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; food safety; potential litigation; the ability to exploit and protect the Second Cup trademarks; changing consumer preferences and discretionary spending patterns including, but not restricted to, the impact of weather and economic conditions on such patterns; reporting of system sales by 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 October 31, 2014 and is intended to assist in understanding the financial performance and financial condition of The Second Cup Ltd. for the 13 weeks (the "quarter") and 39 weeks ("year to date") ended September 27, 2014. This MD&A should be read in conjunction with the Unaudited Condensed Interim Financial Statements of the Company for the 13 and 39 weeks ended September 27, 2014, the Audited Financial Statements of the company for the 52 weeks ended December 28, 2013, 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 same store sales, 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 store sales, operating income (loss), 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 349 cafés operating under the trade name Second Cup™ in Canada, of which 17 are company-operated and the balance are operated by franchisees who are selected and trained to retail Second Cup's product offering. Further discussion of the company's core business was described in the 2013 annual MD&A.

Strategic imperatives and key performance drivers

The compan's vision is to be the coffee brand most passionately committed to quality and innovation. The three year strategic plan is built on five key strategies to build the brand and grow the business. The five strategies are to:

(i) Reinvent the brand - Our pillars of superior quality, community, creativity, collaboration and optimism will be reflected in every touch-point.

(ii) Be the coffee authority - We will become the preferred destination for the best coffee, and will provide high quality, innovative beverages, products and experiences worthy of our brand.

(iii) Deliver an inspiring café experience - Customers will come to us for our friendly, knowledgeable, skilled and passionate baristas, and our warm and inviting environment.

(iv) Revitalize the network - Our cafés will reflect our brand and neighbourhoods, and will be in the best locations in our priority markets across Canada.

(v) Be world-class partners - We will be a coveted franchisor and a desirable investment.

The process of transforming the business commenced earlier this year with the hiring of a new management team, business restructuring, the reduction of franchisee royalties and coop advertising fees, and a design of our 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 perfecting and beginning to roll out the café of the future concept to new locations and renovated cafes. It is anticipated that this work will continue to approximately early 2016. Management believes that this plan will position the company for significant growth starting in 2016 as a result of new café development and organic growth from existing cafés.

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 company's capabilities specific to the Second Cup brand, our people, product, and locations, competition, and technology were discussed in the 2013 annual MD&A.

Liquidity, capital resources and management of capital

The company's objectives relating to the management of its capital structure are discussed in the 2013 annual MD&A. During the period ended September 27, 2014 the company was in compliance with all financial and other covenants of the company's term loan and operating credit facility.

FINANCIAL HIGHLIGHTS

The following table sets out selected IFRS and certain non-GAAP financial measures of the company and should be read in conjunction with the Unaudited Condensed Interim Financial Statements of the company for the 13 and 39 weeks ended September 27, 2014.

(in thousands of Canadian dollars, except same store sales, number of cafés, per share amounts, and number of common shares.)	**13 weeks ended** September 27, 2014	**13 weeks ended** September 28, 2013	**39 weeks ended** September 27, 2014	**39 weeks ended** September 28, 2013
System sales of cafés[1]	$43,596	$44,894	$133,355	$139,536
Same store sales[1]	(2.9%)	(3.7%)	(5.1%)	(3.1%)
Number of cafés - end of period	349	351	349	351
Total revenue	$6,695	$6,268	$20,805	$19,150
Gross profit	$4,846	$5,226	$15,906	$16,185
Operating expenses	$4,113	$3,634	$13,169	$11,571
Restructuring charges	-	-	$2,166	-
Provision for café closures	1,239	231	1,239	374
Impairment charges	29,708	-	29,708	$13,253
Operating income (loss) [1]	($30,124)	$1,361	($30,376)	($9,013)
Adjusted EBITDA[1]	$1,079	$1,902	$3,536	$5,501
Net (loss) income and comprehensive (loss) income	($26,230)	$918	($26,564)	($8,546)
Basic and diluted earnings (loss) per share as reported	($2.65)	$0.09	($2.68)	($0.86)
Adjusted basic and diluted earnings per share[1]	$0.04	$0.11	$0.17	$0.33
Total assets - end of period	$44,578	$74,262	$44,578	$74,262
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 financial measures" for further analysis.

OPERATIONAL REVIEW

Seasonality of system sales of cafés

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

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

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

Café network

	13 weeks ended		**39 weeks ended**	
	September 27, 2014	**September 28, 2013**	**September 27, 2014**	**September 28, 2013**
Number of cafés - beginning of period	357	362	356	360
Cafés opened	1	1	8	9
Cafés closed	(9)	(12)	(15)	(18)
Number of cafés - end of period	349	351	349	351

The company ended the quarter with 17 (2013 - eleven) company-operated cafés.

Third quarter

System sales of cafés

System sales of cafés for the 13 weeks ended September 27, 2014 were $43,596 compared to $44,894 for the 13 weeks ended September 28, 2013, representing a decrease of $1,298 or 2.9%. The decrease is attributable to decreased same store sales and to the marginally reduced store count.

Same store ales

During the quarter, Second Cup same store sales declined by 2.9%, compared to a decline of 3.7% in the comparable quarter of 2013. The decrease in sales is predominantly due to lower customer counts.

Analysis of revenue

Total revenue for the quarter was $6,695 (2013 - $6,268) and consisted of royalty revenue, revenue from the sale of goods, and services and other revenue.

Royalty revenue for the quarter was $2,805 (2013 - $3,285). The reduction in royalty revenue of $480 is primarily a result of reduced royalty rates introduced in August, as well as lower café sales, and to a lesser extent, the mix of cafés.

Quarterly revenue from the sale of goods, which consists of revenue from company-operated cafés and wholesale revenue was $2,406 (2013 - $1,363). The increase of $1,043 was due to the increased number of company-operated cafés and due to sales of Second Cup coffee in grocery channels. The latter revenue stream commenced in January 2014 and was added to with the launch of two new K-Cup compatible skus late in the quarter.

Services and other revenue for the quarter was $1,484 (2013 - $1,620). The decrease of $136 in services and other revenue was primarily due to reduced levels of new store openings and store ownership changes. The decrease was partially 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 $1,849 (2013 - $1,042). This increase of $807 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 $4,113 (2013 - $3,634).

Coffee Central

Coffee Central expenses for the quarter were $3,415 (2013 - $3,130). The $285 increase was due to more overhead expenses, mainly as a result of one-time transformation projects, and depreciation. Salaries, wages, benefits, and incentives costs were flat with prior year due to an increase in incentive expenses in 2014 and due to stock option expenses (there was no plan in 2013) offset by savings from the restructuring program announced in June 2014.

Company-operated cafés

Company-operated café expenses for the quarter were $698 (2013 - $504). The $194 increase is due to the larger number of company-operated cafés in comparison to the prior period.

Provision for café closures

Provision for café closures were $1,239 (2013 - $231). The company recorded provisions for eight underperforming cafés for estimated lease exit costs and severances. Two of the eight cafés were closed during the third quarter and the remainder are expected to close in the fourth quarter.

Impairment charges

Impairment charges were $29,708 (2013 - $nil). During the quarter ended September 27, 2014, the company recognized an impairment charge of $29,658 to its trademark assets and $50 related to its property and equipment. The impairment charge had no impact on the company's liquidity, cash flow, borrowing capability or operations.

Interest and financing

The company incurred interest and financing expenses of $116 (2013 - $90).

Income tax recovery
Current income tax recovery of $249 (2013 - expense $439) and deferred income tax recovery of $3,851 (2013 - $86) were recorded in the quarter. Current income taxes decreased as a result of nil taxable income primarily driven by restructuring charges. The change in deferred income taxes was driven by the impairment charges in the quarter.

Adjusted EBITDA
Adjusted EBITDA for the quarter was $1,079 (2013 - $1,902).

Net income (loss)
The company's net loss for the quarter was $26,230 or $2.65 loss per share, compared to net income of $918 or $0.09 earnings per share in 2013. The reduced income of $27,148 or $2.74 per share was mainly due to the impairment charges discussed above.

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

Year to date

System sales of cafés
System sales of cafés for the 39 weeks ended September 27, 2014 were $133,355 compared to $139,536 for the 39 weeks ended September 28, 2013, representing a decrease of $6,181 or 4.4%. The decrease is attributable to decreased same store sales and to the marginally smaller store network.

Same store sales
For the year to date, there was a decline of 5.1% compared to a decline of 3.1% in the comparable period ended September 28, 2013. The nature of the decrease is consistent to what was discussed above in the quarter.

Analysis of revenue
Total revenue for the year to date was $20,805 (2013 - $19,150).

Royalty revenue for the year to date was $9,283 (2013 - $10,301). The reduction in royalty revenue of $1,018 is primarily a result of reduced royalty rates introduced in August, as well as lower café sales, and to a lesser extent, the mix of cafés.

Revenue from the sale of goods was $6,728 (2013 - $3,980). The increase of $2,748 in revenue from the sale of goods was mainly due to sales of Second Cup coffee in grocery channels. The increase was also due to having an increased number of company-operated cafés.

Services and other revenue for the year to date was $4,794 (2013 - $4,869). The decrease of $75 or 1.5% in services and other revenue was primarily due to lower revenues from store network activity as discussed above in the quarter.

Cost of goods sold
Cost of goods sold for year to date was $4,899 (2013 - $2,965). The $1,934 increase is due to the product costs pertaining to wholesale coffee sold in the grocery channel and the larger number of company-operated cafés active during the period.

Operating expenses

Total operating expenses for the year to date were $13,169 (2013 - $11,571).

Coffee Central

Coffee Central expenses for the year to date were $11,505 (2013 - $10,163). The company incurred retail listing fees of $1,060 in the period related as discussed above. There were no listing fees incurred in the prior year to date period. Depreciation expense of $539 (2013 - $411) was also higher this year due to additional IT hardware.

Company-operated cafés

Company-operated café expenses for the year to date were $1,664 (2013 - $1,408). The increase is due to the larger number of company-operated cafés active during the period as discussed above

Restructuring charges

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

Provision for café closures

Provisions for café closures were discussed above in the quarter.

Impairment charges

Impairment charges were discussed above in the quarter.

Interest and financing

The company incurred interest and financing expenses of $372 (2013 - $262). The increase in interest and financing expenses is due to the fair value adjustments of the interest rate swap which captures an interest rate premium to fix the effective interest rate on the long-term debt.

Income tax recovery

Current income tax recovery of $387 (2013 - expense $1,076) and deferred income tax recovery of $3,797 (2013 - $1,805) were recorded in the year to date period. Current income taxes decreased as a result of nil taxable income primarily driven by restructuring charges and retail listing fees. The change in deferred income taxes was driven by the impairment charges incurred in the quarter and prior year to date period as discussed above.

Adjusted EBITDA

Adjusted EBITDA for the year to date was $3,536 (2013 - $5,501).

Net income (loss)

The company's net loss for the year to date was $26,564 or $2.68 loss per share, compared to a loss of $8,546 or $0.86 loss per share in 2013. An increase in net loss of $18,018 or $1.82 per share was mainly due to the impairment charges incurred and by reduced revenue, restructuring charges, and retail listing fees incurred in the current year to date period as discussed above. This was offset partially by the margin realized in the current year to date period pertaining to the wholesaling 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 as announced with the release of the second quarter 2014 results.

SELECTED QUARTERLY INFORMATION

(in thousands of Canadian dollars, except number of cafés, same store sales, and per share amounts)	Q3 2014	Q2 2014	Q1 2014	Q4 2013[2]
System sales of cafés[1]	$43,596	$45,829	$43,930	$51,898
Same store sales[1]	(2.9%)	(5.0%)	(6.9%)	(4.3%)
Number of cafés - end of period	349	357	357	356
Total revenue	$6,695	$6,498	$7,612	$8,038
Operating (loss) income[1]	($30,214)	($388)	$226	$1,891
Adjusted EBITDA[1]	$1,079	$1,516	$941	$2,868
Net (loss) income for the period	($26,230)	($390)	$56	$1,177
Basic/diluted earnings (loss) per share	($2.65)	($0.04)	$0.01	$0.12
Dividends declared per share	-	-	$0.085	$0.085
	Q3 2013	**Q2 2013**	**Q1 2013**	**Q4 2012[2]**
System sales of cafés[1]	$44,894	$47,688	$46,954	$53,515
Same store sales[1]	(3.7%)	(2.2%)	(3.3%)	(4.2%)
Number of cafés - end of period	351	362	361	360
Total revenue	$6,268	$6,636	$6,246	$7,785
Operating (loss) income[1]	$1,361	($11,401)	$1,027	($12,988)
Adjusted EBITDA[1]	$1,246	$2,122	$1,334	$3,027
Net (loss) income for the period	$918	($10,152)	$688	($12,024)
Basic/diluted (loss) earnings per share	$0.09	($1.03)	$0.07	($1.21)
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).

LIQUIDITY AND CAPITAL RESOURCES

For a 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		39 weeks ended	
	September 27, 2014	**September 28, 2013**	**September 27, 2014**	**September 28, 2013**
Cash flows (used in) provided by operating activities	($787)	$637	($277)	$4,913
Cash flows used in investing activities	(107)	(821)	(1,055)	(917)
Cash flows used in financing activities	-	(870)	(1,684)	(2,554)
(Decrease) increase in cash and cash equivalents during the period	($894)	($1,054)	($3,016)	$1,442

Third quarter

Cash used in operating activities was $787 for the quarter compared to cash provided of $637 for the same quarter in 2013. The difference is attributable to a larger loss from operating activities before the impairment, and payout of certain restructuring provisions.

During the quarter, cash used in investing activities was $107 (2013 - $821). The cash usage was a result of the initial development of the new café of the future in Toronto.

During the quarter, $nil cash was provided by or used in financing activities (2013 – cash usage of $870). The difference is due to the decision of the Board of Directors to discontinue the dividend payout in the second quarter of 2014.

Year to date

Cash used in operating activities was $277 for the year to date period compared to cash provided of $4,913 for the same year to date period in 2013. The difference was discussed above in the quarter as well as a less favourable change in non-cash working capital accounts compared to the prior year.

During the year to date period, cash used in investing activities was $1,055 compared to cash used of $917 for the same year to date period in 2013. The cash usage was mainly a result of purchases in software pertaining to POS software upgrades. In 2013, there were investments in the capital items pertaining to the loyalty program partially offset by $817 in disposal proceeds as a result of the refranchising of two company-operated cafés.

Financing activities resulted in a cash usage of $1,684 (2013 - $2,554). The difference was discussed above in the quarter.

Working capital as at

		September 27, 2014		December 28, 2013
Current assets	$	8,244	$	11,402
Current liabilities		11,125		11,061
Working capital (deficiency)	$	(2,881)	$	341

The company has a working capital deficiency of $2,881 as of September 27, 2014. This company typically operates with a working capital deficiency due to the nature of the business. The company has an unused $2,000 operating credit facility. Current liabilities include $2,850 (December 28, 2013 - $3,895) of gift card liability, which adds to the working capital deficiency yet it remains on the balance sheet as there has always been an unredeemed balance at each quarter end.

The company had cash and cash equivalents of $3,485 at September 27, 2014 (December 28, 2013 - $6,501). The decrease was primarily due to the loss from operating activities and cash payouts as a result of restructuring initiatives as discussed above.

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

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

Trade and other receivables, and notes and leases receivable

The company's trade and other receivables, and notes and leases receivable primarily comprise amounts due from 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
The company manages liquidity risk through regular monitoring of forecasts 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 franchisees.

(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.

(v) Commodity risk
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 that the company has the ability to adjust its sales price as commodity prices change. The company mitigates risk 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
September 27, 2015	$	20,220	18,691	1,529
September 27, 2016		18,466	16,853	1,613
September 27, 2017		16,391	14,896	1,495
September 27, 2018		14,304	13,004	1,300
September 27, 2019		12,585	11,362	1,223
Thereafter		30,719	27,661	3,058
	$	112,685	102,467	10,218

The company believes it will have sufficient resources to meet the net commitment of $10,218.

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 as at September 27, 2014, Second Cup has guaranteed a minimum volume of coffee purchases of $5,093. These coffee purchase commitments, along with stock on hand, account for approximately 100% of needs for a year. The commitments are comprised of three components: unapplied futures commitment contracts, fixed price physical contracts and flat price physical contracts.

Second Cup is the primary coordinator of café construction costs on behalf its franchisees and for company-operated cafés. As at September 27, 2014, there is $1,591 of contractual commitments pertaining to construction costs for new locations and renovations. The company manages construction costs for franchise projects from deposits received from franchisees and finances 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 who effectively exercise significant influence on the company. Such related parties include any entities acting with or on behalf of the aforementioned parties.

For the 13 and 39 weeks ended September 27, 2014, one of the company's vendors purchased $874 and $2,635 respectively of product in the ordinary course of business, on behalf of the company and its franchisees from a related party.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

Disclosure controls and procedures

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

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

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

Use of judgement
For a detailed summary of significant accounting judgements and estimates that the company has made in the preparation of the Unaudited Condensed Interim Financial Statements, refer to those noted in the company's MD&A for the year ended December 28, 2013 and the company's most recent audited financial statements, available at www.sedar.com and www.secondcup.com.

RISKS AND UNCERTAINTIES

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

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

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

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

OUTLOOK

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

While the company continues to operate in a competitive industry with national, regional and local competitors, it believes that there is opportunity for growth. The Canadian economy is still challenged but there are economic indicators signaling better times ahead as well as stronger consumer confidence which management believes would be beneficial for our café sales.

A strategic plan has been developed with the objective of growing both same store sales and the expansion of the café of the future concept once validated. The café of the future format will be rolled out over the next few years to new café locations and renovated cafes including many of the corporately operated cafes in prime locations.

2014 has been and continues to be a year of major transformation for the company. The company continues to execute on the initiatives set our earlier this year with the intent of cleaning up past issues that inhibited growth, allowing it to enter 2015 in a more favourable position to successfully execute its new plans.

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 store 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 store sales (as described below). The primary factors influencing the number of cafés within the Second Cup café network include the availability of quality locations and the availability of qualified franchisees.

Same store sales

Same store 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 store 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 store sales provides a useful comparison between periods while also encompassing other matters such as seasonality. The two principal factors that affect same store 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, less restructuring charges, less provision for café closures, 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 or recoveries.

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		39 weeks ended	
	September 27, 2014	**September 28, 2013**	**September 27, 2014**	**September 28, 2013**
Net income (loss)	$ (26,230)	$ 918	$ (26,564)	$ (8,546)
Interest and financing	116	90	372	262
Income taxes (recovery)	(4,100)	353	(4,184)	(729)
Depreciation of property and equipment	254	187	645	543
Amortization of intangible assets	94	123	244	360
Loss (gain) on disposal of property and equipment	(2)	-	(90)	(16)
EBITDA	(29,868)	1,671	(29,577)	(8,126)
Impairment charges	29,708	-	29,708	13,253
Provision for café closures	1,239	231	1,239	374
Restructuring charges	-	-	2,166	-
Adjusted EBITDA	$ 1,079	$ 1,902	$ 3,536	$ 5,501

Adjusted basic and diluted earnings per share

Adjusted earnings per share represents earnings per share excluding any impairment charges, provision for café closures, 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. Provision for café closures are a reconciling item 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. 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 net income (loss) to adjusted basic and diluted earnings per share is provided below:

	13 weeks ended		39 weeks ended	
	September 27, 2014	**September 28, 2013**	**September 27, 2014**	**September 28, 2013**
Net income (loss)	$ (26,230)	$ 918	$ (26,564)	$ (8,546)
Restructuring charges	-	-	2,166	-
Provision for café closures	1,239	231	1,239	374
Impairment charges	29,708	-	29,708	13,253
Tax effect of restructuring and impairment charges	(4,270)	(61)	(4,845)	(1,855)
Adjusted earnings	447	1,088	1,704	3,226
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	$ 0.04	$ 0.11	$ 0.17	$ 0.33

For the 13 and 39 weeks ended September 27, 2014, there were 500,000 outstanding share option awards (13 and 39 weeks ended September 28, 2013 - nil) that were not included in the determination of adjusted diluted earnings per share because they are non-dilutive for the periods presented.