The following Management's Discussion and Analysis ("MD&A") has been prepared as of October 31, 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") and 39 weeks ("Year to Date") ended September 28, 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, EBITDA, and adjusted earnings per share. 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. Adjusted earnings per share represents earnings per share excluding 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 (as measured by the number of cafés) with 351 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 October 31, 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 judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment 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 in the interim financial statements for the period ended March 30, 2013 pertaining to the adoption of new IFRS. The accounting policies are based on IFRS issued and outstanding as of October 31, 2013, the date the Board of Directors approved the unaudited condensed interim financial statements.

The Company's business is classified as one operating segment that is reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The Company is structured as a franchisor with all of its operating revenues derived in Canada. Operating revenues are comprised of royalties, the sale of goods from Company-operated cafés, the sale of goods through ancillary channels, and other service fees. Management is organized based on the Company's operations as a whole rather than the specific revenue streams.

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 and 39 weeks ended September 28, 2013.

(in thousands of Canadian dollars, except number of cafés and per share amounts)	13 weeks ended September 28, 2013	13 weeks ended September 29, 2012	39 weeks ended September 28, 2013	39 weeks ended September 29, 2012
System sales of cafés[1]	$44,894	$46,389	$139,536	$140,872
Number of cafés - end of period	351	358	351	358
Same café sales[1]	(3.7%)	(2.8%)	(3.1%)	(1.2%)
Total revenue	$6,268	$6,378	$19,150	$18,561
Gross profit	$5,226	$5,407	$16,185	$16,185
Operating expenses	3,865	4,274	11,945	11,447
Impairment of trademarks	-	-	13,253	-
Operating income (loss)	1,361	1,133	(9,013)	4,738
Depreciation & amortization of property, equipment and intangible assets	310	306	903	843
Loss (gain) on disposal of property and equipment	-	29	(16)	28
Impairment charges	-	-	13,253	7
Income before interest, tax, depreciation, amortization, and impairment ("EBITDA")[1]	$1,671	$1,468	$5,127	$5,616
Income (loss) before income taxes	$1,271	$1,017	$(9,275)	$4,363
Income taxes (recovery)	353	271	(729)	1,743
Net income (loss)	$918	$746	$(8,546)	$2,620
Basic and diluted earnings (loss) per share as reported	$0.09	$0.08	$(0.86)	$0.26
Adjusted basic and diluted earnings per share[1,2]	$0.09	$0.08	$0.30	$0.26
Total Assets	$74,262	$101,600	$74,262	$101,600

[1] "System sales of cafés", "Same café sales", "EBITDA", and "adjusted earnings per share" are not recognized performance measures under IFRS and, accordingly, may not be comparable to similar computations as reported by other issuers.
[2] Adjusted earnings per share is adjusted for the non-cash, after-tax impairment charge.

OPERATIONAL HIGHLIGHTS

Launch of a New Look Café – Ideal Café

On July 20, 2013, the Company completed renovations and launched a new look café at one of its corporately owned locations in downtown Toronto. The new look is designed to put our broad selection of brewed coffee at the forefront and to enhance the guest experience. Elements of the new café design are being incorporated across the Company's store network as cafés are opened or renovated. The Company is pleased with the initial results of this pilot, including solid year over year sales improvements.

Announcement of the Intention to Distribute Second Cup Coffee in Grocery Stores

On September 19, 2013, the Company announced it intends to partner with Kraft Canada Inc. to distribute whole bean and ground coffees, six offerings in total, in grocery stores across Canada starting in early 2014. This launch will offer customers more ways to enjoy the quality and variety of coffee from Second Cup. Expansion into the grocery channel enables the Second Cup brand to reach guests in markets that might not have a Second Cup café nearby and to better serve current Second Cup guests in-home. The expansion introduces a new revenue stream for the Company and builds on Second Cup's success in on-demand, single-serve coffee in the grocery channel on the TASSIMO system.

SYSTEM SALES

(All figures are expressed in thousands of Canadian dollars, except number of cafés and per share amounts).

Overview of System Sales

System sales comprise the net 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 (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 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.

Analysis of System Sales and Same Café Sales

System sales for the 13 weeks ended September 28, 2013 were $44,894 compared to $46,389 for the 13 weeks ended September 29, 2012, representing a decrease of $1,495 or 3.2%. System sales for the 39 weeks ended September 28, 2013 were $139,536 compared to $140,872 for the 39 weeks ended September 29, 2012, representing a decrease of $1,336 or 0.9%. The total number of cafés at the end of the Quarter was 351 compared to 358 cafés at the end of the third quarter of 2012, a decrease of seven cafés, and 362 cafés at the end of the second Quarter 2013, a decrease of 11 cafés. The activity during the Quarter was predominantly due to the planned closure of eight low volume cafés located inside home improvement retail centres.

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 and provides a useful comparison between quarters. The two principal factors that affect same café sales are changes in customer traffic and changes in average sale. These factors are dependent on existing cafés maintaining operational excellence within each Second Cup café, general market conditions, pricing, marketing programs undertaken by Second Cup, and the level of competitive activity.

During the Quarter, Second Cup continued to be impacted by competitive activity resulting in a same café sales decline of 3.7%, compared to a decline of 2.8% in the comparable quarter of 2012. On a Year to Date basis there was a decline of 3.1% compared to a decline of 1.2% in the comparable Year to Date period 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	23.8
Second quarter	24.4	24.4	24.4	24.4
Third quarter	24.0	24.0	23.9	24.0
Fourth quarter	27.8	28.1	27.5	27.8
	100.0	100.0	100.0	100.0

Historically, system sales 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 for the full fiscal year.

CAFÉ NETWORK

	13 weeks ended		39 weeks ended	
	September 28, 2013	**September 29, 2012**	**September 28, 2013**	**September 29, 2012**
Number of cafés - beginning of period	362	356	360	359
Cafés opened	1	7	9	14
Cafés closed	(12)	(5)	(18)	(15)
Number of cafés - end of period	351	358	351	358
Number of cafés renovated	10	6	19	13

INCOME, OPERATING EXPENSES AND NET INCOME

Third Quarter

Analysis of Revenue

Total revenues for the Quarter were $6,268 (2012 - $6,378) and consisted of royalty revenue, revenue from sale of goods, and services revenue.

Royalty revenue for the Quarter was $3,285 (2012 - $3,532). The reduction in royalty revenue of $247 was partially due to the reduction in the effective royalty rate (excluding sales from Company-operated cafés) from 7.8% in 2012 to 7.6% in the Quarter. This was partially a result of café specific arrangements in place during the period that lowered the effective royalty rate. In addition, new cafés that opened in 2011 through 2013 to date pay a royalty rate of 3% in the first year, a rate of 6% in the second year and, thereafter, a rate of 9%. The remaining reduction of royalty revenue is as a result of overall lower system sales.

Revenue from the sale of goods, which consists of revenue from Company-operated cafés was $1,363 (2012 - $1,235) for the Quarter. The increase of $128 in revenue from the sale of goods was mainly due to 11 Company-operated cafés in the Quarter compared to ten in 2012.

Services revenue for the Quarter was $1,620 (2012 - $1,611), a $9 increase which was relatively stable compared to 2012. 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).

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 76% (2012 - 79%). The difference is due to menu price increases at cafés and decreases pertaining to product purchase costs as a result of improved vendor pricing.

Operating Expenses

Operating expenses include the head office expenses of Second Cup and the overhead expenses of Company-operated cafés. Total operating expenses for the Quarter were $3,865 (2012 - $4,274), a decrease of $409.

Head Office Operating Expenses

Head office expenses decreased by $429 (11.3%) in the Quarter to $3,361 from $3,790 in 2012. Lower salaries, wages, benefits, and incentives coupled with a gain of $425 relating to breakage income on gift cards as a result of revised estimates were partially offset by additional provisions for closed cafés and increases in other lease related provisions where the Company is on the headlease.

Corporate Café Operating Expenses

The overhead expenses in Company-operated cafés for the Quarter stayed relatively flat increasing by $20 to $504 from $484 in 2012. The small increase was mainly due to 11 Company-operated cafés in the Quarter compared to ten in 2012.

Other Income and Expenses

The Company incurred interest expense of $113 (2012 - $159) on the term loan and interest rate swap, and $3 (2012 - $22) in amortization of deferred financing charges relating to the term loan. The swap agreement expired on April 1, 2013, whereas in 2012, there was a $53 gain pertaining to the movement in the fair value of the interest rate swap. The Company earned other interest income of $26 (2012 - $12) primarily due to interest earned from short-term, highly liquid bank investments with original maturities of three months or less.

Income Taxes
Current income taxes of $439 (2012 - $275) and deferred income tax recovery of $86 (2012 - $4) were recorded in the Quarter.

EBITDA
EBITDA for the Quarter was $1,671 (2012 - $1,468). The increase of $203 in EBITDA was primarily due to a decrease in operating expenses offset by a decrease in royalty revenue as discussed above.

Net Income
The Company's net income for the Quarter was $918 or $0.09 per share, compared to $746 or $0.08 per share in 2012. The increase in net income of $172 or $0.01 per share was mainly due to decreased operating expenses as discussed above.

A reconciliation of net income (loss) to EBITDA is provided in a table below.

Year to Date

Analysis of Revenue
Total revenues for the Year to Date period were $19,150 (2012 - $18,561) and consisted of royalty revenue, revenue from sale of goods and services revenue.

Royalty revenue for the Year to Date period was $10,301 (2012 - $10,910). The reduction in royalty revenue of $609 was mainly due to the reduction in the effective royalty rate (excluding sales from Company-operated cafés) from 7.9% in 2012 to 7.6% in the Year to Date period. This change was consistent with what was discussed above pertaining to the Quarter.

Revenue from the sale of goods, which consists of revenue from Company-operated cafés was $3,980, (2012 - $3,101) for the Year to Date period. The increase in revenue from the sale of goods was mainly due to a range of ten to eleven Company-operated cafés in the current period compared to a 2012 range of seven to ten Company-operated cafés.

Services revenue for the Year to Date period was $4,869 (2012 - $4,550). The $319 increase in services revenue was primarily due to the Year to Date impact of the partnership with Kraft Canada Inc. to produce, market and sell Second Cup TASSIMO T-Discs. Sales of TASSIMO T-Discs commenced in the third quarter of 2012.

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 Year to Date period was 74% (2012 - 77%). The difference is due to menu price increases at cafés and decreases pertaining to product purchase costs as a result of improved vendor pricing.

Operating Expenses
Total operating expenses for the Year to Date period were $11,945 (2012 - $11,447), an increase of $498.

Head Office Operating Expenses
Head office expenses increased by $209 (2.0%) in the Year to Date period to $10,537 from $10,328 in 2012. The increase was driven by adjustments to closed café lease provisions and increases in other lease related

provisions where the Company is on the headlease. In addition, the Company incurred expenditures on innovation, test concepts, and initiatives mostly due to costs towards the loyalty program and new café branding and design costs. The Year to Date period change pertaining to innovation and related costs was largely driven by first quarter spending. Offsetting the increase was a gain relating to breakage income on gift cards recorded in the Quarter as discussed above.

Corporate Café Operating Expenses

The overhead expenses in Company-operated cafés for the Year to Date period increased by $289 to $1,408 from $1,119 in 2012. The increase is due to a larger number of Company-operated cafés as was discussed above.

Impairment of Trademarks

During the second quarter of the current fiscal year, the Company identified impairment indicators, which were primarily a result of the decline in its stock price and a decline in sales in comparison to internal projections. The impairment test is based on management's expectations of future cash flows and incorporates an element of risk in meeting those expectations. As a result of the impairment test, the Company recognized an impairment charge of $13,253 in the Year to Date period. The after-tax impact of this impairment charge was $11,497 and reduced earnings per share by $1.16. The impairment charge had no impact on the Company's liquidity, cash flow, borrowing capability or operations.

Other Income and Expenses

The Company incurred interest expense of $389 (2012 - $525) on the term loan and derivative interest rate swap, and $30 (2012 - $60) in amortization of deferred financing charges relating to the term loan. The Company also recorded a non-cash gain of $96 (2012 - $159) for the movement in the fair value of the derivative interest rate swap that fixed the interest rate on the Company's term loan. The Company earned other interest income of $61 (2012 - $51) primarily due to interest earned from short-term, highly liquid bank investments with original maturities of three months or less.

Income Taxes

Current income taxes of $1,076 (2012 - $1,048) and deferred income taxes of $1,805 - recovery (2012 - $695 expense) were recorded in the Year to Date period. The income tax recovery pertaining to deferred income taxes was driven by the impairment charge recorded in the Year to Date period.

EBITDA

EBITDA for the Year to Date period was $5,127 (2012 - $5,616). The decrease in EBITDA of $489 was primarily due to an increase in operating expenses (excluding depreciation, amortization, loss on disposal of property and equipment and impairment) and lower royalty revenues as discussed above.

Net (Loss) Income

The Company's net loss for the Year to Date period was $8,546 or $0.86 loss per share, compared to net income of $2,620 or $0.26 earnings per share in 2012. The decline in net income of $11,166 or $1.13 per share was mainly due to the non-cash impairment charge.

Reconciliation of Net Income (Loss) to EBITDA

	13 weeks ended		39 weeks ended	
	September 28, 2013	**September 29, 2012**	**September 28, 2013**	**September 29, 2012**
Net income (loss)	$ 918	$ 746	$ (8,546)	$ 2,620
Net interest expense	90	116	262	375
Income taxes (recovery)	353	271	(729)	1,743
Depreciation of property and equipment	187	191	543	508
Amortization of intangible assets	123	115	360	335
Loss (gain) on disposal of property and equipment	-	29	(16)	28
Impairment charges	-	-	13,253	7
EBITDA	$ 1,671	$ 1,468	$ 5,127	$ 5,616

Dividend

On October 30, 2013, the Board of Directors of Second Cup approved a quarterly dividend of $0.085 per common share, payable on November 29, 2013 to shareholders of record at the close of business on November 15, 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 the dividends 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)	Q3 2013	Q2 2013	Q1 2013	Q4 2012[2]
System sales of cafés[1]	$44,894	$47,688	$46,954	$53,515
Same café sales[1]	(3.7%)	(2.2%)	(3.3%)	(4.2%)
Number of cafés at end of period	351	362	361	360
Total revenue	$6,268	$6,636	$6,246	$7,785
Operating income (loss)	$1,361	$(11,401)	$1,027	$(12,988)
Depreciation & amortization of property and equipment and intangible assets	310	293	300	324
(Gain) loss on disposal of property and equipment	-	(23)	7	42
Impairment of property and equipment	-	-	-	355
Impairment of goodwill and trademarks	-	13,253	-	15,294
EBITDA[1]	$1,671	$2,122	$1,334	$3,027
Net income (loss) before income taxes	$1,271	$(11,496)	$950	$(13,116)
Current income tax expense	439	415	222	596
Deferred income tax (recovery) expense	(86)	(1,759)	40	(1,688)
Net income (loss) for the period	$918	$(10,152)	$688	$(12,024)
Basic/diluted earnings (loss) per share	$0.09	$(1.03)	$0.07	$(1.21)
Dividends declared per share	$0.085	$0.085	$0.085	$0.085

	Q3 2012	Q2 2012	Q1 2012	Q4 2011[2]
System sales of cafés[1]	$46,389	$47,382	$47,101	$54,404
Same café sales[1]	(2.8%)	(1.5%)	0.4%	1.2%
Number of cafés at end of period	358	356	355	359
Total revenue	$6,378	$6,175	$6,008	$7,363
Operating income	$1,133	$2,063	$1,542	$3,210
Depreciation & amortization of property and equipment and intangible assets	306	271	266	287
Loss (gain) on disposal of property and equipment	29	-	(1)	20
Impairment of property and equipment	-	-	7	130
EBITDA[1]	$1,468	$2,334	$1,814	$3,647
Net income before income taxes	$1,017	$1,920	$1,426	$3,116
Current income tax expense	275	422	351	894
Deferred income tax (recovery) expense	(4)	656	43	(130)
Net income for the period	$746	$842	$1,032	$2,352
Basic/diluted earnings per share	$0.08	$0.09	$0.10	$0.23
Dividends declared per share	$0.15	$0.15	$0.15	$0.15

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

[2] 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).

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.

Summary of Cash Flows

	13 weeks ended		39 weeks ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Cash flows provided by operating activities	$ 637	$ 1,809	$ 4,913	$ 3,385
Cash flows used in investing activities	(821)	(758)	(917)	(1,146)
Cash flows used in financing activities	(870)	(1,486)	(2,554)	(4,524)
(Decrease) increase in cash and cash equivalents during the period	$ (1,054)	$ (435)	$ 1,442	$ (2,285)

Third Quarter

Cash generated by operating activities was $637 for the Quarter compared to $1,809 for the same quarter last year. The decrease is primarily attributable to changes in working capital balances, mainly as a result of the use of construction deposits from franchise partners as projects are completed.

During the Quarter, cash used in investing activities was $821 compared to cash used of $758 for the same quarter last year. The Company purchased $727 (2012 - $755) of property and equipment primarily for a new look café renovation, for the acquisition of a Company-operated café that opened in September 2013, and hardware pertaining to the POS system upgrade. The Company purchased $153 (2012 – $28) in software pertaining to the POS system upgrade.

Financing activities resulted in a cash usage of $870 (2012 - $1,486) predominantly for dividends of $841 paid to shareholders. The dividends were reduced during the fourth quarter of 2012 to reinvest in long-term strategic growth initiatives such as the loyalty program and the new look café design.

Year to Date

Cash generated by operating activities was $4,913 for the Year to Date period compared to $3,385 for the same period last year. The difference is attributable to reduced income tax instalments as well as favourable changes in non-cash working capital items.

During the Year to Date period, cash used in investing activities was $917 compared to cash used of $1,146 for the same period last year. The Company purchased $1,527 (2012 - $1,371) of property and equipment primarily for the acquisition of three Company-operated cafés in 2013, new look café renovations, equipment for other corporate cafés, head office and the POS system, and $295 (2012 – $156) towards software primarily for the POS system. The Company received proceeds of $867 (2012 - $191) on the disposal of property and equipment related to the sale of two corporate cafés to franchise partners.

Financing activities resulted in a cash usage of $2,554 (2012 - $4,524) predominantly for dividends of $2,525 paid to shareholders. The dividends were reduced during the fourth quarter of 2012 to re-invest in long-term strategic growth initiatives such as the loyalty program and the new café design as discussed above.

Working Capital as at

	September 28, 2013	December 29, 2012
Current assets	$ 8,406	$ 9,593
Current liabilities	8,857	10,649
Working capital deficiency	$ (451)	$ (1,056)

The Company's working capital deficiency of $451 as of September 28, 2013, improved by $605 from December 29, 2012. 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 include a $3,185 (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 recognizes 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 $5,322 at September 28, 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 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 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 ("BA") rate plus a margin range of 2.25% to 3.25% depending on the Company's Leverage Ratio. As at September 28, 2013, the applicable margin pertaining to the aforementioned range is 2.75%. As at September 28, 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 BA rate plus a range of 2.25% to 3.25% depending on the Company's Leverage Ratio. As at September 28, 2013, the applicable margin pertaining to the aforementioned range is 2.75%. As at September 28, 2013, no advances had been drawn on this facility.

The Company had an interest rate swap agreement with a notional value of $11,000 that matured on April 1, 2013, which fixed the interest rate on the Company's non-revolving term credit facility at 3.04% per annum plus the margin noted above, which resulted in a fixed effective interest rate of 5.79%. As at September 28, 2013, the swap agreement expired. As at December 29, 2012, the balance of $96 was recorded as a liability. The fair value movement of the interest rate swap has been recorded as a non-cash credit to income.

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

- a ratio of senior debt to EBITDA ratio ("Leverage Ratio"),
- a fixed charge coverage ratio,

both of the latter 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 September 28, 2013, the Company was in compliance with all financial and other covenants of the Company's operating credit facility and term loan.

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 September 28, 2013 are as follows:

	Headlease commitments	Sublease to franchisees	Net
September 28, 2014	$ 19,940	$ 18,486	$ 1,454
September 28, 2015	18,525	17,307	1,218
September 28, 2016	16,474	15,254	1,220
September 28, 2017	14,540	13,322	1,218
September 28, 2018	12,419	11,315	1,104
Thereafter	34,646	30,907	3,739
	$ 116,544	$ 106,591	$ 9,953

The Company believes it will have sufficient resources to meet the net commitment of $9,953.

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

	13 weeks ended		39 weeks ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Company head office and franchise café locations	$ 883	$ 694	$ 1,473	$ 1,025
Company-operated cafés	306	237	881	603
	$ 1,189	$ 931	$ 2,354	$ 1,628

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

The Coffee "C" contract is the world benchmark for Arabica coffee. The contract prices physical delivery of exchange grade green beans from one of 19 countries of origin in a licensed warehouse to one of several ports in the U.S. and Europe, with stated premiums/discounts. Second Cup sources high altitude Arabica coffee which tends to trade at a premium above the "C" coffee commodity price. Second Cup has contracts with third party companies to purchase the coffee that is sold in all Second Cup cafés. In terms of these supply agreements, Second Cup has guaranteed a minimum volume of coffee purchases amounting to $5,869 (December 29, 2012 - $4,421). The coffee purchase commitment represents purchase commitments made up to the end of December 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.

Second Cup is the primary coordinator of café construction costs on behalf its franchise partners and for corporate cafés. As at September 28, 2013, there is $2,046 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.

MANAGEMENT OF CAPITAL

For a detailed summary of management of capital, refer to 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 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 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 September 28, 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 September 28, 2013, the Company's disclosure controls and procedures were appropriately designed.

During the last week of the second quarter of 2013, the Company appointed a new interim CFO who subsequently was appointed as CFO during the third Quarter. The Company also hired a new Director of Finance in the second quarter. Given the experience of both the CFO and the Director of Finance, as well as the continuity of the rest of the senior leadership team, we believe the transition was effective and had no impact on the disclosure controls and procedures.

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 September 28, 2013 and up to the date of the approval of the 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.

(b) 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 financial statements for external purposes in accordance with IFRS.

As at September 28, 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 September 28, 2013, the Company's controls over financial reporting were appropriately designed and are operating effectively.

During the last week of the second quarter of 2013, the Company appointed a new interim CFO who subsequently was appointed as CFO during the third Quarter. The Company also hired a new Director of Finance in the second quarter. Given the experience of both the CFO and the Director of Finance, as well as the continuity of the rest of the senior leadership team, we believe the transition was effective and had no impact on the internal controls over financial reporting.

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 September 28, 2013 and up to the date of the approval of the 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

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.

There is an ongoing risk of highly competitive promotional activity, which can create further pressure on system sales. System sales have a direct impact on the success of franchise partners and on royalty revenue to the Company. Lower system sales 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

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

The Second Cup business continues to operate in a competitive marketplace and a challenging consumer environment. In 2013, management continues to invest in the business, including a loyalty program which is being tested in 31 cafés, with positive initial results. In 2014, Second Cup plans to roll out the loyalty program nationally.

The prototype of the new look café opened in July. Elements of the prototype are expected to be rolled out immediately to new cafés and existing cafés when renovated. As well, the Company introduced and will further expand a coffee revitalization program. Included in the revitilization program was the expansion of the TASSIMO T-Disc line, which was launched in market late in the Quarter.

Second Cup has announced that it will leverage its success with its partner, Kraft Canada Inc., to distribute its Second Cup branded whole bean and ground coffee to grocery stores across Canada in early 2014. The new revenue stream is intended to increase corporate sales, while increasing brand presence in the marketplace to attract customers into cafés in addition to their homes. This new venture will require an initial investment in listing fees and advertising support in 2014.

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

FORWARD-LOOKING STATEMENTS

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 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; 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" 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 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.