 (2013 - $470), a decrease of $113 or 24%. The decrease is due to gains on disposal of capital related items as a result of the POS software upgrades in advance of the anticipated launch of the loyalty program.

Interest and financing

The Company incurred interest and financing expenses of $156 (2013 - $77). The increase in interest and financing expenses is due to the fair value adjustments of the interest rate swap which captures an interest rate premium to fix the effective interest rate on the Long-term debt.

Income taxes

Current income taxes of $nil (2013 - $222) and deferred income taxes of $14 (2013 - $40) were recorded in the Quarter. Current income taxes decreased as a result of nil taxable income primarily driven by restructuring charges and retail listing fees. The change in deferred income taxes was driven by the temporary timing differences of capital expenditures, general reserves and the timing difference of the nil taxable income incurred in the Quarter that is likely to be utilized in a future period.

Adjusted EBITDA

Adjusted EBITDA for the Quarter was $941 (2013 - $1,334). The decrease of $393 in Adjusted EBITDA was primarily due to decreased royalty revenue.

Net income

The Company's Net income for the Quarter was $56 or $0.01 per share, compared to net income of $688 or $0.07 per share in 2013. The decrease in net income of $632 or $0.06 per share was mainly due to decreased royalties, restructuring charges, and retail listing fees incurred, offset partially by the margin realized on the new wholesale revenue stream of whole bean and roast & ground coffee through the retail channel.

A reconciliation of Net income to Adjusted EBITDA is provided in the section "Definitions and discussion of certain non-GAAP financial measures".

Dividend

On May 8, 2014 the Board of Directors of Second Cup approved a quarterly dividend of $0.085 per common share, payable on June 6, 2014 to shareholders of record at the close of business on May 23, 2014.

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

REVIEW OF THE STATEMENTS OF FINANCIAL POSITION

	March 29, 2014	December 28, 2013	Changes	Explanation of changes
Current assets				
Cash and cash equivalents	$ 5,415	$ 6,501	$ (1,086)	Decrease is due to the net impact of cash used in the operating, investing and financing activities for the Quarter.
Trade and other receivables	3,376	4,368	(992)	Decrease is due to lower sales as a result of seasonality and increases to bad debt reserves.
Notes and leases receivable	227	220	7	Increase is due to new leases on POS systems with franchise partners.
Inventories	92	123	(31)	Decrease is due to sell through of stock held by the Company at its distributor.
Prepaid expenses and other assets	161	190	(29)	Decrease is due to utilization of prepaid marketing expenses.
Income tax recoverable	361	-	361	Increase is due to lower taxable income as a result of restructuring charges relative to instalment payments.
Non-current assets				
Notes and leases receivable	$ 717	$ 701	$ 16	Discussed above.
Property and equipment	3,551	3,507	44	Increase is due to POS hardware upgrades put into service.
Intangible assets	62,140	61,730	410	Increase is due to POS software upgrades put into service.

	March 29, 2014	December 28, 2013	Changes	Explanation of changes
Current liabilities				
Accounts payable and accrued liabilities	$ 5,095	$ 4,586	$ 509	Increase is primarily due to the increase in accounts payable pertaining to the new distribution channel of whole bean and ground coffee to grocery and retail channels.
Provisions	966	847	119	Increase is primarily due to classification from non-current provisions due to timing of settlements, offset by payouts of a portion of restructuring provisions.
Other liabilities	765	717	48	Increase is due to deferred revenue as a result of the timing of cash receipts.
Income tax payable	-	138	(138)	Discussed above.
Gift card liability	3,129	3,895	(766)	Decrease is due to seasonality where gift cards purchased during the holiday season are utilized after year-end.
Deposits from franchise partners	1,109	878	231	Increase is due to an increment of one net franchise partner deposit.
Non-current liabilities				
Provisions	812	1,380	(568)	Decrease is due to classification to current provisions as discussed above.
Other liabilities	416	428	(12)	Decrease is due to the long term portion timing of lease inducement amortization.
Long-term debt	11,138	11,089	49	Increase is due to the change in fair value of the interest rate swap.
Deferred income taxes	7,432	7,418	14	Increase is due to temporary timing differences of capital expenditures and general reserves offset by lower taxable income.
Shareholders' equity	45,178	45,964	(786)	Decrease is due to the dividend of $842 less net income.

SELECTED QUARTERLY INFORMATION

(in thousands of Canadian dollars, except Number of cafés, Same café sales, and per share amounts)	Q1 2014	Q4 2013[2]	Q3 2013	Q2 2013
System sales of cafés[1]	$43,930	$51,898	$44,894	$47,688
Same café sales[1]	(6.9%)	(4.3%)	(3.7%)	(2.2%)
Number of cafés - end of period	357	356	351	362
Total revenue	$7,612	$8,038	$6,268	$6,636
Operating income (loss)[1]	$226	$1,891	$1,361	($11,401)
Adjusted EBITDA[1]	$941	$2,868	$1,246	$2,122
Net income (loss) for the period	$56	$1,177	$918	($10,152)
Basic/diluted earnings (loss) per share	$0.01	$0.12	$0.09	($1.03)
Dividends declared per share	$0.085	$0.085	$0.085	$0.085
	Q1 2013	**Q4 2012[2]**	**Q3 2012**	**Q2 2012**
System sales of cafés[1]	$46,954	$53,515	$46,389	$47,382
Same café sales[1]	(3.3%)	(4.2%)	(2.8%)	(1.5%)
Number of cafés - end of period	361	360	358	356
Total revenue	$6,246	$7,785	$6,378	$6,175
Operating income (loss)[1]	$1,027	($12,988)	$1,133	$2,063
Adjusted EBITDA[1]	$1,334	$3,027	$1,468	$2,334
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

[1]See the section "Definitions and discussion on certain non-GAAP financial measures" for further analysis.
[2]The Company's fourth quarter System sales of cafés are higher than other quarters due to the seasonality of the business (see "Seasonality of System sales of cafés" above).

LIQUIDITY AND CAPITAL RESOURCES

The performance of Second Cup franchise partners, Company-operated cafés, and other ancillary revenue channels could impact the ability of the Company to declare and pay dividends to its shareholders. For a more detailed discussion of the risks and uncertainties affecting the Company's liquidity, see the "Risks and uncertainties" section below.

Summary of cash flows

	13 weeks ended March 29, 2014	13 weeks ended March 30, 2013
Cash provided by operating activities	$ 427	$ 1,039
Cash used in investing activities	(671)	(502)
Cash used in financing activities	(842)	(842)
Decrease in cash and cash equivalents during the period	$ (1,086)	$ (305)

Cash generated by operating activities was $427 for the Quarter compared to $1,039 for the same Quarter in 2013. The difference is attributable to lower royalty revenues and payout of certain restructuring provisions.

During the Quarter, cash used in investing activities was $671 compared to cash used of $502 for the same Quarter in 2013. The cash usage was a result of purchases in software pertaining to POS hardware and software upgrades.

Financing activities resulted in a cash usage of $842 (2013 - $842) and thus was stable as the dividend amount remained consistent.

Working capital as at

	March 29, 2014	December 28, 2013
Current assets	$ 9,632	$ 11,402
Current liabilities	11,064	11,061
Working capital (deficiency)	$ (1,432)	$ 341

The Company has a working capital deficiency of $1,432 as of March 29, 2014. Current liabilities include a $3,129 (December 28, 2013 - $3,895) gift card liability.

The Company had cash and cash equivalents of $5,415 at March 29, 2014 (December 28, 2013 - $6,501). The decrease was primarily due to cash payouts as a result of restructuring. The Company continues to believe it has sufficient financial resources to pay operating expenses and future dividends when approved, declared, and due.

Financial instruments

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

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

(i) Credit risk

Cash and cash equivalents, and interest rate swap

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

Trade and other receivables, and notes and leases receivable

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

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

(ii) Liquidity risk

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

(iii) Interest rate risk

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

(iv) Currency risk

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

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

(v) Commodity risk

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

Contingencies, commitments and guarantees

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

	Headlease commitments	Sublease to franchisees	Net
March 29, 2015	$ 19,618	$ 18,297	$ 1,321
March 29, 2016	18,148	16,930	1,218
March 29, 2017	15,917	14,692	1,225
March 29, 2018	13,828	12,670	1,158
March 29, 2019	11,909	10,832	1,077
Thereafter	31,080	27,793	3,287
	$ 110,500	$ 101,214	$ 9,286

The Company believes it will have sufficient resources to meet the net commitment of $9,286.

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

The Coffee "C" contract is the world benchmark for Arabica coffee. The contract prices physical delivery of exchange grade green beans from one of 19 countries of origin in a licensed warehouse to one of several ports in the U.S. and Europe, with stated premiums/discounts. Second Cup sources high altitude Arabica coffee which tends to trade at a premium above the "C" coffee commodity price. Second Cup has contracts with third party companies to purchase the coffee that is sold in all Second Cup cafés. In terms of these supply agreements, Second Cup has guaranteed a minimum volume of coffee purchases of $6,250. The coffee purchase commitment is comprised of three components: unapplied futures commitment contracts, fixed price physical contracts and flat price physical contracts.

Second Cup is the primary coordinator of café construction costs on behalf its franchise partners and for Company-operated cafés. As at March 29, 2014, there is $618 of contractual commitments pertaining to construction costs for new locations and renovations. The Company finances construction costs for franchise projects from deposits received from franchise partners and corporate projects from the Company’s cash flows.

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

For the 13 weeks ended March 29, 2014, one of the Company’s coffee brokers purchased $607 of coffee green on behalf of the Company and its franchise partners from a related party.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

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

During the first Quarter of 2014, the Company appointed a new CEO. Given the continuity of the senior leadership team, we believe the transition was effective and had no impact on the disclosure controls and procedures.

As at May 8, 2014, the Company’s management, under the supervision of, and with the participation of, the CEO and CFO, evaluated the design of the disclosure controls and procedures. Based on this evaluation, the CEO and CFO have concluded that, as at March 29, 2014, the Company’s disclosure controls and procedures were appropriately designed.

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

During the 13 weeks ended March 29, 2014 and up to the date of the approval of the Unaudited Condensed Interim Financial Statements and MD&A, there has been no change that has materially affected, or is reasonably likely to materially affect the Company’s disclosure controls and procedures.

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

During the first Quarter of 2014, the Company appointed a new CEO. Given the continuity of the senior leadership team, we believe the transition was effective and had no impact on the internal controls over financial reporting.

As at May 8, 2014, the Company's management, under the supervision of, and with the participation of, the CEO and CFO, evaluated the design of the controls over financial reporting. No material weaknesses in the design of these controls over financial reporting were identified. Based on this evaluation, the CEO and CFO have concluded that, as at March 29, 2014 the Company's controls over financial reporting were appropriately designed and were operating effectively.

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

During the 13 weeks ended March 29, 2014 and up to the date of the approval of the Unaudited Condensed Interim Financial Statements and MD&A, there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

CRITICAL ACCOUNTING ESTIMATES

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

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

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

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

occasionally estimates the current or future deductibility of certain expenditures, affecting current or deferred income tax balances and expenses.

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

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

RISKS AND UNCERTAINTIES

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

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

For a detailed summary of risks and uncertainties, refer to those noted in the Company's MD&A for the year ended December 28, 2013 and the Company's most recent audited financial statements, available at www.sedar.com and www.secondcup.com.

There is an ongoing risk of highly competitive promotional activity, which can create further pressure on System sales of cafés. System sales have a direct impact on the success of franchise partners and on royalty revenue to the Company. Lower System sales of cafés increase the risk of café specific arrangements on royalty rates and rent subsidies, as well as corporate take-backs of cafés currently operated by franchise partners. The latter could result in general operating losses of specific sites or lease termination costs.

OUTLOOK

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

The Second Cup business continues to operate in a competitive marketplace and a challenging consumer environment. In 2013, management continued to invest in the business, including investing in the development of a loyalty program which is being tested in 31 cafés, with positive initial results. Second Cup intends to roll out the loyalty program nationally pending results from the refined pilot program in 2014. Based on learnings from the initial pilot, the Company continues to refine particulars of the program including elements of the design which will make it more relevant to brewed coffee drinkers as well as specialty beverage customers. Technology improvements are being made to improve speed of service at point of sale.

Second Cup will work on a detailed brand analysis to influence the design and development of the new store of the future. The Company plans on renovating one of its corporate café locations in the fall to assess its performance under the new design. This will be a very different Second Cup from what we see today. It should have a re-invigorated brand identity with much higher standards of excellence.

Under the new CEO's leadership, Second Cup will be going through a period of substantial change. As part of the change, the Company is completing a re-engineering of the infrastructure to both better support our franchise partners and rebalance the cost structure. The Company will incur further transitional and restructuring related charges onward in 2014 related to these changes.

DEFINITIONS AND DISCUSSION ON CERTAIN NON-GAAP FINANCIAL MEASURES

In this MD&A, the Company reports certain non-IFRS measures such as System sales of cafés, Same café sales, Operating income, EBITDA, Adjusted EBITDA, and Adjusted earnings per share.

System sales of cafés

System sales of cafés comprise the net revenue reported to Second Cup by franchisees of Second Cup cafés and by Company-operated cafés. This measure is useful in assessing the operating performance of the entire Company network, such as capturing the net change of the overall café network. Sales are reported by franchisees to Second Cup on a weekly basis without audit or other form of independent assurance. Second Cup's substantiation of sales reported by its franchisees is through analytical and financial reviews performed by management, comparison to sales data on the POS, on-site visits, and analyses of raw materials purchased by the cafés as reported by authorized vendors.

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

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

Same café sales

Same café sales represents the percentage change, on average, in sales at cafés (franchised and Company-operated) operating system-wide that have been open for more than 12 months. It is one of the key metrics the Company uses to assess its performance with specific focus on organic growth (decline). Organic growth (decline) is an indicator on how the Company is impacted by operational effectiveness, the results of marketing efforts, pricing, and responsiveness to competition. Same café sales provides a useful comparison between periods while also encompassing other matters such as seasonality. The two principal factors that affect Same café sales are changes in customer traffic and changes in average sale.

Operating income (loss)

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

EBITDA and Adjusted EBITDA

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

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

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

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

A reconciliation of Net income to EBITDA and Adjusted EBITDA is provided below:

	13 weeks ended March 29, 2014	**13 weeks ended March 30, 2013**
Net income	$ 56	$ 688
Net interest and financing	156	77
Income taxes	14	262
Depreciation of property and equipment	195	183
Amortization of intangible assets	71	117
(Gain) loss on disposal of property and equipment	(110)	7
EBITDA	382	1,334
Restructuring charges	559	-
Adjusted EBITDA	$ 941	$ 1,334

Adjusted basic and diluted earnings per share

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

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

	13 weeks ended March 29, 2014	13 weeks ended March 30, 2013
Net income	$ 56	$ 688
Restructuring charges	559	-
Tax effect of restructuring charges	(148)	-
Adjusted earnings	467	688
Weighted average number of shares issued and outstanding (unrounded)	9,903,045	9,903,045
Adjusted basic and diluted earnings per share	$ 0.05	$ 0.07