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 franchisees; 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 franchisees; 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 5, 2015 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 27, 2014, 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.

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CORE BUSINESS, STRATEGY, AND PERFORMANCE DRIVERS

Core business

Second Cup is a Canadian specialty coffee retailer with 347 cafés operating under the trade name Second Cup™ in Canada, of which 35 are Company-operated and the balance are operated by franchisees who are selected and trained to retail 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 in Canada, excluding the Territory of Nunavut.

The Company 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 website is www.secondcup.com. The common shares are listed on the Toronto Stock Exchange under the symbol "SCU".

The 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 5, 2015, the issued share capital consisted of 12,830,945 common shares, an increase of 2,297,900 shares from the previous year.

Additional information including the 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.

CORE BUSINESS, STRATEGY, AND PERFORMANCE DRIVERS

Strategic imperatives and key performance drivers

Second Cup's new vision of being the coffee brand most passionately committed to quality and innovation will drive management's strategies and actions going forward. Coffee will be at the core of the offering and the brand will win customers' hearts through more "personalized experiences".

The work to transform the business commenced earlier this year with the hiring of a new management team, business restructuring, roll-out of an initial improvement to franchisee unit profitability as a result of reduced royalty and coop advertising fees, and design and implementation of the first café of the future. The strategic plan will be executed in two phases over the next three years. The first phase will focus on "laying the groundwork" for growth: driving same store sales through product innovation, improved operations, brand and loyalty building initiatives, while concurrently honing and beginning to roll out the café of the future concept to new locations and renovated cafes.

CAPABILITIES

This section documents factors that affect the 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

In conjunction with the official unveiling of the café of the future, the Company launched its new logo and branding in December of 2014. The updated brand -- Second Cup Coffee Co.™ -- reflects a new independent spirit, a commitment to deliver the world's finest coffee, and the Company's vision to be the coffee brand most passionately committed to quality and innovation. The new logo is designed to convey the elevated premium status of the brand, and all touch points both inside and outside of the café have been modernized.
A proudly Canadian company since 1975 with 347 cafés across Canada, Second Cup Coffee Co.™, is a specialty coffee retailer. The Company maintains its commitment to the communities it operates in, celebrating the franchisees local ownership and focus on providing quality and friendly service to each customer in every café.

The Café of the Future

Located in downtown Toronto, the new café of the future is an important milestone in the Company's transformation and a first step in its three-year strategic plan. The new design revolves around the Company's brand pillars of superior quality, optimism, collaboration, creativity and community, and focuses on the individual customer experience. Features of the new cafe include a Slow Bar, where Customers can interact with baristas and taste coffees made from new brewing technologies, an expanded portfolio of coffees, new baked goods hand-crafted in local bakeries, modern layout and architectural design, built-in charging stations for electronic devices, custom music program, community wall mural created by local artists that reflects and celebrates the neighborhood, and a stylish new employee dress code.

The people

The franchise network consists of approximately 4,000 team members. Team members range from baristas, managers, and franchisees at the cafés, and support personnel employed at the Coffee Central (head office). Baristas and franchisees complete extensive training and certification to deliver a quality product to our customers. Franchisees 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 Second Cup's commitment to natural and healthy products.

The coffee portfolio currently contains 19 varieties of coffee, including eight single-origin & estate coffees as well as proprietary blends like Paradiso® and Espresso Forte. The cafés offer a wide variety of hand crafted espresso-based beverages including espressos, cappuccinos, lattes and the ever popular Vanilla Bean Latte and Moccaccino. Second Cup is committed to developing and introducing new drinks, an example of which is the Flat White, an internationally popular espresso based drink which Second Cup was the first to market nationally in Canada. The Company has a long history of partnering with coffee producers, and buying direct from farm or mill, and has Canadian exclusivity to sell San Agustin, Fazenda Vista Alegre, and La Minita Tarrazú; La Minita is considered by many to be the most carefully processed coffee in the world. In 2014 the Company introduced single serve capsules in a variety of roasts for at home consumption.

Second Cup prides itself that virtually all of its coffee, espresso and tea beverages 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, 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;
- 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. On August 5th, 2014, the Company announced the suspension of its dividend in order to retain cash resources for redeployment into investments that will maximize long-term growth in share value.

On November 27th, 2014, the Company announced the closing of a private placement offering. Pursuant to the offering, the Company issued a total of 2,927,900 common shares, which included a 15% overallotment option for gross proceeds of $8,052. Net proceeds of $7,652 will be used to fund the Company's strategic growth plan and for general corporate purposes.

The credit facilities are comprised of an $11,000 non-revolving term credit facility, fully drawn, and an undrawn $2,000 revolving operating credit facility. The term credit facilities are collateralized by substantially all the assets of the Company. The credit facilities mature on September 30, 2016.

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

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

As a result of the Company's restructuring, certain one-time costs and the strategic decision to take back a number of cafes, the fixed coverage and leverage ratios were negatively impacted resulting in non-compliance with these covenants as at December 27th, 2014. As a result the debt has been classified as current.

Subsequent to year end, the Company received a waiver of this non-compliance from its lender and also received an amendment to its banking agreement which reset certain covenants for the next twelve months.

Under the amendment the Company must maintain a Leverage ratio, adjusted for permitted cash balances, of less than 1.75 to 1 and also a fixed charge ratio of greater than 1 for fiscal 2015 and then reverts back to the original covenants of a Leverage ratio of less than 1.75 to 1 and a fixed charge ratio of greater than 1.5.

The facility under the amendment, assuming compliance with revised covenants continues to mature on September 30, 2016 and bears interest at 2.25% to 3.25% margin based on the current covenant ratios. The unused operating facility of $2,000 also continues to be in place.

For the year ended 2014, interest expense was 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 27, 2014, the applicable margin pertaining to the aforementioned range is 3.25% (December 28, 2013 - 2.75%)

The Company has an interest rate swap agreement with a notional value of $11,000 that expires on September 30, 2016. The swap fixes the interest rate on the Company's non-revolving term credit facility at 2.07% per annum plus the margin noted above, which results in a fixed effective interest rate of 5.32%.
As at December 27, 2014, there was an interest rate swap liability of $143 recorded in the statements of financial position (December 28, 2013 - $140).

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 who 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, gift and loyalty card transactions, and head office financial and administrative functions. The 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 27, 2014.

(in thousands of Canadian dollars, except Number of cafés, Same café sales, and per share amounts)	13 weeks ended		52 weeks ended	
	December 27, 2014	**December 28, 2013**	**December 27, 2014**	**December 28, 2013**
System sales of cafés[1]	$49,427	$51,898	$182,782	$191,434
Same café sales[1]	(3.9%)	(4.3%)	(4.7%)	(3.6%)
Number of cafés - end of period	347	356	347	356
Total revenue	$8,427	$8,038	$28,172	$27,188
Gross profit	$5,647	$6,949	$20,493	$23,134
Operating expenses	$5,085	$3,771	$17,194	$15,342
Restructuring charges	-	$883	$2,166	$883
Provision for café closures	$391	$105	$1,630	$479
Impairment charges	-	$299	$29,708	$13,552
Acquisition of certain franchise cafés	$692	-	$692	-
Operating (loss) income [1]	($521)	$1,891	($30,897)	($7,122)
Adjusted EBITDA[1]	$1,068	$3,345	$4,605	$8,846
Net (loss) income and comprehensive (loss) income	($469)	$1,177	($27,032)	($7,369)
Basic and diluted earnings (loss) per share as reported[2]	($0.04)	$0.12	($2.66)	($0.74)
Adjusted basic and diluted earnings per share[1]	$0.03	$0.22	$0.20	$0.54
Total Assets - end of period	$53,449	$77,340	$53,449	$77,340
Number of weighted average common shares issued and outstanding	10,879,012	9,903,045	10,151,716	9,903,045

[1]See the section "Definitions and discussion on certain non-GAAP measures" for further analysis.
[2]Earnings per share is calculated using the weighted average number of common shares outstanding

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	2012	2013	2014	Average
First quarter	24.2	24.5	24.0	24.2
Second quarter	24.4	24.9	25.1	24.8
Third quarter	23.9	23.5	23.9	23.8
Fourth quarter	27.5	27.1	27.0	27.2
	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 27, 2014	**December 28, 2013**	**December 27, 2014**	**December 28, 2013**
Number of cafés - beginning of period	349	351	356	360
Cafés opened	1	6	9	15
Cafés closed	(3)	(1)	(18)	(19)
Number of cafés - end of period	347	356	347	356

The Company ended the Year with thirty five (2013 - ten) Company-operated cafés.

Fourth Quarter

System sales of cafés

System sales of cafés for the 13 weeks ended December 27, 2014 were $49,427 compared to $51,898 for the 13 weeks ended December 28, 2013 representing a decrease of $2,471 or 4.8%. The decrease is attributable to decreased same café sales and to the reduced store count.

Same café sales

During the Quarter, same café sales declined by 3.9%, compared to a decline of 4.3% in the comparable Quarter of 2013. The decrease in sales is the result of a decrease in customer transactions.

Analysis of revenue

Total revenue for the Quarter was $8,427 (2013 - $8,038) and consisted of royalty revenue, revenue from sale of goods, and services and other revenue.

Royalty revenue for the Quarter was $3,067 (2013 - $3,816). The reduction in royalty revenue of $750 is primarily a result of the new royalty incentive introduced in August, as well as lower café sales, and the increased mix of corporately owned cafés. The new royalty incentive rewards cafés that display exceptional operational standards and performance with a reduced royalty charge.

Revenue from the sale of goods, which consists of revenue from Company-operated cafés and from wholesale revenue was $3,619 (2013 - $1,526). The increase of $2,093 was due to the increased number of Company-operated cafés, and to sales of branded coffee in grocery channels. The latter revenue stream commenced in January 2014 and was expanded late in the third quarter, with the launch of two new K-Cup compatible skus.

Services and other revenue for the Quarter was $1,741 (2013 - $2,696). The decrease of $955 in services and other revenue was primarily due to reduced levels of new store openings and store ownership changes. The decrease was partly offset with increased licensing revenue from the sale of 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 wholesale channels, plus the cost of direct labour in the Company-operated cafés. Cost of goods sold was $2,781 (2013 - $1,089). This increase of $1,692 is due to the higher number of Company-operated cafés and the costs associated with wholesale coffee that did not exist in the prior year.

Operating expenses

Operating expenses include Coffee Central expenses and the overhead expenses of Company-operated cafés. Total operating expenses for the Quarter were $5,085 (2013 - $3,876), an increase of $1,209.

Coffee Central

Coffee Central expenses for the Quarter were $3,862 (2013 - $3,523). The $339 increase was due to more overhead expenses, mainly as a result of one-time transformation projects, depreciation, and operational provisions.

Company-operated cafés

Company-operated café expenses for the Quarter were $1,223 (2013 - $353). The $870 increase is due to the greater number of Company-operated cafés in comparison to the prior period, as well as a loss on acquisition of cafés acquired.

Provisions for café closures

Provisions for café closures were $391 (2013 - $105). The Company recorded provisions for eleven underperforming cafés for estimated lease exit costs and severances. Additional provisions were recorded in the fourth quarter relating to three underperforming cafés for estimated lease exit costs and severances. Four of these cafés were closed in 2014.

Restructuring

Restructuring charges of $nil (2013 - $883) were primarily related to severance costs in the prior year.

Impairment charges

The Company recognized $nil impairment charges in the quarter (2013 - $299).

Acquisition of certain franchise cafés

The Company acquired franchise cafés in the Quarter which resulted in a loss of $692.

Interest and financing
The Company incurred interest and financing expenses of $106 (2013 - $254). The decrease in interest and financing expenses relates to costs realized at renewal of the interest rate swap in the fourth quarter of 2013.

Income taxes (recovery)
Current income tax recovery of $201 (2013 – expense of $427) and deferred income tax expense of $42 (2013 - expense of $33) were recorded in the Quarter. Current income tax recovery relates to the loss incurred in the year.

Adjusted EBITDA
Adjusted EBITDA for the Quarter was $1,068 (2013 - $3,345). The decrease of $2,277 was caused mainly by a reduction in royalty revenue, as well as operational provisions.

Net income (loss)
The Company's net loss for the Quarter was $469 or $0.04 loss per share, compared to a net income of $1,177 or $0.12 per share in 2013. The decrease in net income of $1,646 or $0.16 per share was mainly due to closed café and operational provisions taken in the quarter as well as losses on disposal of corporate cafés vs. a gain 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 $182,782 compared to $191,434 for 2013, representing a decrease of $8,652 or 4.5%. The decrease is attributable to decreased same café sales and to the reduced store count.

Same café sales
For the year, there was a decline of 4.7% compared to a decline of 3.6% in 2013. The nature of the decrease is consistent to what was discussed above in the Quarter.

Analysis of revenue
Total revenues for the Year were $28,172 (2013 - $27,188).

Royalty revenue for the Year was $12,350 (2013 - $14,117). The reduction in royalty revenue of $1,767 was mainly a result of the new royalty incentive introduced in the third quarter, as well as lower café sales, and the mix of corporately owned cafés (35 corporately-owned this year vs. 10 last year).

Revenue from the sale of goods was $9,287 (2013 - $5,506) for the Year. The increase in revenue from the sale of goods was mainly due to the new revenue stream from branded coffee in grocery channels. The increase was also attributable to the increased number of Company-operated cafés.

Services and other revenue for the year was $6,535 (2013 - $7,565). The $1,030 decrease in services and other revenue was primarily due to lower revenues from cafe network activity as discussed above in the quarterly comments.

Cost of goods sold

Cost of goods sold was $7,679 (2013 - $4,054). The $3,625 increase relates to product costs pertaining to wholesale coffee sold in grocery channel, and the greater number of Company-operated cafés active during the period.

Operating expenses

Total operating expenses for the year were $17,194 (2013 - $15,342), an increase of $1,852.

Coffee Central
Coffee Central expenses for the year were $14,307 (2013 - $13,581). The $726 increase relates mainly to provisions for operational expenses.

Company-operated cafés
Company-operated café expenses for the year were $2,887 (2013 - $1,761). The increase is due to the larger number of Company-operated cafés, as well as a loss on acquisition of cafés in the fourth quarter.

Restructuring
Restructuring charges of $2,166 (2013 - $883) were primarily related to severance costs during the first half of the fiscal year.

Provision for café closures
Provisions for café closures were $1,630 (2013 - $479). The Company recorded provisions for eleven underperforming cafés for estimated lease exit costs and severances. Four of these cafés were closed in the period.

Impairment charges
The Company incurred impairment charges of $29,708 (2013 - $13,552). During the third quarter of 2014 the Company recognized an impairment charge of $29,658 to its trademark assets. The impairment charge had no impact on the Company's liquidity, cash flow, borrowing capability or operations. The remaining $50 related to an impairment of property and equipment.

Acquisition of certain franchise cafés
The Company acquired franchise cafés which resulted in a loss of $692, as discussed for the Quarter.

Interest and financing
The Company incurred interest and financing expenses of $478 (2013 - $516). The decrease in interest and financing expenses was discussed above in the Quarter.

Income taxes (recovery)
Current income taxes recovery of $339 (2013 – expense of $1,503) and deferred income tax recoveries of $4,004 (2013 - $1,772) 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 $4,605 (2013 - $8,846). The decrease of $4,241 was driven mostly by a decrease in royalty revenue, as well as retail listing fees incurred and provisions for operational expenses.

Net loss

The Company's net loss for the Year was $27,032 or $2.66 loss per share, compared to net loss of $7,369 or $0.74 loss per share in 2013. The unfavorable change in net loss of $19,663 or $1.92 per share was mainly due to impairment charges, restructuring charges, retail listing fees incurred, and reduced royalty revenue. This was offset partially by the margin realized in the current year from the wholesale of coffee in the grocery channel.

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

Dividend

As Second Cup transforms towards a new era of growth in sales and profitability, the Company is seeing the emergence of attractive opportunities to invest capital. Accordingly, the Company believes it is prudent to retain available cash resources for redeployment into investments that will maximize long-term growth in share value. Given this renewed focus on growth, the Board of Directors decided to continue the dividend suspension announced with the release of the second quarter 2014 results.

SELECTED QUARTERLY INFORMATION

(in thousands of Canadian dollars, except Number of cafés, Same café sales, and per share amounts)	Q4 2014[2]	Q3 2014	Q2 2014	Q1 2014
System sales of cafés[1]	$49,427	$43,596	$45,829	$43,930
Same café sales[1]	(3.9%)	(3.3%)	(5.0%)	(6.9%)
Number of cafés - end of period	347	349	357	357
Total revenue	$8,427	$6,686	$6,435	$6,624
Operating income (loss)[1]	($521)	($30,214)	($388)	$226
Adjusted EBITDA[1]	$1,068	$1,079	$1,516	$941
Net income (loss) for the period	($469)	($26,230)	($390)	$56
Basic and diluted earnings (loss) per share	($0.04)	($2.65)	($0.04)	$0.01
Dividends declared per share	-	-	-	$0.085
	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 (loss) income[1]	$1,891	$1,361	($11,401)	$1,027
Adjusted EBITDA[1]	$3,345	$1,671[3]	$2,122	$1,334
Net (loss) income for the period	$1,177	$918	($10,152)	$688
Basic and diluted (loss) earnings per share	$0.12	$0.09	($1.03)	$0.07
Dividends declared per share	$0.085	$0.085	$0.085	$0.085

[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 provisions for café closures. Comparative amounts were amended in order to provide adequate comparative figures.

LIQUIDITY AND CAPITAL RESOURCES

Second Cup collects royalties based on the franchisees portion of System sales of cafés, franchise fees, and other amounts from its franchisees and also generates revenues from its Company-operated cafés. The performance of Second Cup franchisees 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 27, 2014	December 28, 2013	December 27, 2014	December 28, 2013
Cash flows provided by operating activities	$ 729	$ 2,822	$ 452	$ 7,621
Cash flows provided by investing activities	(805)	(801)	(1,860)	(1,604)
Cash flows used by financing activities	7,509	(842)	5,825	(3,396)
Increase (decrease) in cash and cash equivalents during the period	$ 7,433	$ 1,179	$ 4,417	$ 2,621

Fourth Quarter

Cash generated by operating activities was $729 for the Quarter compared to $2,822 for the same Quarter in 2013. The reduction in cash provided of $2,093 is attributable to changes in non-cash working capital as a result of increases in provisions for café closures, as well as lower royalty revenues.

During the Quarter, cash used by investing activities was $805 compared to cash used of $801 for the same Quarter in 2013.

Financing activities resulted in $7,509 cash generated (2013 – cash usage of $842). The increase in cash provided of $8,351 was due to the issuance of common shares, as well as the suspension of dividend payments.

Year

Cash generated by operating activities was $452 for the Year compared to $7,621 for the same period last year. The reduction of $7,169 was caused by a decrease in royalty revenue, a reduction in deferred income taxes as a result of impairment write downs, and a decrease in non-cash working capital.

During the Year, cash used by investing activities was $1,860 compared to cash used of $1,604 for the same period in 2013. The increase in cash flow of $256 was primarily the result of fewer proceeds generated from the disposal of property plant and equipment vs the prior year.

Financing activities resulted in cash generated of $5,825 (2013 - usage of $3,396). The increase in cash flow of $9,221 was a result of the common share issuance, as well as the suspension of dividends to re-invest in long-term strategic growth initiatives as discussed above.

Working capital as at

	December 27, 2014	December 28, 2013
Current assets	$ 16,430	$ 11,402
Current liabilities	23,684	11,061
Working capital	$ (7,254)	$ 341

The Company's working capital deficit of $7,254 as of December 27, 2014, decreased by $7,595 from December 28, 2013 as a result of the reclassification of long-term debt to current, which was partly offset by the cash provided from the common share issuance. Working capital before the reclassification of long-term debt of $3,864 increased by $3,523 from December 28, 2013.

The Company had cash and cash equivalents of $10,918 at December 27, 2014 (December 28, 2013 - $6,501). The increase was primarily due to the common share issuance (discussed above) and the suspension of dividend payments. The Company continues to believe it has sufficient financial resources to pay operating expenses.

Financial instruments

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

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

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

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

(ii) Liquidity risk

Liquidity risk is managed through regular monitoring of forecasts and actual cash flows, monitoring maturity dates of financial assets and liabilities, and also the management of capital structure and debt leverage ratios as outlined above. The main source of income is royalty receipts from franchisees.

(iii) Interest rate risk

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

(iv) Currency and commodity risk

Transactions occur 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 directly and indirectly exposed to changes in coffee commodity prices given it is a material input for the Company's product offerings. The direct exposure is mitigated given the ability to adjust its sales price as commodity prices change. Risk is mitigated by entering fixed price forward purchase commitments and by adjusting selling prices.

Contingencies, commitments and guarantees

Second Cup has lease commitments for Company-operated cafés and also acts as the head tenant on most leases, which it in turn subleases to franchisees. To the extent the Company may be required to make rent payments due to headlease commitments, a provision has been recognized.

	Headlease commitments	Sublease to franchisees	Net
December 26, 2015	$ 19,904	$ 17,257	$ 2,647
December 31, 2016	17,684	15,174	2,510
December 30, 2017	15,772	13,728	2,044
December 29, 2018	13,661	11,908	1,753
December 28, 2019	11,902	10,332	1,570
Thereafter	28,118	23,674	4,444
	$ 107,041	$ 92,073	$ 14,968

The Company believes it has sufficient resources to meet the net commitment of $14,968.

The Company is involved in litigation and other claims arising in the normal course of business. Judgment must be used to determine whether or not a claim has any merit, the amount of the claim and whether to record a provision, which is dependent on the potential success of the claim. It is believed that no significant losses or expenses will be incurred with such claims. However, there can be no assurance that unforeseen circumstances will not result in significant costs. The outcome of these actions is not determinable at this time, and adjustments, if any, will be recorded in the period of settlement.

Contracts are in place with third party companies to purchase the coffee that is sold in all cafés. In terms of these supply agreements, there is a guaranteed minimum volume of coffee purchases of $2,965 USD (2013 - $5,621 USD) for the subsequent 12 months. The coffee purchase commitment comprises three components: unapplied futures commitment contracts, fixed price physical contracts and flat price physical contracts.

The Company has entered into a distribution agreement and has partnered with a vendor to wholesale its product through grocery and other retail outlets across Canada. As a result of the distribution agreement, there is a requirement to pay a portion of one-time listing fees in the amount of up to $708 in 2015.

Due to the Company acting as the primary coordinator of café construction costs on behalf its franchisees and for Company-operated cafés, there is $302 (2013 - $1,433) of contractual commitments pertaining to construction costs for new locations and renovations as at the end of the fiscal year. Construction costs financed for franchise projects are from deposits received from franchisees and for corporate projects from the Company's cash flows.

Related parties

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

Certain transactions occurred between a Company controlled by a board member, and one of the Company's vendors. For the year ended December 27, 2014, the said vendor purchased $4,835 of product in the ordinary course of business.

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.

As at October 31, 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 27, 2014, the Company's disclosure controls and procedures were appropriately designed.

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

During the 13 weeks ended December 27, 2014 and up to the date of the approval of the Unaudited Condensed Interim Financial Statements and MD&A, there has been no change that has materially affected, or is reasonably likely to materially affect the Company's disclosure controls and procedures.

Internal controls over financial reporting

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

As at October 31, 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 27, 2014 the Company's controls over financial reporting were appropriately designed and were operating effectively.

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

During the 13 weeks ended December 27, 2014 and up to the date of the approval of the Unaudited Condensed Interim Financial Statements and MD&A, there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the 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
Estimates for the useful lives of property and equipment are based on the period during which the assets are expected to be available-for-use. The amounts and timing of recorded expenses for depreciation of property and equipment for any period are affected by these estimated useful lives. It is possible that changes in these factors may cause significant changes in the estimated useful lives of 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 franchisee 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 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.

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

Second Cup faces competition for café locations and franchisees from its competitors and from franchisors and operators of other businesses. The success of franchisees is significantly influenced by the location of their cafés. There can be no assurance that current 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 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 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. There is no assurance that future sites will produce the same results as past sites. There is also no assurance that a franchisee 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 the business.

A shortage in supply or an increase in the price of premium quality coffee beans could adversely affect operations. 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 the Company 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 changes 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.

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 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 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.

2014 was a year of transformation and great change for Second Cup. Major initiatives set out in May at the Annual General Meeting, specifically: the restructuring of Coffee Central, improvements to the franchise model, the launch of the new café of the future including new branding, and the development of the three-year plan, have been completed. Much remains to be done, but the foundation has been set and the Company is poised to gain ground in 2015.

DEFINITIONS AND DISCUSSION ON CERTAIN NON-GAAP FINANCIAL MEASURES

In this MD&A, the Company reports certain non-IFRS measures such as system sales of cafés, same café sales, operating income (loss), EBITDA, adjusted EBITDA, and adjusted earnings per share.

System sales of cafés
System sales of cafés comprise the net revenue reported to Second Cup by franchisees of Second Cup cafés and by Company-operated cafés. This measure is useful in assessing the operating performance of the entire Company network, such as capturing the net change of the overall café network.

Changes in system sales of cafés result from the number of cafés and same café sales (as described below). The primary factors influencing the number of cafés within the network include the availability of quality locations and the availability of qualified franchisees.

Same café sales
Same café sales represents the percentage change, on average, in sales at cafés operating system-wide that have been open for more than 12 months, including cafes closed temporarily for renovations / remodelling. The inclusion of cafés temporarily closed is a change in methodology. Since the impact of this revision is inconsequential, the Company will not restate same café sales results for previously reported years. It is one of the key metrics the Company uses to assess its performance as an indicator of appeal to customers. Same café sales provide 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 transaction size.

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, this measure is not necessarily comparable to similarly titled measures reported by other issuers. EBITDA is presented as management believes it is a useful indicator of the Company's ability to meet debt service and capital expenditure requirements, and evaluate liquidity. Management interprets trends in EBITDA as an indicator of relative financial performance. EBITDA should not be considered by an investor as an alternative to net income or cash flows as determined in accordance with IFRS.

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

Restructuring charges, if incurred, are a reconciling item in the calculation of adjusted EBITDA as management believes such costs are non-recurring and not an indicative performance measure directly linked to the Company's business operations.

Provision for café closures, if incurred, are a reconciling item in the calculation of adjusted EBITDA as management believes that while such costs may be recurring, they could be larger than normal during this period of transformation of the business and are not an indicative performance measure directly linked to the Company's business operations from ongoing cafés.

A reconciliation of net income (loss) to EBITDA and Adjusted EBITDA is provided below:

	13 weeks ended		52 weeks ended	
	December 27, 2014	December 28, 2013	December 27, 2014	December 28, 2013
Net income (loss)	$ (469)	$ 1,177	$ (27,032)	$ (7,369)
Interest and financing	106	254	478	516
Income taxes (recovery)	(159)	460	(4,343)	(269)
Depreciation of property and equipment	288	206	933	749
Amortization of intangible assets	95	142	339	502
Loss (gain) on disposal of property and equipment	124	(181)	34	(197)
EBITDA	(15)	2,058	(29,591)	(6,068)
Impairment charges	-	299	29,708	13,552
Provision for café closures	391	105	1,630	479
Restructuring charges	-	883	2,166	883
Acquisition of certain franchise cafés	692	-	692	-
Adjusted EBITDA	$ 1,068	$ 3,345	$ 4,605	$ 8,846

[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 represent earnings per share excluding any impairment charges, and restructuring charges. Impairment charges are non-cash, but material items that are adjusted as management concluded that this is not a direct measure of the Company's focus on day to day operations, is not indicative of future operating results, and thus better evaluates the underlying business of the Company. 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.

A reconciliation of adjusted basic and diluted earnings per share is provided below:

	13 weeks ended		52 weeks ended	
	December 27, 2014	December 28, 2013	December 27, 2014	December 28, 2013
Net income (loss)	$ (469)	$ 1,177	$ (27,032)	$ (7,369)
Restructuring charges	-	883	2,166	883
Provision for café closures	391	105	1,630	479
Impairment charges	-	299	29,708	13,552
Acquisition of certain franchise cafés	692	-	692	-
Tax effect of adjusting items	(287)	(302)	(5,124)	(2,157)
Adjusted earnings	327	2,162	2,040	5,388
Weighted average number of shares issued and outstanding (unrounded)	10,879,012	9,903,045	10,151,716	9,903,045
Adjusted basic and diluted earnings per share	$ 0.03	$ 0.22	$ 0.20	$ 0.54

For the 13 and 52 weeks ended December 27, 2014, there were 535,000 outstanding share option awards (13 and 52 weeks ended December 28, 2013 - nil).