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Second Cup Royalty Income Fund

NOTICE OF ANNUAL GENERAL
MEETING OF UNITHOLDERS
AND
MANAGEMENT INFORMATION
CIRCULAR

Meeting to be held at 2:00 p.m.

WEDNESDAY MAY 11, 2005

At

Osler, Hoskin & Harcourt LLP

63rd Floor, 1 First Canadian Place

100 King Street West

Toronto, Ontario M5X 1B8

Second Cup Royalty Income Fund

6303 Airport Road

Mississauga, Ontario

L4V 1R8

NOTICE OF ANNUAL GENERAL MEETING OF UNITHOLDERS

NOTICE IS HEREBY GIVEN to holders (“Unitholders”) of units of **SECOND CUP ROYALTY INCOME FUND** (the “Fund”) that the annual general meeting of Unitholders will be held at the offices of Osler, Hoskin & Harcourt LLP, 63rd Floor, 1 First Canadian Place, 100 King Street West, Toronto, Ontario on Wednesday, May 11, 2005 at 2:00 p.m. (Toronto time) for the following purposes:

1. To receive the audited financial statements of the Fund for the financial period ended December 31, 2004 and the report of the auditor thereon;
2. To appoint auditors for the Fund for the ensuing year and to authorize the trustees of the Fund to fix the remuneration of the auditors;
3. To elect trustees of the Fund for the ensuing year; and
4. To transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.

Accompanying this Notice of Meeting are: (i) a copy of the 2004 Annual Report of the Fund; (ii) an Information Circular; (iii) a form of proxy and notes thereto; and (iv) a reply card for use by Unitholders who wish to receive the annual and/or interim financial statements of the Fund and of The Second Cup Ltd.

If you are a registered Unitholder and are unable to attend the meeting in person, please date and execute the accompanying form of proxy and deposit it with Computershare Trust Company of Canada, Attention: Proxy Department, 9th floor, 100 University Avenue, Toronto, Ontario M5J 2Y1 before 2:00 p.m. (Toronto time) on May 10, 2005 or not less than 24 hours, excluding Saturdays, Sundays and holidays, prior to any adjournment thereof.

If you are a non-registered Unitholder and receive these materials through your dealer or another intermediary, please complete and return the materials in accordance with the instructions provided to you by your dealer or other intermediary.

DATED at Mississauga, Ontario this 14th day of April, 2005.

SECOND CUP ROYALTY INCOME FUND



David Bloom

Chairman of the Board of Trustees

Second Cup Royalty Income Fund

INFORMATION CIRCULAR

(Containing information as at April 14, 2005 unless indicated otherwise)



SOLICITATION OF PROXIES

This Information Circular (the “Circular”) is furnished in connection with the solicitation of proxies by management of Second Cup Trade-Marks Inc. (“MarksCo”), as administrator on behalf of the trustees (the “Trustees”) of Second Cup Royalty Income Fund (the “Fund”), for use at the annual meeting (the “Meeting”) of holders (the “Unitholders”) of units (the “Units”) of the Fund and at any adjournments thereof, for the purposes set forth in the accompanying notice of meeting. The Meeting is to be held at the offices of Osler, Hoskin & Harcourt LLP, 63rd Floor, 1 First Canadian Place, 100 King Street West, Toronto, Ontario, at 2:00 p.m. (Toronto time) on May 11, 2005. It is expected that the solicitation of proxies for the Meeting will be primarily by mail, but proxies may also be solicited personally by regular employees of affiliated entities of the Fund at nominal cost. The cost of solicitation will be borne by the Fund.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed form of proxy are officers of MarksCo, a subsidiary of the Fund which has the authority under an administration agreement to act on behalf of the Fund. **A registered Unitholder desiring to appoint some other person, who need not be a Unitholder, to represent him or her at the Meeting may do so either by inserting such person’s name in the blank space provided in the form of proxy or by completing another proper form of proxy and, in either case, depositing the completed proxy at the office of the transfer agent indicated on the enclosed envelope not later than 2:00 p.m. (Toronto time) on the business day (excluding Saturdays, Sundays and statutory holidays) before the date of the Meeting (or any adjournment or postponement thereof), or in any other manner permitted by law.**

A proxy given pursuant to this solicitation may be revoked by instrument in writing, including another proxy bearing a later date, executed by the registered Unitholder or by his or her attorney authorized in writing, and by depositing such instrument at the office of the transfer agent indicated on the enclosed envelope not later than 2:00 p.m. (Toronto

time) on the business day (excluding Saturdays, Sundays and statutory holidays) before the date of the Meeting (or any adjournment or postponement thereof), or in any other manner permitted by law. However, the revocation of a proxy does not affect any matter on which a vote has been taken prior to the revocation.

VOTING OF PROXIES

Units represented by a properly executed proxy will be voted or withheld from voting on any ballot that may be conducted at the Meeting or at any adjournment or postponement of the Meeting in accordance with the instructions on the proxy. **In the absence of instructions, those Units will be voted “FOR” each of the matters referred to in the form of proxy.** The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the notice of meeting, or other matters which may properly come before the Meeting other than for the election of trustees and the appointment of an auditor. At the time of the printing of this Circular, the Trustees know of no such amendments, variations or other matters to come before the Meeting. Should such matters arise, the persons named in the enclosed form of proxy will vote in accordance with their best judgment on such matters or business.

VOTING OF UNITS – ADVICE TO BENEFICIAL UNITHOLDERS

Unitholders who are not registered Unitholders (referred to in this Circular as “Beneficial Unitholders”) should note that only proxies deposited by registered Unitholders (being those whose names appear on the records of the Fund as the registered holders of Units on April 11, 2005 (the “Record Date”)) can be recognized and acted upon at the Meeting. Currently, all issued and outstanding Units are held in “book-entry only” form under a system administered by The Canadian Depository for Securities (“CDS”), and all Units are currently registered under the name of CDS & Co., as nominee of CDS. **Accordingly, Beneficial Unitholders cannot be recognized at the Meeting for**

purposes of voting their Units by way of depositing a form of proxy. Instead, Beneficial Unitholders must provide voting instructions to their dealer or other intermediary through which they hold Units.

Applicable regulatory instruments require dealers and other intermediaries to seek voting instructions from Beneficial Unitholders in advance of a meeting of unitholders or shareholders. Unitholders should follow the procedures and instructions of their dealers or other intermediaries in order to ensure that their Units may be voted at the Meeting. Beneficial Unitholders are typically mailed a machine-scannable voting instruction form on which Beneficial Unitholders may provide instructions respecting the voting of their Units at the Meeting. Since these instructions must ultimately be provided to CDS so that CDS may deposit proxies in respect of the Meeting, a Beneficial Unitholder must provide its voting instructions well in advance of the Meeting in order to have his, her or its Units voted.

If you are a Beneficial Unitholder and wish to vote in person at the Meeting, please contact your intermediary or broker well in advance of the Meeting to determine how you can do so.

Beneficial Unitholders should carefully follow the instructions of their dealers or intermediaries, including those on how and when voting instructions are to be provided, in order to have their Units voted at the Meeting.

RELATIONSHIP AMONG THE FUND, ITS SUBSIDIARIES AND THE SECOND CUP LTD.

Second Cup Royalty Income Fund

The Fund is an open-ended trust established under the laws of the Province of Ontario and governed by its declaration of trust (the “Declaration of Trust”). The Fund was established to hold, indirectly through MarksCo, the Canadian trade-marks and other intellectual property and associated rights used in connection with the operation of Second Cup cafés in Canada. The Fund holds the shares and notes of 1636433 Ontario Inc. (“AcquisitionCo”), which in turn holds the shares and notes of MarksCo. The Fund makes cash distributions to Unitholders of amounts received as interest paid on the notes of AcquisitionCo and dividends on the common shares of AcquisitionCo, less certain amounts including estimated amounts required for the payment of expenses and any cash redemptions of Units. The Fund carries on no active business of its own and has no employees. The Fund’s principal and head office is located at 6303 Airport Road, Mississauga, Ontario, L4V 1R8.

1636433 Ontario Inc.

AcquisitionCo, a wholly-owned subsidiary of the Fund, is incorporated under the laws of the Province of Ontario and holds the shares and notes of MarksCo. AcquisitionCo carries on no active business of its own and has no employees. AcquisitionCo’s principal and head office is located at 6303 Airport Road, Mississauga, Ontario, L4V 1R8.

Second Cup Trade-Marks Inc.

MarksCo, a wholly-owned subsidiary of AcquisitionCo, is incorporated under the laws of the Province of Ontario. The business of MarksCo is the ownership of trade marks, operating procedures, methods, systems and other intellectual property rights that are used in connection with the operation of Second Cup cafés in Canada and all associated rights (the “Second Cup Marks”), the taking of actions consistent with the licence and royalty agreement (the “Licence and Royalty Agreement”) between The Second Cup Ltd. (“Second Cup”) and MarksCo and to exploit, to the fullest extent possible, the use of the Second Cup Marks by Second Cup and others, the collection of the royalty (the “Royalty”) and other amounts payable to MarksCo under the Licence and Royalty Agreement. MarksCo also acts as the administrator of the Fund and AcquisitionCo pursuant to an administration agreement. MarksCo’s principal and head office is located at 6303 Airport Road, Mississauga, Ontario, L4V 1R8.

The Second Cup Ltd.

Second Cup is a wholly owned subsidiary of Cara Operations Limited (“Cara”), and is governed by the laws of the Province of Ontario. Second Cup is Canada's largest specialty coffee café franchisor and second largest retailer of specialty coffee, as measured by number of cafés. Second Cup's network consists of 369 cafés across Canada as at December 31, 2004, of which 338 are franchised and 31 are company owned. Second Cup has obtained a licence to use the Second Cup Marks for a period of 99 years commencing November 26, 2004. In return for the right to use the Second Cup Marks, Second Cup pays a monthly royalty to MarksCo equal to 6.5% of gross revenues generated by the cafes in the royalty pool. Second Cup owns 1,437,414 Units of the Fund, representing 15% of the outstanding Units. Second Cup’s principal and head office is located at 6303 Airport Road, Mississauga, Ontario, L4V 1R8.

VOTING SECURITIES AND PRINCIPAL HOLDERS OF VOTING SECURITIES

As at the date hereof, the Fund has 9,582,760 Units issued and outstanding, each of which entitles the holder to one vote per Unit. On a show of hands, every person present and entitled to vote at the Meeting will be entitled to one vote. Only registered holders of Units whose names appear on the records of the Fund as at the close of business on the Record Date established by the Trustees are entitled to vote at the Meeting.

As at April 14, 2005, to the knowledge of the Trustees, Cara is the only person who beneficially owns, directly or indirectly, or controls or directs voting securities of the Fund carrying more than 10% of the voting rights attached to any class of voting securities of the Fund. Cara, through its wholly-owned subsidiary, Second Cup, owns 1,437,414 Units, representing 15% of the issued and outstanding Units.

PARTICULARS OF MATTERS TO BE ACTED UPON AT THE MEETING

Financial Statements

The audited consolidated financial statements of the Fund for the financial period ended December 31, 2004 have been mailed to holders of Units together with this Circular.

Election of Trustees

The Declaration of Trust currently provides that the Fund must have a minimum of three Trustees and a maximum of ten Trustees. The Trustees have the power to determine, from time to time, the specific number of Trustees within this range. The current number of Trustees and the number of Trustees to be appointed at the Meeting is three. At the Meeting, Unitholders will be asked to appoint three Trustees (the "Nominees"). Each Trustee will hold office until the close of the next annual meeting of the Unitholders or until he or she resigns, is removed or ceases to be qualified to act as a Trustee.

The following table provides the names of the Nominees, the municipality in which he is ordinarily resident, all offices of the Fund now held by him, his principal occupation, the period of time which he has been a Trustee of the Fund and the number of Units beneficially owned by him, directly or indirectly, or which he controls or directs, as at the date hereof. Each Nominee has established his eligibility and willingness to serve as a Trustee.

The persons designated in the enclosed form of proxy intend to vote "FOR" the appointment of the Nominees. If, prior to the Meeting, any of the listed Nominees should become unavailable to serve as a Trustee, the persons designated in the form of proxy will have the right to use their discretion in voting for a properly qualified substitute.

NAME, POSITION AND MUNICIPALITY OF RESIDENCE	PRESENT OFFICE	PRINCIPAL OCCUPATION	TRUST UNITS BENEFICIALLY OWNED, CONTROLLED OR DIRECTED
David Bloom ⁽¹⁾ <i>Trustee, Chairman of the Board of Trustees</i> <i>Toronto, Ontario, Canada</i>	Trustee since December 1, 2004	President, DGRB Consultants Inc.; Chairman and Chief Executive Officer of Shoppers Drug Mart Inc. from 1986 to 2001.	46,000
Michael Rosicki ⁽¹⁾ <i>Trustee</i> <i>Oakville, Ontario, Canada</i>	Trustee since December 1, 2004	President, Wexford Group, Inc.; Chairman and Chief Executive Officer of Parmalat North America from 1999 to 2004.	5,000
Raymond Guyatt ⁽¹⁾ <i>Trustee</i> <i>Westmount, Québec, Canada</i>	Trustee since December 1, 2004	Retired Businessman; Executive Vice President and Chief Financial Officer of Imasco Limited from 1987 to 2000	5,000

NOTES:

(1) Member of the Audit Committee of the Fund

Appointment of Auditors

At the Meeting, Unitholders will be asked to approve a resolution re-appointing PricewaterhouseCoopers LLP, Chartered Accountants, as auditors for the Fund for the ensuing year, and to authorize the Trustees to fix the remuneration of the auditors. **Unless such authority is withheld, the persons named in the accompanying form of proxy will vote “FOR” the reappointment of PricewaterhouseCoopers LLP, as auditors of the Fund.**

PricewaterhouseCoopers LLP has acted as the Fund’s auditors since the creation of the Fund on October 22, 2004.

DIRECTORS OF SECOND CUP TRADE-MARKS INC.

The board of directors of MarksCo (the “Board of Directors”) currently consists of five individuals. Pursuant to the provisions of a governance agreement entered into by the Fund, MarksCo, AcquisitionCo and others (the “Governance Agreement”), Second Cup is entitled to nominate two directors and the Fund is entitled to nominate three directors. Second Cup's entitlement to nominate two directors of MarksCo is subject to Second Cup or any of its affiliates holding 10% or more of the Units or securities convertible or exchangeable into Units. The nominees are set forth in the table below, along with the municipality in which he is ordinarily resident, all offices of MarksCo now held by him, his principal occupation and the period of time for which he has been a director of MarksCo:

NAME, POSITION AND MUNICIPALITY OF RESIDENCE	PRINCIPAL OCCUPATION	SERVICE AS DIRECTOR
David Bloom ⁽¹⁾⁽²⁾ <i>Chairman and Director</i> Toronto, Ontario, Canada	President, DGRB Consultants Inc.; Chairman and Chief Executive Officer of Shoppers Drug Mart Inc. from 1986 to 2001.	Since December 2, 2004
Michael Rosicki ⁽¹⁾⁽²⁾ <i>Director</i> Oakville, Ontario, Canada	President, Wexford Group, Inc.; Chairman and Chief Executive Officer of Parmalat North America from 1999 to 2004.	Since December 2, 2004
Raymond Guyatt ⁽¹⁾⁽²⁾ <i>Director</i> Westmount, Québec, Canada	Retired Businessman; Executive Vice President and Chief Financial Officer of Imasco Limited from 1987 to 2000	Since December 2, 2004
Gabriel Tsampalieros ⁽³⁾ <i>Director</i> Markham, Ontario, Canada	President and Chief Executive Officer of Cara	Since December 2, 2004
J. Bruce Elliot ⁽³⁾ <i>Director</i> Toronto, Ontario, Canada	President of Second Cup; President of Labatt Breweries of Canada from 2000 to 2003	Since December 2, 2004

NOTES:

(1) Member of Governance Committee of MarksCo

(2) Nominee of the Fund

(3) Nominee of Second Cup

COMPENSATION OF TRUSTEES AND DIRECTORS

The annual compensation for each Trustee is \$12,500, plus \$750 for attending each meeting of the board of Trustees of the Fund (the “Board of Trustees”) or committee of the Board of Trustees attended. Each of the directors of MarksCo who are not full-time employees of Cara, Second Cup or a subsidiary thereof receives compensation of \$12,500 per year as a director and \$750 for attending each meeting of the Board of Directors or committee of the Board of Directors, except where a director attends a meeting of the Trustees of the Fund and the board of directors of MarksCo and/or AcquisitionCo on the same day, in which case the individual is entitled to an aggregate of \$1,000 for attending all meetings. No remuneration is received by any person for his or her role in acting as an officer of any of the Fund, AcquisitionCo or MarksCo (although such persons are paid a salary in respect of their employment with Second Cup and/or Cara). MarksCo reimburses each of its directors for their out of pocket expenses for attending meetings of the Board of Directors or committees thereof. The Chair of the Audit Committee of the Fund receives additional compensation of \$3,000 per year. The Chair of the Board of Directors receives additional compensation of \$15,000 per year. The aggregate amount paid to Trustees as compensation for acting as Trustees and directors during the fiscal year ended December 31, 2004 was \$27,750. This compensation (and any expense reimbursement) is paid by MarksCo.

Employment Contracts

The Fund and its subsidiaries have no employment contracts or compensatory plans or arrangements in place with the Trustees or resulting from the resignation, retirement or termination of a Trustee or a change in control of the Fund.

Composition of Compensation Committee

The governance committee of the Board of Directors (the “Governance Committee”) performs the function of a compensation committee, to the extent applicable to a fund such as the Fund. This is described further below under “Corporate Governance”. Mr. Bloom, a member of the Governance Committee and the Chair of the Board of Trustees of the Fund, serves as a director and member of the Compensation and Corporate Governance Committee of Sleep Country Canada Inc., the administrator of Sleep Country Canada Income Fund, a reporting issuer.

INDEBTEDNESS OF TRUSTEES AND DIRECTORS

No Trustee, proposed nominee for election as a Trustee or director or officer of MarksCo or AcquisitionCo, and none of their associates is currently or was at any time during the fiscal year ended December 31, 2004, indebted to the Fund, AcquisitionCo or MarksCo, and no indebtedness of such persons has been the subject of a guarantee, support agreement, letter of credit or other similar agreement provided by the Fund, AcquisitionCo or MarksCo.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

Cara is an informed person of the Fund by virtue of its indirect ownership, through Second Cup, of 15% of the Units of the Fund.

Cara acted as promoter in connection with the initial public offering of the Fund completed on December 2, 2004, and had a material interest in the associated transactions. These transactions included the acquisition by AcquisitionCo of MarksCo for a total purchase price of \$86,940,392 payable in cash and the purchase by Second Cup of 1,437,414 Units from the Fund for a total purchase price of \$14,374,140 payable in cash.

Concurrently with the transfer of the Second Cup Marks to MarksCo, the Licence and Royalty Agreement was entered into by MarksCo and Second Cup. Pursuant to the Licence and Royalty Agreement, Second Cup pays MarksCo a royalty equal to 6.5% of System Sales (as defined in the Licence and Royalty Agreement) of the Second Cup cafés included in a royalty pool of Second Cup cafés from time to time, in consideration for Second Cup having a 99-year licence to use the Second Cup Marks in all provinces and territories of Canada except Nunavut.

MANAGEMENT CONTRACTS

The Fund does not carry on an active business and does not have management staff. As a result, the Fund has entered into an administration agreement with MarksCo and AcquisitionCo for a term of ten years from December 2, 2004 (with automatic renewal terms of three years each) whereby MarksCo has agreed to administer and manage the general and administrative affairs of the Fund. The address of MarksCo is 6303 Airport Road, Mississauga, Ontario, L4V 1R8. In carrying out its responsibilities as administrator of the Fund, MarksCo may delegate specific aspects of its obligations to any person. MarksCo pays for and bears

all outlays and expenses to third parties incurred by it in the administration of the affairs of the Fund and the performance of its duties under the administration agreement, and is not permitted to seek reimbursement from the Fund for any of such outlays and expenses, save and except for those incurred by it for the account of and on behalf of the Fund. Such expenses are reimbursed by the Fund or paid by the Fund. MarksCo may receive an annual fee not to exceed \$25,000 from the Fund for the services provided by it under the administration agreement.

CORPORATE GOVERNANCE

Since December 2, 2004, Units of the Fund have traded on the Toronto Stock Exchange (“TSX”), and the Fund has been subject to the corporate governance guidelines and disclosure requirements mandated by the TSX (the “TSX Guidelines”). The Fund is adopting corporate governance practices, as discussed below, that would comply with the TSX guidelines. The Fund is also in compliance with Multilateral Instrument 52-110 – *Audit Committees* (“MI 52-110”).

In 2004, the Canadian Securities Administrators (“CSA”) proposed National Instrument 58-101, Disclosure of Corporate Governance Practices (“NI 58-101”) and National Policy 58-201, Corporate Governance Guidelines (“NP 58-201”), with the objective of providing greater transparency to Canadian capital markets regarding issuers’ corporate governance practices. While NI 58-101 and NP 58-201 are not yet in force, for purposes of disclosure of the Fund’s corporate governance practices, the Fund has assessed its practices in the context of the guidelines proposed by the CSA. The Fund has also addressed the TSX Guidelines within the framework proposed by the CSA. The Fund notes that the TSX has stated its intention to revoke its corporate governance guidelines and disclosure requirements when NI 58-101 and NP 58-201 come into force.

The following sets out an overview of the Fund’s corporate governance practices. The corporate governance practices of the Fund, MarksCo and AcquisitionCo must be considered within the context of the overall structure of the Fund. As a trust created to hold, indirectly through AcquisitionCo and MarksCo, the Second Cup Marks, the Fund does not conduct any active business and its activities are restricted by the terms of its Declaration of Trust. MarksCo is the administrator for the Fund, and as such, is responsible for most of the administrative matters relating to the Fund.

The Board of Directors is responsible for overseeing the activities and affairs of MarksCo, including acting as administrator for the Fund. The results of operations of the Fund, AcquisitionCo and MarksCo are entirely dependent on the Royalty and other amounts paid by Second Cup to MarksCo pursuant to the terms of the Licence and Royalty Agreement.

This overview has been approved by the Board of Trustees.

Board of Trustees

The Board of Trustees is elected by the Unitholders and is responsible for the overall stewardship of the affairs of the Fund. This includes representing the Fund as a securityholder of AcquisitionCo and, indirectly, of MarksCo. The board discharges its responsibilities directly and through its committees, currently consisting of the Audit Committee. The Board of Trustees is adopting a mandate that sets out the role of the Trustees consistent with the terms of the Declaration of Trust. The Declaration of Trust provides that, subject to the terms and conditions thereof, the Trustees may, in respect of the assets of the Fund, exercise any and all rights, powers and privileges that could be exercised by a legal and beneficial owner of those assets. The role of the Trustees includes, among other things:

- acting for the Fund, voting on the Fund’s behalf and representing the Fund as a shareholder and noteholder of AcquisitionCo, including voting for the election of directors of AcquisitionCo;
- maintaining records and providing reports to Unitholders;
- supervising the activities of the Fund, including the investments of the Fund; and
- effecting payments of distributions from the Fund to Unitholders.

The Trustees will also supervise the application of the Fund’s written corporate disclosure and insider trading practices. These practices, among other things:

- articulate the legal obligations of the Fund, its affiliates and their respective trustees, directors, officers and employees with respect to confidential information;
- identify spokespersons of the Fund who are authorized to communicate with third parties such as analysts, the media and investors;
- provide guidelines on the disclosure of forward looking information;

- require advance review of any disclosure of financial information with a view to ensuring that selective disclosure of material information does not occur; and
- establish "black-out" periods immediately prior to and following the disclosure of quarterly and annual financial results during which the Fund, its affiliates and their respective trustees, directors, officers and certain other persons may not purchase or sell Units in the market.

As set out in the Declaration of Trust, a majority of the Trustees must be independent within the meaning of MI 52-110. The Board of Trustees is currently comprised of three Trustees (who have also been nominated for election at the Meeting). Of these three Trustees, the board has determined that all are unrelated as that term is defined in the TSX Guidelines, and independent within the meaning of MI 52-110. Mr. David Bloom, who serves as Chair of the board, is both an unrelated trustee, as defined in the TSX Guidelines, and an independent trustee, as defined under MI 52-110. Mr. Bloom is also a trustee of Sleep Country Canada Income Fund, a reporting issuer in Canada. Each of the Trustees is also a member of the Audit Committee of the Board of Trustees.

The fact that a Trustee is also a director of MarksCo or AcquisitionCo does not disqualify such Trustee from being considered to be an "independent" Trustee of the Fund if the trustee otherwise meets the requirements of MI 52-110.

As part of its mandate, the board will review on an annual basis the contributions of its Trustees and consider whether the current composition of the board promotes effectiveness and efficiency in its decision-making. As discussed below, the Governance Committee will assess the contribution and the performance of the Trustees, both individually and collectively, and the standing committees of the board. The board is of the view that its current size of three Trustees is sufficient, in light of the activities of the Fund, to provide a diversity of expertise and opinions and allow effective communication and decision-making, and yet is small enough to enable meetings to be run efficiently and to facilitate full board attendance.

Since the Fund does not carry on an operating business, the Fund does not encounter many of the issues relating to attendance at board meetings by "management". Currently, there are no members of "management" on the Board of Trustees, although the two nominees of Second Cup to the board of directors of MarksCo often attend meetings of the Board of Trustees for informational purposes. However, where required, the Board of Trustees will meet without

representatives from Second Cup or Cara in order to enable it to function independently and to facilitate open and candid discussion among the Trustees, each of whom are currently independent.

As the Fund does not carry out an operating business, the Board of Trustees does not have typical oversight responsibilities for management's strategic planning processes. MarksCo, in its capacity as administrator for the Fund's activities, is responsible for discussions with management of Second Cup as they relate to strategic plans that affect the exploitation of the Second Cup Marks. The Board of Directors of MarksCo, in its oversight responsibilities of MarksCo, will therefore fulfill any strategic planning responsibilities, as necessary.

Where warranted, Trustees have the ability to engage outside professional advisors at the Fund's expense to assist in the fulfillment of their duties. The Chair of the Board of Trustees is responsible for authorizing all requests for professional advisors by individual trustees, the Board of Trustees or any committee of the Board of Trustees.

Board of Directors of MarksCo

The Board of Directors currently consists of five directors, three of whom are unrelated, as defined by the TSX Guidelines, and independent as defined by MI 52-110. Mr. Tsampalieros and Mr. Elliot are the two nominees of Second Cup who, by virtue of their employment arrangements with Cara and Second Cup, respectively, are not unrelated or independent.

The Board of Directors is responsible for the stewardship of the activities and affairs of MarksCo. The board seeks to discharge such responsibility by overseeing MarksCo's limited activities and communicating with management of Second Cup with respect to the operations and performance of Second Cup in order to preserve the underlying value of the Second Cup Marks and the Royalty and other payments made by Second Cup to MarksCo. The Board of Directors discharges its responsibilities for overseeing the affairs of MarksCo both directly, and through its committees, currently consisting of the Governance Committee. The Governance Committee is comprised of the three independent directors of MarksCo and is responsible for developing the Fund's approach to corporate governance, including developing and revising, as necessary, the Fund's corporate governance guidelines.

The Board of Directors is responsible for the implementation of appropriate risk management systems. Second Cup management has identified the principal risks to Second

Cup's operations and the systems implemented to effectively monitor and manage such risks, with a view to the long-term viability of Second Cup, and in particular, the maintenance and enhancement of the royalty from Second Cup. Management of Second Cup has been requested to provide an update to the Board of Directors, on an ongoing basis, of any material changes in such risks and systems. The Board of Directors continually reviews existing risk management systems of Second Cup cafes with a view to recommending improvements where appropriate.

Position Descriptions

The Board of Trustees is adopting a formal position description for the chairman of the Board of Trustees (the "Chairman"), designed to assist the Chairman in delineating his role and responsibilities. The Chairman's position description identifies the Chairman's responsibilities, which include: oversight of the board in its discharge of its duties in the Declaration of Trust and in the board's mandate; overseeing the distribution of information to the board and presiding over board meetings; establishing procedures to govern the effective and efficient conduct of the board's work; acting as a liaison between the board, management of Second Cup and the Board of Directors of MarksCo, where necessary; and representing the Fund to Unitholders of the Fund and other external groups.

Given the nature of the Fund's activities, the Fund does not have a chief executive officer or active management.

Accordingly, no position descriptions are adopted for senior management by the Board of Trustees. MarksCo and Second Cup are expected to inform the Board of Directors of MarksCo, on an ongoing basis, of their succession planning initiatives as they relate to the activities of the Fund.

The responsibilities of each chair of a committee of the Fund and MarksCo will also be set out in each committee's charter.

Orientation and Continuing Education

The Governance Committee oversees any orientation programs to familiarise new directors and Trustees with the Fund's affairs and operations and that of MarksCo and AcquisitionCo, including: the Fund's structure and limited activities carried on by it and its subsidiaries; details of the Licence and Royalty Agreement; financial, accounting and risk issues; compliance programs and policies; management of Second Cup; and the external auditors. Directors of MarksCo and Trustees of the Fund have access to members

of management of Second Cup and are provided with materials describing Second Cup's operations, strategic plans and financial results.

The Governance Committee also oversees continuing educational opportunities for all directors and trustees, as necessary, so that as individuals the directors' and trustees' knowledge and understanding of the activities of the Fund and its subsidiaries and the business of Second Cup remains current.

Ethical Business Conduct

As part of the Fund's commitment to effective corporate governance, all trustees, officers and directors, as the case may be, of the Fund and its subsidiaries must act in accordance with the Fund's Code of Conduct (the "Code"). The Code is being adopted by the Board of Trustees and requires every trustee, officer, director and employee, as the case may be, to observe high standards of business and personal ethics as they carry out their duties and responsibilities. The Code is a guide that is intended to sensitize these individuals to significant legal and ethical issues that frequently arise and to the mechanisms available to report illegal or unethical conduct. The Code addresses ethical conduct, conflicts of interest and compliance with the law. The Code is administered by MarksCo's Chief Financial Officer and the Governance Committee of MarksCo oversees and monitors the Code, and reports to the Board of Directors on the implementation and monitoring of the Code and all matters that arise related to its provisions, including any departures or waivers that are granted.

Nomination of Trustees and Directors

Subject to the Declaration of Trust of the Fund and the Governance Agreement, the Governance Committee of MarksCo is responsible for proposing new Trustee and director nominees and making recommendations to the Board of Trustees. Trustees are also encouraged to identify potential candidates and the Chair of the Board of Trustees and the Chief Executive Officer of MarksCo shall be consulted and have input into the process. The Governance Committee is composed of directors who are unrelated, as that term is defined under the TSX Guidelines, and independent, within the meaning of MI 52-110.

As part of its mandate, the Governance Committee determines the criteria, objectives and procedures for selecting members of the Board of Trustees of the Fund and the Board of Directors of MarksCo. In this process, the committee considers factors such as independence, integrity, skills, expertise and breadth of experience. The committee

also periodically reviews the competencies, skills and personal qualities of each existing director and trustee, and the contributions made by each individual trustee and director to the effective operation of the Board of Directors and the Board of Trustees. The committee may also make recommendations for changes to the composition of the Board of Trustees and the Board of Directors, subject to the terms of the Governance Agreement and the Declaration of Trust of the Fund.

Compensation of Trustees and Directors

The Governance Committee is responsible for reviewing director and trustee compensation and ensuring that such compensation is competitive and aligns directors' and trustees' interests with those of Unitholders. The committee shall recommend the terms upon which directors and trustees shall be compensated with a view to ensuring that the compensation accurately reflects the responsibilities they are assuming.

Assessments

The Governance Committee will coordinate an annual evaluation of the Board of Trustees, the Board of Directors and all board committees to determine whether they are functioning effectively and meeting their respective objectives and goals. The committee reports to the Board of Directors of MarksCo on the evaluation of the performance of the Board of Trustees, the Board of Directors and each committee, based on the results of the trustees' and directors' annual evaluation process. The objective of the assessments is to ensure the continued effectiveness of the Board of Trustees, the Board of Directors and their committees in the execution of their responsibilities and to contribute to a process of continuing improvement. The committee may conduct annual surveys of directors and trustees with respect to their views on the effectiveness of the Board of Directors, the Board of Trustees, the Chair of the Board of Trustees, each committee and its chair, and the contribution of individual directors and Trustees. The committee further monitors the relationship between management, the Board of Directors and the Board of Trustees, and reviews the Fund's governance structures to ensure that the Board of Trustees is able to function independently of management of Second Cup.

Audit Committee

The Audit Committee is currently comprised of all three Trustees, all of whom are independent, as required by M1 52-110. The members of the committee are appointed by the Board of Trustees from among its members annually, and as necessary to fill vacancies, and the Board of Trustees generally appoints the Chair of the Audit Committee.

All members of the Audit Committee are financially literate. An individual is financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Fund's financial statements.

The committee is mandated to assist the Board of Trustees in fulfilling applicable reporting issuer obligations respecting audit committees and its oversight responsibilities with respect to financial reporting. The committee assists the board in overseeing, among other matters, the work of the Fund's external auditors, the integrity of the Fund's financial statements and financial reporting process, the qualifications and independence of the external auditors and the work of the Fund's financial management and external auditors in these areas. The committee also provides an open avenue of communication between the external auditors, the Board of Trustees, personnel of MarksCo and management of Second Cup. The committee reviews and recommends to the board for approval, the Fund's annual and unaudited interim consolidated financial statements and related management's discussion and analysis ("MD&A") and selected disclosure documents, including the Fund's Annual Information Form and any other financial statements required by regulatory authorities, before they are released to the public or filed with the appropriate regulators.

The Audit Committee is responsible for assessing and monitoring the integrity of the Fund's financial reporting, accounting systems and internal controls and management information systems. The Audit Committee will also meet periodically with personnel of MarksCo and management of Second Cup to review the Fund's major financial risk exposures and the policy steps management has taken to monitor and control such exposures.

ADDITIONAL INFORMATION

Additional information relating to the Fund is included in its 2004 Annual Information Form, its audited consolidated financial statements for the year ended December 31, 2004 and the related MD&A. Copies of these documents may be obtained from the SEDAR website at www.sedar.com, or upon request from the Director of Finance and Administration, Second Cup Royalty Income Fund, 6303 Airport Road, Mississauga, Ontario, L4V 1R8. Financial information is provided in the Fund's comparative Financial Statements and MD&A for its most recently completed financial year.

APPROVAL OF CIRCULAR

The contents and sending of this Circular have been approved by the Trustees of the Fund.

DATED at Mississauga, Ontario, this 14th day of April 2005.

BY ORDER OF THE TRUSTEES

David Bloom
Chairman of the Board of Trustees