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; 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 March 7, 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") and 52 weeks (the "Year") ended December 28, 2013, and should be read in conjunction with the Audited Financial Statements of the Company, 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, 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.

TABLE OF CONTENTS

CORE BUSINESS, STRATEGY, AND PERFORMANCE DRIVERS

Core business

Second Cup is Canada's largest specialty coffee café franchisor (as measured by the number of cafés) with 356 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, excluding the Territory of Nunavut.

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 March 7, 2014, the Company's issued share capital consisted of 9,903,045 common shares and was unchanged from the previous Year.

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

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 house. The strategic focus is supported with integrated imperatives that are geared towards future growth. Key objectives are:

- improve franchise partner profitability by growth in 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 three strategic imperatives targeted to fulfil growth objectives that commenced in 2012 are outlined as follows:

(i) Development and deployment of a loyalty program

The Company launched the loyalty program pilot in 31 cafés in the Calgary region in June 2013. The pilot program helped facilitate key learnings and consideration points with respect to a planned national launch in 2014. The goal of the loyalty program is to reward our loyal customers and attract incremental traffic from new and existing customers. Initial pilot results are promising and helped support the business case to continue to develop and launch the loyalty program on a national basis.

(ii) Distribution of Second Cup coffee in grocery stores and other retail channels
The Company has partnered with Kraft Canada Inc. to distribute three whole bean and three roast & ground coffee offerings in grocery stores across Canada. The product was made available on store shelves in certain locations in February 2014. This launch will offer customers more ways to enjoy the quality and variety of coffee from Second Cup. Expansion into the grocery channel broadens Second Cup's brand by reaching guests in markets that might not have a Second Cup café nearby and better serves current Second Cup guests in-home. The increased accessibility of Second Cup products also enhances brand awareness to encourage guests to seek and experience the Second Cup product at a café. The launch will introduce 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.

(iii) Launch and continuing development of a new look café design
In July 2013, the Company completed a renovation and launched a new look café at one of its Company-operated cafés in downtown Toronto. The new look is designed to put the Company's 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. Management will continue to review aspects of the design and work towards further deployment and refinement going forward.

Change in Board of Directors and Chief Executive Officer
The Company announced on December 20, 2013 the reconstitution of the Board of Directors. The new Board is compromised of Michael Bregman (Chairman), Stephen Kelley, Alton McEwen, Rael Merson, and Alan Simpson.

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 356 cafés across Canada, Second Cup is Canada's largest specialty coffee franchisor. 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. 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's coffee portfolio includes over 25 types of coffee, including a number of single origin estate coffees and a variety of blends exclusive to Second Cup, such as Paradiso, Espresso Forte and Second Cup's Holiday Blend. 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®. The Company has Canadian exclusivity to distribute Costa Rican sourced La Minita Tarrazú coffee beans, which is considered one of the most highly sought-after coffees in the world.

Second Cup prides itself that 80% of the coffee portfolio, 100% of its espresso beverages, and 100% of its silk sachet tea collection are certified by third parties such as Rainforest Alliance Certified™ as environmentally sustainable products. The Company offers a fair-trade and organic certified blend of coffee entitled Cuzco®.

In addition to coffee-based products and other beverages, our cafés carry a variety of complementary products, including pastries, sandwiches, muffins, cookies, coffee accessories and coffee-related gift items.

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 periods ended December 28, 2013 and December 29, 2012, 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 December 28, 2013, the applicable margin pertaining to the aforementioned range is 2.75%. As at December 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 December 28, 2013, the applicable margin pertaining to the aforementioned range is 2.75%. As at December 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 expired on April 1, 2013, which fixed the interest rate on the Company's non-revolving term credit facility at 3.04% per annum plus the margin noted above, which resulted in a fixed effective interest rate of 5.79%.

On September 30, 2013, 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 whom are speciality 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 head office 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 Audited Financial Statements of the Company for the 52 weeks ended December 28, 2013.

(in thousands of Canadian dollars, except Number of cafés, Same café sales, and per share amounts)	13 weeks ended		52 weeks ended	
	December 28, 2013	**December 29, 2012**	**December 28, 2013**	**December 29, 2012**
System sales of cafés[1]	$51,898	$53,515	$191,434	$194,387
Same café sales[1]	(4.3%)	(4.2%)	(3.6%)	(1.9%)
Number of cafés - end of period	356	360	356	360
Total revenue	$8,038	$7,785	$27,188	$ 26,346
Gross profit	$6,949	$6,638	$23,134	$22,823
Operating expenses	$4,759	$3,977[2]	$16,704	$15,417[2]
Impairment charges	$299	$15,649[2]	$13,552	$15,656[2]
Operating income (loss)[1]	$1,891	($12,988)	($7,122)	($8,250)
Adjusted EBITDA[1]	$2,868	$3,027	$7,570	$8,643
Net income (loss) and comprehensive income (loss)	$1,177	($12,024)	($7,369)	($9,404)
Basic and diluted earnings (loss) per share as reported	$0.12	($1.21)	($0.74)	($0.95)
Adjusted basic and diluted earnings per share[1]	$0.17	$0.18[2]	$0.45	$0.45[2]
Total Assets - end of period	$77,340	$88,680	$77,340	$88,680
Number of common shares issued and outstanding - end of period	9,903,045	9,903,045	9,903,045	9,903,045

[1]See the section "Definitions and discussion on certain non-GAAP measures" for further analysis.
[2]Comparative figures were subject to reclassification as discussed in note 2a of the Audited Financial Statements. The net impact of the reclassification was $nil to net loss and comprehensive loss and only impacted presentation within current liabilities.

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		52 weeks ended	
	December 28, 2013	December 29, 2012	December 28, 2013	December 29, 2012
Number of cafés - beginning of period	351	358	360	359
Cafés opened	6	4	15	18
Cafés closed	(1)	(2)	(19)	(17)
Number of cafés - end of period	356	360	356	360
Number of cafés renovated	3	4	22	19

Closure activity in 2013 was predominantly driven by the planned closures of eight low volume cafés located inside home improvement retail centres. The Company ended the Year with ten (2012 - ten) Company-operated cafés.

Fourth Quarter

System sales of cafés

System sales of cafés for the 13 weeks ended December 28, 2013 were $51,898 compared to $53,515 for the 13 weeks ended December 29, 2012, representing a decrease of $1,617 or 3.0%. 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 competitive activity resulting in a same café sales decline of 4.3%, compared to a decline of 4.2% in the comparable Quarter of 2012.

Analysis of revenue

Total revenue for the Quarter was $8,038 (2012 - $7,785) and consisted of royalty revenue, revenue from sale of goods, and services revenue.

Royalty revenue for the Quarter was $3,816 (2012 - $4,017). The reduction in royalty revenue of $201 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 from the e-commerce channel was $1,526 (2012 - $1,597) for the Quarter. The decrease of $71 in revenue from the sale of goods was mainly due lower customer traffic across the Company-operated café portfolio and changes within the portfolio of cafés. There were ten Company-operated cafés at the end of both Years.

Services revenue for the Quarter was $2,696 (2012 - $2,171). 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 licencing revenue, wholesale revenue, purchasing coordination fees, and other ancillary fees (such as IT support and training fees). The $525 increase in services revenue was primarily due to sales pertaining to the partnership with Kraft Canada Inc. to produce, market, and sell 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 e-commerce 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 $1,089 (2012 - $1,147) or alternatively as a percentage of revenue from the sale of goods was 71% (2012 - 72%). The improvement 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 $4,759 (2012 - $3,970), an increase of $782.

Head office

Head office expenses for the Quarter were $4,406 (2012 - $3,424), an increase of $982 or 29%. During the Quarter, the Company recorded $883 of restructuring charges pertaining to the reconstitution of the Board of Directors and change in Chief Executive Officer. The Company also recorded bad debt expense of $265 in the Quarter. Offsetting impacts included lower salaries, wages, benefits, and incentives coupled with a gain of $372 relating to breakage income on gift cards.

Company-operated cafés

Company-operated café expenses for the Quarter were $353 (2012 - $546), a decrease of $193 or 35%. The decrease is due to gains on disposal of capital related items as a result of required software upgrades in advance of the anticipated launch of the loyalty program.

Impairment charges

The Company recognized impairment charges of $299 (2012 - $15,649). The 2013 charge pertained to leasehold improvement assets carried at a value in excess of its recoverable amount that cannot be redeployed to another Company-operated café.

The 2012 charges of $15,649 were a result of the Company's annual impairment analysis, which consisted of $12,850 to trademarks, $2,444 to goodwill, and $355 to other assets.

Interest and financing

The Company incurred interest and financing expenses of $254 (2012 - $128). The swap agreement expired on April 1, 2013 and was subsequently renewed during the Quarter on September 30, 2013. The increase in interest and financing expenses is due to the fair value adjustment primarily realized at inception of the renewed swap which captures an interest rate premium to fix the effective interest rate on the Long-term debt. Details are discussed in the "Liquidity and capital resources" section onward in the MD&A.

Income taxes (recovery)
Current income taxes of $427 (2012 - $596) and deferred income tax expense of $33 (2012 - tax recovery of $1,688) were recorded in the Quarter. Current income taxes decreased as a result of decreased royalties. The change in deferred income taxes was driven by the impairment charges recorded in 2012.

Adjusted EBITDA
Adjusted EBITDA for the Quarter was $2,868 (2012 - $3,027). The decrease of $159 in Adjusted EBITDA was primarily due to decreased royalty revenue.

Net income (loss)
The Company's net income for the Quarter was $1,177 or $0.12 per share, compared to a loss of $12,024 or $1.21 per share in 2012. The increase in net income of $13,201 or $1.33 per share was mainly due to the non-cash impairment charge that was recorded in the prior Year.

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

Year

System sales of cafés
System sales of cafés for the Year were $191,434 compared to $194,387 for 2012, representing a decrease of $2,953 or 1.5%. The decrease is attributable to lower same café sales and to the marginally smaller store network.

Same café sales
For the Year, there was a decline of 3.6% compared to a decline of 1.9% in the comparable Year of 2012. The nature of the decrease is consistent to what was discussed above in the Quarter.

Analysis of revenue
Total revenues for the Year were $27,188 (2012 - $26,346).

Royalty revenue for the Year was $14,117 (2012 - $14,927). The reduction in royalty revenue of $810 was mainly a result of overall lower system sales of cafés and the reduction in the effective royalty rate from 7.9% in 2012 to 7.6% in the Year. 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 and the e-commerce channel was $5,506 (2012 - $4,698) for the Year. The increase in revenue from the sale of goods was mainly due to a range of ten to eleven Company-operated cafés compared to a 2012 range of seven to ten Company-operated cafés.

Services revenue for the Year was $7,565 (2012 - $6,721). The $844 increase in services revenue was primarily due to the full year 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, hence the 2013 Year benefitted from having a full period of sales.

Cost of goods sold

Cost of goods sold was $4,054 (2012 - $3,523) or alternatively as a percentage of revenue from the sale of goods was 74% (2012 - 75%). The improvement was discussed above in the Quarter.

Operating expenses

Total operating expenses for the Year were $16,704 (2012 - $15,417), an increase of $1,287.

Head office

Head office expenses increased by $1,191 (9%) in the Year to $14,943 from $13,752 in 2012. The Company incurred $883 in restructuring charges as discussed above in the Quarter. The increase was also driven by adjustments to closed café lease provisions and increases in other onerous lease related provisions where the Company is on the headlease. The increase also pertains to expenditures on innovation, test concepts, and initiatives mostly due to costs towards the loyalty program and new café branding and design costs. Offsetting some of the increase was a gain of $797 relating to breakage income on gift cards recorded in the Year.

Company-operated cafés

The overhead expenses in Company-operated cafés for the Year increased by $96 to $1,761 from $1,665 in 2012. The increase is due to a larger number of Company-operated cafés offset partially by a gain on disposal of capital related items, both of which were discussed above in the Quarter.

Impairment charges

The Company incurred impairment charges of $13,552 (2012 - $15,656). During the second Quarter of 2013, the Company identified impairment indicators on its trademark assets, 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 the expected recoverable amount of the cash generating unit which has been determined using fair value less costs to sell. The determination of the recoverable amount 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 pertaining to trademarks. 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.

Further impairment charges are discussed above in the Quarter.

Interest and financing

The Company incurred interest and financing expenses of $516 (2012 - $503). The increase in interest and financing expenses was discussed above in the Quarter. Offsetting the increases were recoveries pertaining to higher interest income as a result of higher cash balances. Further recoveries were a result of a lower fixed effective interest rate of 4.82% vs. 5.79% under the previous interest rate swap that ended on April 30, 2013. Details are discussed in the "Liquidity and capital resources" section onward in the MD&A.

Income taxes (recovery)

Current income taxes of $1,503 (2012 - $1,644) and deferred income tax recoveries of $1,772 (2012 - $993) were recorded in the Year. The decline in current taxes is consistent with the discussion above in the Quarter. The income tax recoveries pertaining to deferred income taxes were driven by the impairment charges discussed above.

Adjusted EBITDA

Adjusted EBITDA for the Year was $7,570 (2012 - $8,643). The Adjusted EBITDA decrease of $1,073 was primarily due to an increase in operating expenses before restructuring charges, the change in estimate pertaining to the gift card breakage rate, and a decrease in royalty revenue as discussed above.

Net loss

The Company's net loss for the Year was $7,369 or $0.74 loss per share, compared to net loss of $9,404 or $0.95 loss per share in 2012. The improvement of net loss of $2,035 or $0.20 per share was mainly due to lower non-cash impairment charges in the current Year.

Dividend

On March 7, 2014 the Board of Directors of Second Cup approved a quarterly dividend of $0.085 per common share, payable on March 28, 2014 to shareholders of record at the close of business on March 21, 2014.

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

(in thousands of Canadian dollars, except Number of cafés, Same café sales, and per share amounts)	Q4 2013[2]	Q3 2013	Q2 2013	Q1 2013
System sales of cafés[1]	$51,898	$44,894	$47,688	$46,954
Same café sales[1]	(4.3%)	(3.7%)	(2.2%)	(3.3%)
Number of cafés - end of period	356	351	362	361
Total revenue	$8,038	$6,268	$6,636	$6,246
Operating income (loss)[1]	$1,891	$1,361	($11,401)	$1,027
Adjusted EBITDA[1]	$2,868	$1,246[3]	$2,122	$1,334
Net income (loss) for the period	$1,177	$918	($10,152)	$688
Basic/diluted earnings (loss) per share	$0.12	$0.09	($1.03)	$0.07
Dividends declared per share	$0.085	$0.085	$0.085	$0.085

	Q4 2012[2]	Q3 2012	Q2 2012	Q1 2012
System sales of cafés[1]	$53,515	$46,389	$47,382	$47,101
Same café sales[1]	(4.2%)	(2.8%)	(1.5%)	0.4%
Number of cafés - end of period	360	358	356	355
Total revenue	$7,785	$6,378	$6,175	$6,008
Operating (loss) income[1]	($12,988)	$1,133	$2,063	$1,542
Adjusted EBITDA[1]	$3,027	$1,468	$2,334	$1,814
Net (loss) income for the period	($12,024)	$746	$842	$1,032
Basic/diluted (loss) earnings per share	($1.21)	$0.08	$0.09	$0.10
Dividends declared per share	$0.085	$0.15	$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).
[3]The Company amended its definition of Adjusted EBITDA as discussed in the section "Definitions and discussion on certain non-GAAP financial measures" to include changes in the estimate pertaining to the gift card breakage rate. Comparative amounts were amended in order to provide adequate comparative figures.

LIQUIDITY AND CAPITAL RESOURCES

Second Cup collects royalties based on the franchise partner portion of System sales of cafés, 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 the "Risks and uncertainties" section below.

Summary of cash flows

	13 weeks ended		52 weeks ended	
	December 28, 2013	December 29, 2012	December 28, 2013	December 29, 2012
Cash flows provided by operating activities	$ 2,765	$ 1,765	$ 7,678	$ 5,150
Cash flows used by investing activities	(744)	(221)	(1,661)	(1,367)
Cash flows used by financing activities	(842)	(844)	(3,396)	(5,368)
Increase (decrease) in cash and cash equivalents during the period	$ 1,179	$ 700	$ 2,621	$ (1,585)

Fourth Quarter

Cash generated by operating activities was $2,765 for the Quarter compared to $1,765 for the same Quarter in 2012. The difference is attributable to changes in non-cash working capital as a result of recorded breakage income and increases in provisions as a result of restructuring charges. Offsetting the increase were lower royalty revenues.

During the Quarter, cash used in investing activities was $744 compared to cash used of $221 for the same Quarter in 2012. The cash usage was a result of purchases in software pertaining to the POS system upgrade that commenced in the Quarter.

Financing activities resulted in a cash usage of $842 (2012 - $844) and thus was relatively stable.

Year

Cash generated by operating activities was $7,678 for the Year compared to $5,150 for the same period last year. The difference was due to items discussed above in the Quarter.

During the Year, cash used in investing activities was $1,661 compared to cash used of $1,367 for the same period in 2012. The Company purchased $2,117 (2012 - $1,758) 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 $787 (2012 - $180) towards software primarily for POS system upgrades that are a prerequisite to the launch of a loyalty program. The Company received proceeds of $1,240 (2012 - $350) on the disposal of property and equipment related to the sale of two corporate cafés to franchise partners and where the Company obtained proceeds upon returning related POS software licenses. Other cash received from investing activities was $3 (2012 - $185).

Financing activities resulted in a cash usage of $3,396 (2012 - $5,368) predominantly for dividends of $3,367 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

	December 28, 2013	December 29, 2012
Current assets	$ 11,402	$ 9,593
Current liabilities	11,061	10,649
Working capital (deficiency)	$ 341	$ (1,056)

The Company's working capital of $341 as of December 28, 2013, improved by $1,397 from December 29, 2012. Current liabilities include a $3,895 (December 29, 2012 - $4,560) gift card liability. The change in working capital was a result of a higher cash balance (discussed below) and a reduction of the gift card liability due to breakage (discussed above).

The Company had cash and cash equivalents of $6,501 at December 28, 2013 (December 29, 2012 - $3,880). The increase was primarily due to the reduced dividends (discussed above). 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 lease 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 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
Discussion of commitments as at December 28, 2013 are as follows:

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.

	Headlease commitments	Sublease to franchisees	Net
December 28, 2014	$ 19,627	$ 18,144	$ 1,483
December 28, 2015	18,328	17,004	1,324
December 28, 2016	16,254	15,033	1,221
December 28, 2017	14,222	13,030	1,192
December 28, 2018	12,159	11,076	1,083
Thereafter	32,694	29,142	3,552
	$ 113,284	$ 103,429	$ 9,855

The Company believes it will have sufficient resources to meet the net commitment of $9,855.

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 $5,621 USD (2012 - $4,421 USD) during fiscal 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 distribution agreement and has partnered with a vendor to wholesale its products through grocery and other retail outlets across Canada. As a result of the distribution agreement, the Company is required to pay a portion of one-time listing fees in the amount of up to $1,050 in 2014.

Second Cup is the primary coordinator of café construction costs on behalf its franchise partners and for Company-operated cafés. There is $1,433 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.

In 2013, the Company incurred a total of $153 in legal expenditures incurred on behalf of shareholders and related companies with respect to the reconstitution of the Board of Directors. These items were recorded at their exchange amount as restructuring expenses.

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 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.

During the first Quarter of 2014, the Company appointed a new CEO. Given the continuity of the senior leadership team which included the effective transition of the new CFO over a reasonable duration during the fiscal Year as documented above, we believe the transition was effective and had no impact on the disclosure controls and procedures.

As at March 7, 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 December 28, 2013, the Company's disclosure controls and procedures were appropriately designed.

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

During the Year ended December 28, 2013 and up to the date of the approval of the Audited 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 Audited Financial Statements for external purposes in accordance with IFRS.

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.

During the first Quarter of 2014, the Company appointed a new CEO. Given the continuity of the senior leadership team which included the effective transition of the new CFO over a reasonable duration during the fiscal Year as documented above, we believe the transition was effective and had no impact on the internal controls over financial reporting.

As at March 7, 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 December 28, 2013, 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 Year ended December 28, 2013 and up to the date of the approval of the Audited 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 Audited Financial Statements requires management to make estimates, assumptions, and use judgement in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgements are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The accounting estimates will, by definition, seldom equal the related actual results.

Estimates
The following are examples of estimates and assumptions the Company makes:

- The allowance for doubtful accounts;
- The 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 Audited Financial Statements:

(i) Impairment charges
Impairment analysis is an area involving management judgement requiring assessment as to whether the carrying value of assets is recoverable. Fair value less cost to sell is determined by estimating the net present value of future cash flows derived from such assets using cash flow projections that have been discounted at an appropriate rate and based on a market participant's view. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters including:

- Growth in total revenue;
- Change and timing of cash flows such as the increase or decrease of expenditures;
- Selection of discount rates to reflect the risks involved; and
- Applying judgement in cash flows specific to cash generating units.

Changing the assumptions selected by management, in particular, the discount rate and the growth rate assumptions used in the cash flow projections, could significantly affect the impairment evaluations and recoverable amounts.

(ii) Deferred income taxes
The timing of reversal of temporary differences and the expected income allocation to various tax jurisdictions within Canada affect the effective income tax rate used to compute the deferred income taxes. Management estimates the reversals 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.

(iii) 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.

(iv) 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. Potential risks include the following:

The specialty coffee industry is characterized by intense competition with respect to price, location, coffee and food quality, and numerous factors affecting discretionary consumer spending. Competitors include national and regional chains, independent cafés, all restaurants and food service outlets that serve coffee, and supermarkets that compete in the whole bean and roast & ground segments. If Second Cup cafés are unable to successfully compete in the Canadian specialty coffee industry, System sales of cafés may be adversely affected, which, in turn, may adversely affect the ability of Second Cup to pay dividends.

Growth of the café network depends on Second Cup's ability to secure and build desirable locations and find high calibre, qualified franchise partners to operate them. Adverse credit markets, such as those currently being experienced, may affect the ability of franchise partners to obtain new credit or refinance existing credit on economically reasonable terms.

Second Cup faces competition for café locations and franchise partners from its competitors and from franchisors and operators of other businesses. The success of Second Cup franchise partners is significantly influenced by the location of their cafés. There can be no assurance that current Second Cup café locations will continue to be attractive, or that additional café sites can be located and secured as demographic and traffic patterns change. Also, there is no guarantee that the property leases in respect of the Second Cup cafés will be renewed or suitable alternative locations will be obtained and, in such event, one or several cafés could be closed. It is possible that the current locations or economic conditions where Second Cup cafés are located could decline in the future, resulting in potentially reduced sales in those locations, which will have an adverse effect on System sales of cafés. There is no assurance that future sites will produce the same results as past sites. There is also no assurance that a franchise partner will continue to pay its rental obligations in a timely manner, which could result in Second Cup being obligated to pay the rental obligations pursuant to its head lease commitment, which would adversely affect the profitability of Second Cup's business.

A shortage in supply or an increase in the price of premium quality coffee beans could adversely affect Second Cup. Second Cup has no material long-term contracts with coffee bean suppliers and relies on historical relationships to ensure availability. While there are a number of coffee bean suppliers, there can be no assurance that coffee bean suppliers that have relationships with Second Cup will continue to supply coffee beans at competitive prices.

The Canadian specialty coffee industry is also affected by changes in discretionary spending patterns, which are in turn dependent on consumer confidence, disposable consumer income and general economic conditions. Factors such as a change in general economic conditions, recessionary or inflationary trends, job security and unemployment, equity market levels, consumer credit availability and overall consumer confidence levels may affect their business. The specialty coffee industry is also affected by demographic trends, traffic and weather patterns, as well as the type, number, and location of competing cafés.

Second Cup's business could be adversely affected by increased concerns about food safety in general or other unusual events. In February 2014, it was announced that the government of Ontario is in the process of advancing legislation that would require quick service restaurants to post calorie counts on its menu boards. Such legislation has not been finalized as at the date of this MD&A. Overt disclosure of calorie counts may alter consumer spending habits which would impact store sales. It is also undetermined what the potential impact of associated financial requirements would be to fulfil legislative requirements.

The partnership with Kraft Canada Inc. to distribute whole bean and roast & ground coffees requires significant investments of non-refundable listing fees. The TASSIMO self-serve product has achieved positive results and the Company will continue to evaluate this area of potential growth, including the consideration of adding further product offerings. The launch of whole bean and roast & ground coffees are a complementary but different product line in comparison to self-serve. Thus there is a risk that the success of products offered through grocery and retail channels may differ.

Second Cup relies heavily on information technology network infrastructure. 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 relies on POS for system sales for both marketing trends and royalty calculations through the IT network infrastructure. Cafés rely on IT network infrastructure to order goods and process credit, debit and café card transactions. Head Office financial and administrative functions rely on IT infrastructure for accurate and reliable information. The failure of these systems to operate effectively, or problems with upgrading or replacing systems could cause a material negative financial result. The Company is continually reviewing its systems and procedures to minimize risk.

The loss of key personnel and/or a shortage of experienced management and hourly employees could have an adverse impact on Second Cup's operations and cafés.

A more detailed discussion of the risks and uncertainties affecting Second Cup is set out in the Second Cup's Annual Information Form, which is available at www.sedar.com.

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. In 2014, Second Cup plans to roll out the loyalty program nationally.

As well, the Company introduced and will further expand a coffee revitalization program. Promotions will be geared to put coffee at the forefront as one of the Company's key success factors. Included in the revitalization 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 roast & ground coffee to grocery stores across Canada commencing in February 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 potential advertising support in 2014.

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

As a result of the reconstitution of the Board of Directors, a change in the Chief Executive Officer, and an ongoing review of the Second Cup's operational direction, the Company may incur certain transitional and restructuring related charges onward in 2014. The Company will focus on embracing change and implementing improvements to better the economic health of the franchise network, which is intended to ultimately benefit the Company and its shareholders.

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, 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 growth 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. Organic growth 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, 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 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 was 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 (loss) to EBITDA and Adjusted EBITDA is provided below:

	13 weeks ended		52 weeks ended	
	December 28, 2013	December 29, 2012	December 28, 2013	December 29, 2012
Net income (loss)	$ 1,177	$ (12,024)	$ (7,369)	$ (9,404)
Net interest and financing	254	128	516	503
Income taxes (recovery)	460	(1,092)	(269)	651
Depreciation of property and equipment	206	208	749	716
Amortization of intangible assets	142	116	502	451
(Gain) loss on disposal of property and equipment	(181)	42	(197)	70
EBITDA	2,058	(12,622)	(6,068)	(7,013)
Impairment charges	299	15,649[1]	13,552	15,656[1]
Restructuring charges	883	-	883	-
Gift card breakage rate - change in estimate	(372)	-	(797)	-
Adjusted EBITDA	$ 2,868	$ 3,027	$ 7,570	$ 8,643

[1]As a result of the reclassification of impairment charges discussed in note 2a of the Audited Financial Statements, adjusted earnings per share for comparative amounts were amended in order to provide adequate comparative figures.

Adjusted basic and diluted earnings per share

Adjusted earnings per share represents earnings per share excluding impairment and restructuring charges, and the change in estimate pertaining to the gift card breakage rate. Impairment charges of trademarks and goodwill are non-cash, but material items that were adjusted as management concluded that this was 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 was captured as a reconciling item to Adjusted earnings per share as management believed 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 Adjusted basic and diluted earnings per share is provided below:

	13 weeks ended		52 weeks ended	
	December 28, 2013	December 29, 2012	December 28, 2013	December 29, 2012
Net income (loss)	$ 1,177	$ (12,024)	$ (7,369)	$ (9,404)
Impairment charges	299	15,649[1]	13,552	15,656[1]
Restructuring charges	883	-	883	-
Gift card breakage rate - change in estimate	(372)	-	(797)	-
Tax effect of impairment and restructuring charges, and the change in estimate of the gift card breakage rate	(215)	(1,795)[1]	(1,859)	(1,799)[1]
Adjusted earnings	1,722	1,830[1]	4,410	4,453[1]
Weighted average number of shares issued and outstanding (unrounded)	9,903,045	9,903,045	9,903,045	9,903,045
Adjusted basic and diluted earnings per share	$ 0.17	$ 0.18[1]	$ 0.45	$ 0.45[1]

[1]As a result of the reclassification of impairment charges discussed in note 2a of the Audited Financial Statements, adjusted earnings per share for comparative amounts were amended in order to provide adequate comparative figures.