This document is important and requires your immediate attention. If you have questions or need assistance, you should consult your investment dealer, broker or other professional advisor.

SECOND CUP ROYALTY INCOME FUND

NOTICE OF ANNUAL AND SPECIAL MEETING OF UNITHOLDERS AND MANAGEMENT INFORMATION CIRCULAR

April 13, 2006

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

WEDNESDAY MAY 10, 2006

at the offices of
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 AND SPECIAL MEETING OF UNITHOLDERS

NOTICE IS HEREBY GIVEN to unitholders of **SECOND CUP ROYALTY INCOME FUND** (the "**Fund**") that an annual and special 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 10, 2006 at 2:00 p.m. (Toronto time) for the following purposes:

1. to receive the audited financial statements of the Fund for the year ended December 31, 2005;
2. to elect trustees of the Fund;
3. to re-appoint auditors for the Fund and to authorize the trustees of the Fund to fix the remuneration of the auditors;
4. to consider and vote on a special resolution authorizing and approving a reorganization of the Fund's structure that, if implemented, would replace the Fund's current corporate subsidiaries with a newly formed trust and limited partnership in order to eliminate income tax expense currently being incurred by those subsidiaries; and
5. to transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

Accompanying this Notice of Meeting are: (i) the 2005 Annual Report of the Fund; (ii) a management information circular of the Fund which, among other things, provides details of the proposed reorganization; (iii) a voting instruction form or form of proxy to be used for voting at the meeting; 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.

All unitholders, other than The Canadian Depository for Securities Limited ("**CDS**"), must provide voting instructions in the manner described in the enclosed voting instruction form and in this Circular. **Your units will not be voted without your instructions.**

CDS, which through its nominee is the sole registered unitholder of the Fund, must deposit completed proxies with Computershare Trust Company of Canada, Attention: Proxy Department, 9th floor, 100 University Avenue, Toronto, Ontario, M5J 2Y1 before 5:00 p.m. (Toronto time) on May 8, 2006 or not later than 5:00 p.m. (Toronto time) on the second last business day prior to any adjournment or postponement of the meeting. **However, all unitholders other than CDS must communicate their voting instructions well in advance of this deadline in order to allow their instructions to be processed before the deadline.**

The trustees of the Fund have fixed April 10, 2006 as the record date for the meeting.

We urge you to read these materials carefully and cast your vote on these important matters.

DATED at Mississauga, Ontario this 13th day of April, 2006.

SECOND CUP ROYALTY INCOME FUND

David Bloom
Chairman of the Board of Trustees

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GENERAL

This Management Information Circular (this "**Circular**") is being sent to you as a Unitholder of Second Cup Royalty Income Fund (the "**Fund**") in connection with the annual and special meeting of Unitholders to be held on May 10, 2006 (the "**Meeting**"). At the Meeting, Unitholders will be asked to consider and vote on, among other things, the proposed reorganization of the Fund's organizational structure (the "**Reorganization**").

This Circular does not constitute an offer to sell, or a solicitation of an offer to purchase, any securities. This Circular does not constitute the solicitation of a proxy by any person in any jurisdiction in which such an offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such an offer or solicitation.

No person has been authorized to give any information or make any representation in connection with the matters proposed to be considered at the Meeting other than those contained in this Circular and, if any other information has been given or any other representation has been made, any such information or representation must not be relied upon as having been authorized by the Fund.

Unless otherwise noted, the information in this Circular is presented as of April 13, 2006. Information in this Circular that is current as of a particular date may have changed by the time you receive this document.

FORWARD LOOKING INFORMATION

Certain information included or incorporated by reference in this Circular may constitute forward looking information within the meaning of applicable securities legislation. Forward looking information can be identified by words such as "may", "will", "should", "expect", "anticipate", "believe", "plan", "intend" and other similar words. Forward looking information reflects current expectations regarding future events and operating performance and speaks only as of the date of this Circular. It 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 information is based upon a number of assumptions and is subject to known and unknown risks, uncertainties and other factors, many of which are beyond the Fund's control, that may cause the actual results, performance or achievements of the Fund, its subsidiaries or Second Cup, or Second Cup cafés or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward looking information. The following are some of the of the factors that could cause actual results to differ materially from those expressed in or underlying forward looking information: competition; availability of premium quality coffee beans; the ability to attract qualified franchisees; the location of Second Cup cafés; the ability to exploit and protect the Second Cup Marks; changing consumer preferences and discretionary spending patterns including, but not restricted to, the impact of weather on such patterns; reporting of system sales by franchisees; and the results of operations and financial condition of Second Cup. The foregoing list of factors is not exhaustive, and investors should refer to the risks described under "Risk Factors".

Although the forward looking information contained in this Circular is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with this forward looking information. Certain assumptions made in preparing forward-looking information include the assumption that the Canadian economy will remain stable or expand at a moderate pace in 2006 and that inflation will remain relatively low. The Fund has also assumed interest rates will gradually increase in 2006 and that demand for specialty coffee will be comparable with demand in 2005.

As these forward looking statements are made as of the date of this Circular, the Fund does not undertake to update any such information whether as a result of new information, future events or otherwise. Additional information about these assumptions and risks and uncertainties is contained in the Fund's filings with securities regulators. These filings are also available on the Fund's website at www.secondcupincomefund.com.

NON-GAAP TERMS

Certain non-GAAP financial measures and other terms are contained in this Circular or in documents incorporated by reference in this Circular. These terms include "system sales", "same café sales growth" and "distributable cash". These terms are not financial measures recognized by Canadian generally accepted accounting principles ("**GAAP**") and do not have any standardized meanings prescribed by GAAP and therefore may not be comparable to similar terms and measures presented by other similar issuers. These non-GAAP measures and terms are intended to provide additional information on the Fund's performance and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

System sales and same café sales growth are presented in reference to the sales performance of Second Cup cafés. Second Cup believes they are useful measures as they provide an indication of the "top-line" sales on which Second Cup's royalty income is based. Distributable cash is presented because, pursuant to the Fund's distribution policy, the Fund makes monthly distributions of its distributable cash to the maximum extent possible. The Fund believes that distributable cash is a useful measure as it provides investors with an indication of cash available for distribution. Investors are cautioned, however, that distributable cash should not be construed as an alternative to the statement of cash flows as a measure of liquidity and cash flows. The method of calculating distributable cash for the purposes of this Circular may differ from that used by other issuers and, accordingly, distributable cash in this Circular, including the documents incorporated by reference in this Circular, may not be comparable to distributable cash used by other issuers.

DOCUMENTS INCORPORATED BY REFERENCE

Information has been incorporated by reference in this Circular from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated by reference herein may be obtained on request without charge from the Manager, Communications for the Fund at 6303 Airport Road, Mississauga, Ontario, L4V 1R8 (telephone 905-405-6904 or e-mail investor@secondcup.com), and are also available electronically at www.sedar.com. For the purpose of the Province of Québec, this Circular contains information to be completed by consulting the permanent information record. A copy of the permanent information record may be obtained without charge from the Manager, Communications for the Fund at the above-mentioned address, telephone number and e-mail address and is also available electronically at www.sedar.com.

The following documents, which have been filed with securities commissions or other similar authorities in the provinces and territories of Canada, are specifically incorporated by reference into and form an integral part of this Circular:

(a) the annual information form of the Fund dated March 30, 2006;

(b) the audited consolidated financial statements of the Fund as at December 31, 2005 and 2004 and for the year ended December 31, 2005 and the period ended December 31, 2004, together with the notes thereto and the auditor's report thereon;

(c) management's discussion and analysis of the financial condition and results of operations of the Fund for the year ended December 31, 2005;

(d) the audited consolidated financial statements of Second Cup as at December 31, 2005 and January 1, 2005 and for the 52-week period ended December 31, 2005 and the 40-week period ended January 1, 2005, together with the notes thereto and the auditor's report thereon; and

(e) management's discussion and analysis of the financial condition and results of operations of Second Cup for the 52-week period ended December 31, 2005.

References to "this Circular" include all documents incorporated by reference in this Circular.

Any documents of the Fund and/or of Second Cup of the type referred to above, as well as any (i) unaudited interim financial statements and related interim management's discussion and analysis of the

Fund or Second Cup, (ii) news releases containing financial information about the Fund for a financial period more recent than the year ended December 31, 2005 (unless interim financial statements for that more recent period have been filed), (iii) material change reports (excluding confidential material change reports) and (iv) business acquisition reports, in each case, filed with securities commissions or other similar authorities in the provinces and territories of Canada after the date of this Circular and prior to the completion of the Meeting shall be deemed to be incorporated by reference into this Circular.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Circular to the extent that a statement contained herein or in any other subsequently filed document that also is or is deemed to be incorporated by reference herein modifies or supersedes that statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed in its unmodified or unsuperseded form to constitute a part of this Circular.

REFERENCES TO CURRENCY

Unless otherwise noted, all monetary amounts in this Circular are expressed in Canadian dollars and references to "$" mean Canadian dollars.

QUESTIONS AND ANSWERS ABOUT THE MEETING

The following questions and answers are to help you understand the matters to be considered and voted on at the Meeting, including the proposed Reorganization of the Fund's organizational structure. However, these questions and answers do not describe everything that you should consider before you vote on the matters at the Meeting. Accordingly, you are urged to read this Circular in its entirety.

Q1 What am I being asked to vote on at the Meeting?

A1 The Meeting is an annual and special meeting of the Fund's Unitholders. Accordingly, Unitholders will be asked to consider and vote on a number of matters relating to the Fund that are typically dealt with as regular business at an annual meeting, such as the re-appointment of PricewaterhouseCoopers LLP, Chartered Accountants, as the auditors of the Fund and the election of trustees of the Fund. The special business that Unitholders will be asked to consider and vote on relates to a proposed Reorganization of the Fund's structure as further described in this Circular.

For more information, see "Annual Meeting Business" beginning on page 13 and "Special Meeting Business" beginning on page 16.

Q2 What is the Reorganization?

A2 The Reorganization is a series of proposed steps that would restructure the manner in which the Fund holds its interest in the Second Cup Marks. If approved by Unitholders of the Fund and implemented, the Reorganization would replace the Fund's current corporate subsidiaries, which we refer to as "AcquisitionCo" and "MarksCo", with a newly formed trust and limited partnership.

The Trustees of the Fund have determined that the Reorganization is in the best interests of the Fund and its Unitholders and unanimously recommend that Unitholders vote "**FOR**" the Reorganization.

For more information, see "Special Meeting Business — Background and Purpose of the Reorganization" beginning on page 16.

Q3 Why is the Reorganization being proposed?

A3 Since the completion of its initial public offering in December 2004, the Fund has owned the Second Cup Marks through its direct and indirect corporate subsidiaries, AcquisitionCo and MarksCo. These subsidiaries are subject to income tax which, in turn, reduces the cash that would otherwise be available for distribution to the Fund's Unitholders. For the fiscal year ended December 31, 2005, both AcquisitionCo and MarksCo incurred a combined current income tax expense of approximately $120,000 with respect to their taxable earnings for the year. If the organizational structure of the Fund were to remain in its current form, these subsidiaries will be subject to higher income taxes on the additional royalties collected as the sales of Second Cup cafés in the Royalty Pool continue to grow.

The Reorganization is intended to modify the current organizational structure of the Fund in order to replace AcquisitionCo and MarksCo with a newly formed trust and limited partnership. This will provide the Fund with a "flow-through" structure that would eliminate income tax expense currently being incurred by the Fund's corporate subsidiaries.

From the point of view of a Unitholder of the Fund, the Reorganization will not result in a change to the number, type or percentage ownership of outstanding Units of the Fund. In addition, management does not anticipate that the Reorganization will have an adverse impact on the day to day activities of the Fund.

For more information, see "Special Meeting Business — Background and Purpose of the Reorganization" beginning on page 16.

Q4 How will the Reorganization affect my Units?

A4 After the Reorganization is completed, you will hold the same number, type and percentage of outstanding Units of the Fund immediately following the Reorganization as you held immediately before the Reorganization. Also, the same total number of Units of the Fund will be outstanding immediately following the Reorganization as before, and the Units will continue to be listed on the TSX. In order to complete the Reorganization, a number of steps will be taken, including certain steps that will result in the distribution of shares and additional Units to Unitholders for a brief period of time. While these steps are complicated, they are necessary in order to implement the Reorganization on a tax-deferred basis, and they will not affect your status as a Unitholder or your holdings of Units once the Reorganization is completed.

For more information, see "Special Meeting Business — Reorganization Steps" beginning on page 20.

Q5 When will the Reorganization be completed?

A5 The Reorganization won't be completed unless a number of conditions are satisfied. Two of the most important conditions are the approval of the Reorganization by at least 66⅔% of Units voted at the Meeting and the receipt by the Fund of an Advance Tax Ruling from Canada Revenue Agency providing certain rulings and opinions with respect to the Reorganization. Even if these conditions are satisfied, the Fund may decide not to proceed with the Reorganization or may decide to amend or modify the structure of the Reorganization. However, the Fund will not exercise its discretion to amend the structure of the Reorganization if any change would result in the Unitholders being treated in a manner that is materially different, and adverse, as compared to what is described in this Circular.

Completion of the Reorganization is also dependent upon certain other conditions, including the receipt of certain third party approvals and all necessary approvals of the TSX and securities regulatory authorities, and that the Fund is satisfied with respect to certain tax matters relating to the Reorganization. We cannot assure you that all such conditions will be satisfied and that the Reorganization will be completed.

If the conditions to the Reorganization are satisfied, the Fund anticipates that the Reorganization will be implemented during the fourth quarter of 2006.

For more information, see "Special Meeting Business — Conditions and Other Factors Affecting Completion of the Reorganization" beginning on page 22.

Q6 How can I vote?

A6 All Unitholders, other than The Canadian Depository for Securities Limited ("**CDS**"), must provide voting instructions in the manner described in the enclosed voting instruction form and in this Circular. **Your Units will not be voted without your instructions.**

CDS, which through its nominee is the sole registered Unitholder of the Fund, must deposit completed proxies with Computershare Trust Company of Canada, Attention: Proxy Department, 9th floor, 100 University Avenue, Toronto, Ontario, M5J 2Y1 before 5:00 p.m. (Toronto time) on May 8, 2006 or not later than 5:00 p.m. (Toronto time) on the second last business day prior to any adjournment or postponement of the Meeting. **However, all Unitholders other than CDS must communicate their voting instructions well in advance of this deadline in order to allow their instructions to be processed before the deadline.**

If you wish to attend and vote in person at the Meeting, you must insert your own name in the space provided in the voting instruction form or, if voting by telephone or electronic means, provide your name and otherwise carefully follow the instructions for voting your Units.

For more information, see "Voting of Units — Information for Beneficial Unitholders" beginning on page 11.

Q7 What if I change my mind about how to vote my Units?

A7 You should contact your investment dealer, broker or other intermediary through which you hold Units in order to obtain instructions regarding the procedures for the revocation of any voting instructions that you previously provided.

Q8 What are the principal income tax consequences to me of the Reorganization?

A8 The Reorganization will occur on a tax-deferred basis for the Fund and its affiliates. Unitholders will not recognize any income, gain or loss as a result of the Reorganization for Canadian federal income tax purposes.

For more information, see "Certain Canadian Federal Income Tax Considerations" beginning on page 41.

Q9 Are there risks I should consider with respect to the Reorganization and an investment in the Fund?

A9 Although the Trustees have determined that the Reorganization is in the best interests of the Fund and its Unitholders and unanimously recommend that Unitholders vote "**FOR**" the Reorganization, there are risk factors that you should consider with respect to both the Reorganization and an investment in the Fund generally. These include risks relating to: (i) obtaining required regulatory and third party approvals; (ii) amending certain material agreements; and (iii) the indebtedness of the Fund that will be outstanding following the Reorganization.

For more information, see "Risk Factors" beginning on page 47 as well as those described under the heading "Risk Factors" in the latest annual information form of the Fund.

Q10 Where can I find more information about the Fund?

A10 As required by applicable securities legislation and regulatory requirements, the Fund periodically files information with various securities regulatory authorities in Canada. This information can be viewed on the SEDAR website at www.sedar.com or the Fund's website at www.secondcupincomefund.com.

Q11 Who should I call with questions regarding the Fund, the Meeting or the Reorganization?

A11 For more information, please call the Manager, Communications for the Fund at (905) 405-6904. Alternatively, you may e-mail the Fund at investor@secondcup.com.

GLOSSARY OF TERMS

The following is a glossary of terms used frequently in this management information circular. These terms may have different meanings in the Fund's other documents that are incorporated by reference.

"**AcquisitionCo**" means 1636433 Ontario Inc., a wholly owned subsidiary of the Fund that acquired all the issued and outstanding MarksCo Common Shares from Cara.

"**AcquisitionCo Common Shares**" means the common shares in the capital of AcquisitionCo.

"**AcquisitionCo Notes**" means the unsecured subordinated debt obligations of AcquisitionCo issuable in series from time to time under a note indenture dated December 2, 2004 entered into between AcquisitionCo and Computershare Trust Company of Canada.

"**Administration Agreement**" means the administration agreement dated December 2, 2004 among MarksCo, AcquisitionCo and the Fund pursuant to which MarksCo provides or arranges for the provision of services required for the administration of the Fund and AcquisitionCo.

"**Advance Tax Ruling**" means the advance income tax ruling of the CRA which has been applied for by the Fund in connection with the Reorganization including, for greater certainty, any opinions of CRA set out in the advance tax ruling.

"**affiliate**" means, in respect of a person or company, another person or company that would be considered to be an "**affiliate**" in respect of such person or company for the purposes of National Instrument 45-106 — Prospectus and Registration Exemptions.

"**Amalco**" means the corporation existing under the laws of Ontario that will be formed from the amalgamation of Newco and New AcquisitionCo pursuant to the Reorganization.

"**associate**" has the meaning ascribed to it in the Securities Act.

"**Bank**" means the Canadian chartered bank affiliate of Scotia Capital Inc.

"**Cara**" means Cara Operations Limited, a private corporation governed under the laws of the Province of Ontario.

"**Class A Redemption Price**" means the fair market value of any consideration for which the Class A Shares were issued plus any declared and unpaid dividends on such shares at the date of redemption or retraction.

"**Class A Shares**" means the Class A shares in the capital of Newco which will be listed for trading on the TSX in connection with the Reorganization and, following the amalgamation of Newco and New AcquisitionCo, means the Class A shares in the capital of Amalco.

"**Class B Redemption Price**" means the fair market value of any consideration for which the Class B Shares were issued plus any declared and unpaid dividends on such shares at the date of redemption or retraction.

"**Class B Shares**" means the Class B shares in the capital of Newco and following the amalgamation of Newco and New AcquisitionCo, means the Class B shares in the capital of Amalco.

"**Common Shares**" means the common shares in the capital of Newco and, following the amalgamation of Newco and New AcquisitionCo, means the common shares in the capital of Amalco.

"**CRA**" means Canada Revenue Agency.

"**Deferred Income Plans**" means registered retirement savings plans, registered retirement income funds and deferred profit sharing plans.

"**Fund Declaration of Trust**" means the amended and restated declaration of trust dated December 1, 2004 establishing and governing Second Cup Royalty Income Fund.

"**General Security Agreement**" means the general security agreement dated December 2, 2004 between Second Cup and MarksCo pursuant to which Second Cup granted MarksCo a security interest over all the present and after-acquired property and assets of Second Cup as security for the payment of the Royalty and the performance of all other obligations of Second Cup under the Licence and Royalty Agreement.

"**Governance Agreement**" means the governance agreement dated December 2, 2004 among Second Cup, Cara, MarksCo, AcquisitionCo and the Fund providing for, among other matters, the governance of MarksCo.

"**GP Trust**" means Second Cup GP Trust, a trust to be established under the laws of the Province of Ontario pursuant to a declaration of trust.

"**GP Trust Unit**" means a trust unit of GP Trust.

"**GP Unit**" means a general partnership unit of the Partnership.

"**Gross Revenue**" means the total amount of all sales and other income whatsoever, from whatever source (whether it be of a retail, wholesale or other nature), derived from operating a Second Cup café or any other business activity whatsoever at the Second Cup café, or derived from selling any products from any location, whether or not such amounts are collected and whether payment is made by way of cash, credit or otherwise.

"**Licence**" means the licence to use the Second Cup Marks (including for the purpose of trade names and domain names) in all provinces and territories of Canada, excluding the territory of Nunavut, for a period of 99 years.

"**Licence and Royalty Agreement**" means the licence and royalty agreement dated November 26, 2004 between MarksCo and Second Cup pursuant to which Second Cup was granted the Licence and agreed to pay the Royalty to MarksCo, as amended.

"**LP Unit**" means a limited partnership unit of the Partnership.

"**Make-Whole Payment**" means an amount paid by Second Cup to MarksCo pursuant to the Licence and Royalty Agreement in respect of the reduction in the Royalty resulting from the closure of Second Cup cafés in the Royalty Pool.

"**MarksCo**" means Second Cup Trade-Marks Inc., a wholly-owned subsidiary of AcquisitionCo that holds the Second Cup Marks and is a party to the Licence and Royalty Agreement.

"**MarksCo Common Shares**" means the common shares in the capital of MarksCo.

"**MarksCo Notes**" means the unsecured subordinated debt obligations of MarksCo issuable in series from time to time under a note indenture dated December 2, 2004 entered into between MarksCo and Computershare Trust Company of Canada.

"**MarksCo Term Loan**" means the term loan in the principal amount of $11.0 million made on December 2, 2004 by the Bank to a predecessor corporation of MarksCo.

"**New AcquisitionCo**" means the corporation existing under the laws of Ontario that will be formed from the amalgamation of AcquisitionCo and MarksCo pursuant to the Reorganization.

"**Newco**" means the corporation to be incorporated under the laws of the Province of Ontario which will, pursuant to the Reorganization, be amalgamated with New AcquisitionCo to form Amalco.

"**Note Trustee**" means the trustee under the Trust Note Indenture.

"**Operating Loan**" means the revolving loan facility in the amount of up to $1.0 million established by the Bank in favour of MarksCo on December 2, 2004.

"**Partnership**" means Second Cup Trade-Marks Limited Partnership, a limited partnership to be established under the laws of the Province of Ontario pursuant to the Partnership Agreement.

"**Partnership Agreement**" means the limited partnership agreement to be entered into among GP Trust, as general partner, and MarksCo, as initial limited partner, by which the Partnership will be governed, which will be amended and restated following the Reorganization with GP Trust and the Trust as parties thereto.

"**Royalty**" means the royalty for each month to be paid pursuant to the Licence and Royalty Agreement by Second Cup to MarksCo in an amount equal to 6.5% of System Sales for all Second Cup cafés in the Royalty Pool during such month.

"**Royalty Pool**" means the most recently adjusted number of Second Cup cafés to be used for determining System Sales for a particular month.

"**Second Cup**" means The Second Cup Ltd., the operating company that carries on the business of franchising Second Cup cafés and operating company-owned cafés in Canada.

"**Second Cup cafés**" means the retail outlets dedicated to the sale of specialty coffee and related products operated by Second Cup, or Second Cup franchisees and identified by the Second Cup Marks.

"**Second Cup Marks**" means the trade-marks currently owned by Second Cup Trade-Marks Inc. and registered under the *Trade-marks Act* (Canada), and such trade-marks, trade names, operating procedures, methods, systems and other intellectual property and proprietary rights that are used in connection with the operation of Second Cup cafés in Canada and all associated rights.

"**Securities Act**" means the *Securities Act* (Ontario), as amended.

"**Series 1 Trust Notes**" means the unsecured subordinated debt obligations of the Trust to be designated as Series 1 Trust Notes to be issuable in accordance with the Trust Note Indenture exclusively to Unitholders of the Fund as full or partial payment of the redemption price for Units in connection with an *in specie* payment for Units redeemed by a Unitholder.

"**Special Resolution**" means a resolution passed by a majority of not less than 66⅔% of the votes cast, either in person or by proxy, at a meeting of Unitholders or Trust Unitholders, as the context requires, called for the purpose of approving such resolution.

"**Special Units**" means special units of the Fund to be created and issued solely for the purposes of giving effect to the Reorganization.

"**Subscription Agreement**" means the subscription agreement among the Fund, AcquisitionCo, MarksCo and Second Cup pursuant to which, among other things, the Fund will ensure that MarksCo is able to deliver Units to Second Cup if required to do so under the Licence and Royalty Agreement.

"**System Sales**" is the basis on which the Royalty is payable; it means the Gross Revenue of all Second Cup cafés in the Royalty Pool, including (i) the Gross Revenue of the Second Cup cafés in Canada owned by Second Cup; and (ii) the Gross Revenue reported by Second Cup cafés in the Royalty Pool which are subject to franchise agreements with Second Cup, without audit or other form of independent assurance.

"**Tax Act**" means the *Income Tax Act* (Canada).

"**Trust**" means Second Cup Holdings Trust, a trust to be established under the laws of the Province of Ontario pursuant to the Trust Declaration of Trust.

"**Trust Declaration of Trust**" means the declaration of trust by which the Trust will be governed.

"**Trustees**" means the trustees of the Fund.

"**Trust Note Indenture**" means a note indenture to be entered into between the Trust and a commercial trust company providing for the issuance of notes.

"**Trust Notes**" means the unsecured subordinated debt obligations of the Trust issuable in series from time to time under the Trust Note Indenture.

"**Trust Trustees**" means, at the relevant time, the trustees of the Trust.

"**Trust Unit**" means a trust unit of the Trust.

"**Trust Unitholders**" means, at the relevant time, the holders of Trust Units.

"**TSX**" means the Toronto Stock Exchange.

"**Unit**" means a trust unit of the Fund, each such unit representing an equal undivided beneficial interest in any of the Fund's distributions, whether of net income, net realized capital gains or other amounts, and in any distributions by the Fund in the event of the Fund's termination.

"**Unitholder**" means a holder of Units of the Fund.

SECOND CUP ROYALTY INCOME FUND

MANAGEMENT INFORMATION CIRCULAR

(Containing information as at April 13, 2006 unless otherwise noted)

THE MEETING

Date, Time and Place of the 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 10, 2006.

Record Date

The Trustees of the Fund have fixed April 10, 2006 as the record date (the "**Record Date**") for the meeting.

Solicitation of Proxies

This Circular is furnished in connection with the solicitation of proxies by management of MarksCo, as administrator on behalf of the Trustees of the Fund, for use at the Meeting of Unitholders of the Fund and at any adjournments thereof, for the purposes set forth in the accompanying notice of meeting. The Fund may pay investment dealers or other service providers for their reasonable expenses for sending this Circular and other Meeting materials to Unitholders and obtaining voting instructions and/or proxies. It is expected that the solicitation of proxies for the Meeting will be primarily by mail, but proxies may also be solicited by telephone or 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

An instrument appointing a proxy must be in writing and either substantially in a form approved by the Trustees acting reasonably or as may be satisfactory to the Chairman of the Meeting. Forms of proxy must be executed on behalf of the registered Unitholder by a person duly authorized in writing. The individuals 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 may appoint some other person, who need not be a Unitholder, to represent him or her at the Meeting.** In order to do so, the registered Unitholder must insert such other person's name in the blank space provided in the form of proxy and strike out the names of the nominees referred to, or complete another proper form of proxy and, in either case, deposit the completed proxy at the office of the transfer agent indicated on the enclosed envelope not later than 5:00 p.m. (Toronto time) on the second last business day (which excludes Saturdays, Sundays and statutory holidays in Toronto) before the date of the Meeting (or any adjournment or postponement thereof).

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 its attorney authorized in writing, and by depositing such instrument at the office of the transfer agent indicated on the enclosed envelope not later than 5:00 p.m. (Toronto time) on the second last business day (which excludes Saturdays, Sundays and statutory holidays in Toronto) 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 of the registered Unitholder indicated on the proxy, and if the registered Unitholder

specifies a choice with respect to a matter to be acted on, those Units will be voted accordingly. **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. 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 judgment on such matters or business.

The special resolution authorizing the Reorganization of the Fund's structure must be approved by at least 66⅔% of all of the votes cast by Unitholders represented at the Meeting, present in person or by proxy, voted on by ballot.

VOTING OF UNITS — INFORMATION FOR 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 on the Record Date (being those whose names appear on the records of the Fund as the registered holders of Units on April 10, 2006) 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 CDS, and all Units are currently registered under the name of CDS & Co., as nominee of CDS. Accordingly, all Unitholders other than CDS must provide voting instructions in the manner described in the enclosed voting instruction form and in this Circular. Beneficial Unitholders cannot vote at the Meeting by completing and depositing a form of proxy as a registered Unitholder.

Typically, a Beneficial Unitholder will receive a voting instruction form or other similar document with this Circular. This form allows you to provide voting instructions with respect to your Units. The voting instruction form is similar to the form of proxy provided to a registered Unitholder. However, its purpose is limited to instructing a registered Unitholder (in this case, CDS) how to vote on your behalf. Intermediaries will typically make arrangements that will allow you to provide voting instructions by completing and returning a voting instruction form by mail or facsimile, calling a toll-free telephone number (1-800-474-7493) or by using the internet at www.proxyvotecanada.com. You should carefully follow the directions provided to you in order to ensure that your Units are voted at the Meeting. **Your Units will not be voted without your instructions.**

Please note that Beneficial Unitholders seeking to attend the Meeting will not be recognized at the Meeting for the purpose of voting Units unless the Beneficial Unitholder provides instructions to appoint him or her as a proxyholder. In order to do this, the individual should follow the instructions on the voting instruction form regarding the manner in which voting instructions are to be provided and, in doing so, specify that individual's own name as the person to be appointed as proxyholder for the purposes of voting his or her Units. For instance, if "David Jones" is a Beneficial Unitholder and he wishes to be appointed as a proxyholder, in the voting instruction form he receives with this Circular, he should insert the name "David Jones" in the space provided and follow the other procedures specified on the form for appointing a proxyholder other than one of the individuals specified on the form.

All Unitholders other than CDS should communicate their voting instructions well in advance of the deadline for the receipt of proxies of 5:00 p.m. (Toronto time) on Monday, May 8, 2006 in order to allow their instructions to be processed before the deadline.

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 the Fund 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 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.

The outstanding Units of the Fund are listed on the TSX under the symbol "SCU.UN". The closing price of the Units on the TSX on April 13, 2006 was $10.90.

1636433 Ontario Inc.

AcquisitionCo, a wholly-owned subsidiary of the Fund, is a corporation 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 a corporation amalgamated under the laws of the Province of Ontario. The business of MarksCo is the ownership of the Second Cup Marks, the taking of actions consistent with the Licence and Royalty Agreement between Second Cup and MarksCo and to exploit, to the fullest extent possible, the use of the Second Cup Marks by Second Cup and others and the collection of 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 has one employee, the responsibilities of whom include financial reporting, continuous disclosure and related matters for the Fund. 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, and is a corporation incorporated under 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 359 cafés across Canada as at December 31, 2005, of which 328 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 1,492,730 Units of the Fund, representing approximately 15.5% of the issued and 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 9,638,076 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 and proxyholders are entitled to vote at the Meeting. However, Beneficial Unitholders may provide voting instructions in the manner described under "Voting of Units — Information for Beneficial Unitholders".

As at April 13, 2006, 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 10% or more of the voting rights attached to any class of voting securities of the Fund. Cara, through its wholly-owned subsidiary, Second Cup, owns 1,492,730 Units, representing approximately 15.5% of the issued and outstanding Units.

ANNUAL MEETING BUSINESS

Financial Statements

The audited consolidated financial statements of the Fund for the year ended December 31, 2005 are included in the 2005 annual report of the Fund, which has been mailed to Unitholders together with this Circular.

Election of Trustees

The Fund 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 elected at the Meeting is three. At the Meeting, Unitholders will be asked to elect as Trustees the three individuals named below (the "**Nominees**"). Each Trustee will hold office until the close of the next annual meeting of the Unitholders or until he 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 for which he has been a Trustee of the Fund and the number of Units beneficially owned by him, directly of 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.

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[2]
DAVID BLOOM[1] . . . . . Trustee, Chairman of the Board of Trustees Toronto, Ontario, Canada	Trustee since December 1, 2004	President, DGRB Consultants Inc.; Chairman and Chief Executive Officer of Shoppers Drug Mart Inc. from 1986 to 2001.	65,000
RAYMOND GUYATT[1] . . . . . Trustee, Westmount, Québec, Canada	Trustee since December 1, 2004	Retired businessman; Executive Vice President and Chief Financial Officer of Imasco Limited from 1987 to 2000.	5,000
MICHAEL ROSICKI[1] . . . . . Trustee, Oakville, Ontario, Canada	Trustee since December 1, 2004	President, Wexford Group Inc.; Chairman and Chief Executive Officer of Parmalat North America from 1999 to 2004.	5,000

Notes:

(1) Member of the Audit Committee of the Fund

(2) Information furnished by the Nominees

Attendance Record of Trustees

The following table shows the attendance of each of the Nominees at meetings of the Trustees and committee meetings held during the 2005 fiscal year.

Summary of Trustee & Committee Meetings Held

Trustees	12
Audit Committee	5
Governance Committee[1]	0

Note:

(1) The Governance Committee is a committee of the board of directors of MarksCo, of which each of the Nominees is a member.

Summary of Attendance of Trustees

Trustee	Trustee Meetings Attended	Committee Meetings Attended
David Bloom	12 of 12	5 of 5
Raymond Guyatt	12 of 12	5 of 5
Michael Rosicki	12 of 12	4 of 5

Appointment of Auditors

At the Meeting, Unitholders will be asked to re-appoint 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.

PricewaterhouseCoopers LLP has acted as the Fund's auditors since the establishment 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 the Governance Agreement entered into by the Fund, MarksCo, AcquisitionCo, Second Cup and Cara, 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] Director, Chairman of the Board of Directors 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
BRUCE ELLIOT[3] Director Toronto, Ontario, Canada	President of Second Cup; President of Labatt Breweries of Canada from 2000 to 2003.	Since December 2, 2004
RAYMOND GUYATT[1][2] Director Westmount, Québec, Canada	Retired businessman; Executive Vice President and Chief Financial Officer of Imasco Limited from 1987 to 2000.	Since December 2, 2004

Name, Position and Municipality of Residence	Principal Occupation	Service as Director
MICHAEL ROSICKI[1][2] . . . . . Director Oakville, Ontario, Canada	President, Wexford Group Inc.; Chairman and Chief Executive Officer of Parmalat North America from 1999 to 2004.	Since December 2, 2004
GABRIEL TSAMPALIEROS[3] . . . . . Director Markham, Ontario, Canada	Chairman of Second Cup; Chief Executive Officer of Dinecorp Hospitality Inc.; President and Chief Executive Officer of Cara from 1997 to 2006.	Since December 2, 2004

Notes:

(1) Member of Governance Committee of MarksCo

(2) Nominee of the Fund

(3) Nominee of Second Cup

If the Reorganization is implemented, MarksCo will be amalgamated to form Amalco, as described under "Special Meeting Business — Reorganization Steps". The Partnership would then replace MarksCo as the holder of the Second Cup Marks, and the trustees of the general partner of the Partnership will be as described under "Governance Following the Reorganization — Trustees of GP Trust".

COMPENSATION OF TRUSTEES AND DIRECTORS

The annual compensation for each Trustee is $15,000, 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 is not an officer or full-time employee of Cara, Second Cup or a subsidiary thereof receives compensation of $15,000 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 Board of 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 may be 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, 2005 was $129,000. Payment of this compensation (and any expense reimbursement) is arranged by MarksCo (out of the assets of the Fund) in accordance with the Administration Agreement.

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 in this Circular 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, Nominee or director or officer of the Fund, MarksCo or AcquisitionCo, and none of their associates is currently or was at any time during the fiscal year ended December 31, 2005, 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.

SPECIAL MEETING BUSINESS

The Reorganization

Unitholders are being asked to consider and to vote on the Special Resolution authorizing and approving the Reorganization described in this Circular. The Special Resolution is in the form attached as Appendix "A" to this Circular, and must be approved by at least 66⅔% of all of the votes cast by Unitholders represented at the Meeting, present in person or by proxy, voting by ballot.

Background and Purpose of the Reorganization

The Reorganization is a series of proposed steps that would restructure the manner in which the Fund holds its interest in the Second Cup Marks.

Since the completion of its initial public offering in December 2004, the Fund has owned the Second Cup Marks through its direct and indirect corporate subsidiaries, AcquisitionCo and MarksCo. These subsidiaries are subject to income tax which, in turn, reduces the cash that would otherwise be available for distribution to the Fund's Unitholders. For the fiscal year ended December 31, 2005, both AcquisitionCo and MarksCo incurred a combined current income tax expense of approximately $120,000 with respect to their taxable earnings for the year. If the organizational structure of the Fund were to remain in its current form, these subsidiaries will be subject to higher income taxes on the additional royalties collected as the sales of Second Cup cafés in the Royalty Pool continue to grow.

Because of the potential for higher income tax expense in the future, and with a view to maximizing the cash available for distribution to Unitholders of the Fund, the Fund began in the second half of 2005 to consider alternatives to its current organizational structure. However, due to the costs of undertaking any reorganization of the Fund's structure and the Fund's concern over the uncertainty surrounding the future taxation of income trusts by the Canadian federal government, additional work was postponed, as management believed that it would not be prudent to pursue any alternative structures until there was more certainty regarding these matters.

Following the completion of the Canadian federal government's review of the taxation of income trusts announced in November 2005 and the adoption of "flow through" structures by other income funds having corporate subsidiaries, management, with the concurrence of the Trustees of the Fund, commenced a detailed review with its professional advisors in January 2006 of possible structural alternatives. The objective of this work was to identify a structure that would increase the cash available for distribution to Unitholders by significantly reducing or eliminating taxation of the Fund's subsidiaries, while maintaining, to the extent possible, all other attributes of the Fund's current structure.

The result of management's review of structural alternatives is the proposed Reorganization. The Reorganization is intended to modify the current organizational structure of the Fund in order to replace AcquisitionCo and MarksCo with a newly formed trust and limited partnership. This will provide the Fund with a "flow-through" structure that would eliminate income tax expense currently being incurred by the Fund's corporate subsidiaries.

The Fund filed an Advance Tax Ruling Request with the CRA on March 28, 2006 in respect of the Reorganization. The Reorganization is conditional on obtaining a number of regulatory and third party

approvals, including the Advance Tax Ruling in satisfactory form. It is anticipated that the future tax savings achieved in the future as a result of the Reorganization will more than offset the costs and expenses of the Reorganization. From the point of view of a Unitholder of the Fund, the Reorganization will not result in a change to the number, type or percentage ownership of outstanding Units of the Fund. In addition, management does not anticipate that the Reorganization will have an adverse impact on the day to day activities of the Fund.

Effects of the Reorganization

The Reorganization will have the following effects on the Fund's organizational structure:

1. AcquisitionCo and MarksCo will no longer be part of the organizational structure of the Fund.
2. The Fund will hold all of the issued and outstanding Trust Units of a newly formed trust, which we refer to in this Circular as the "Trust".
3. The Trust will hold all of the issued and outstanding LP Units of a newly formed limited partnership, which we refer to in this Circular as the "Partnership".
4. The Partnership will hold the Second Cup Marks and will be a party to the Licence and Royalty Agreement with Second Cup. The Partnership will be paid the Royalty and other amounts by Second Cup under the Licence and Royalty Agreement and will provide the Licence to Second Cup.
5. Unitholders of the Fund will hold the same number, type and percentage of outstanding Units of the Fund immediately following the Reorganization as they held immediately before the Reorganization.
6. There will be no change to the distribution policy of the Fund.
7. Second Cup will continue to hold approximately 15.5% of the issued and outstanding Units of the Fund and public Unitholders will continue to hold a total of approximately 84.5% of the issued and outstanding Units of the Fund.

Recommendation of the Trustees

The Trustees have approved the Reorganization and the submission of the Reorganization to Unitholders for approval at the Meeting. The Trustees have determined that the Reorganization is in the best interests of the Fund and its Unitholders and unanimously recommend that Unitholders vote "**FOR**" the Reorganization.

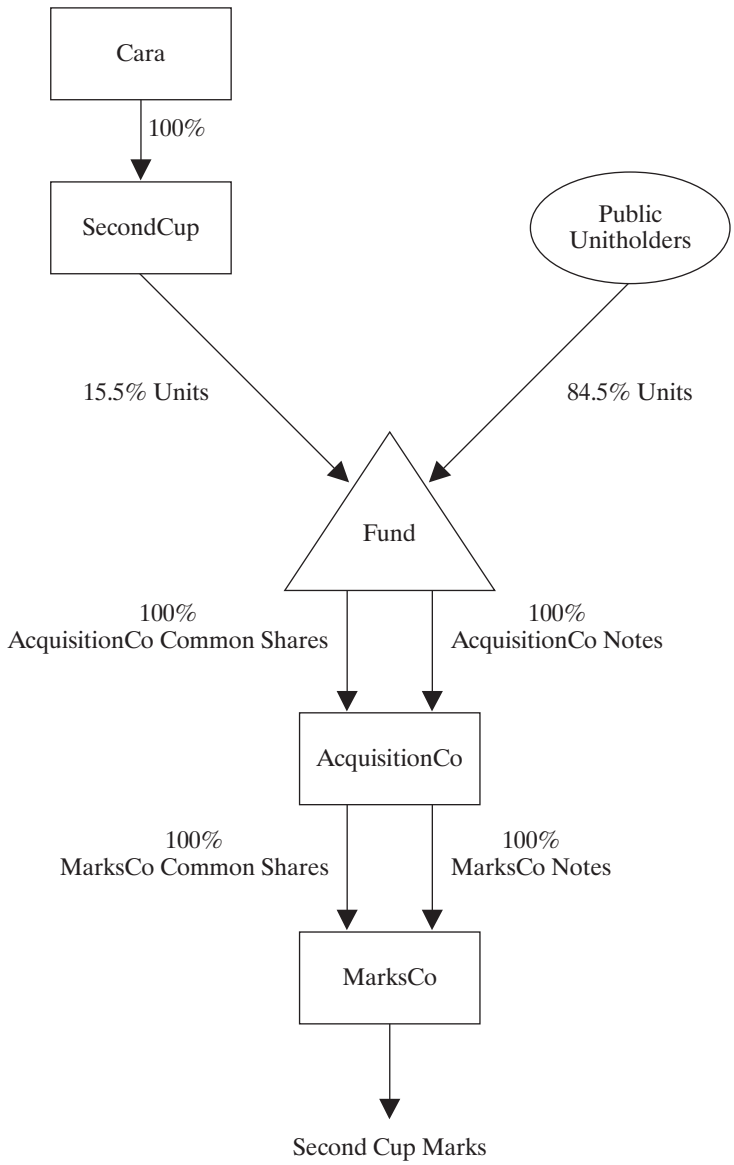
RECOMMENDATION TO UNITHOLDERS

The Board of Trustees recommends that all Unitholders VOTE "FOR" the Reorganization.

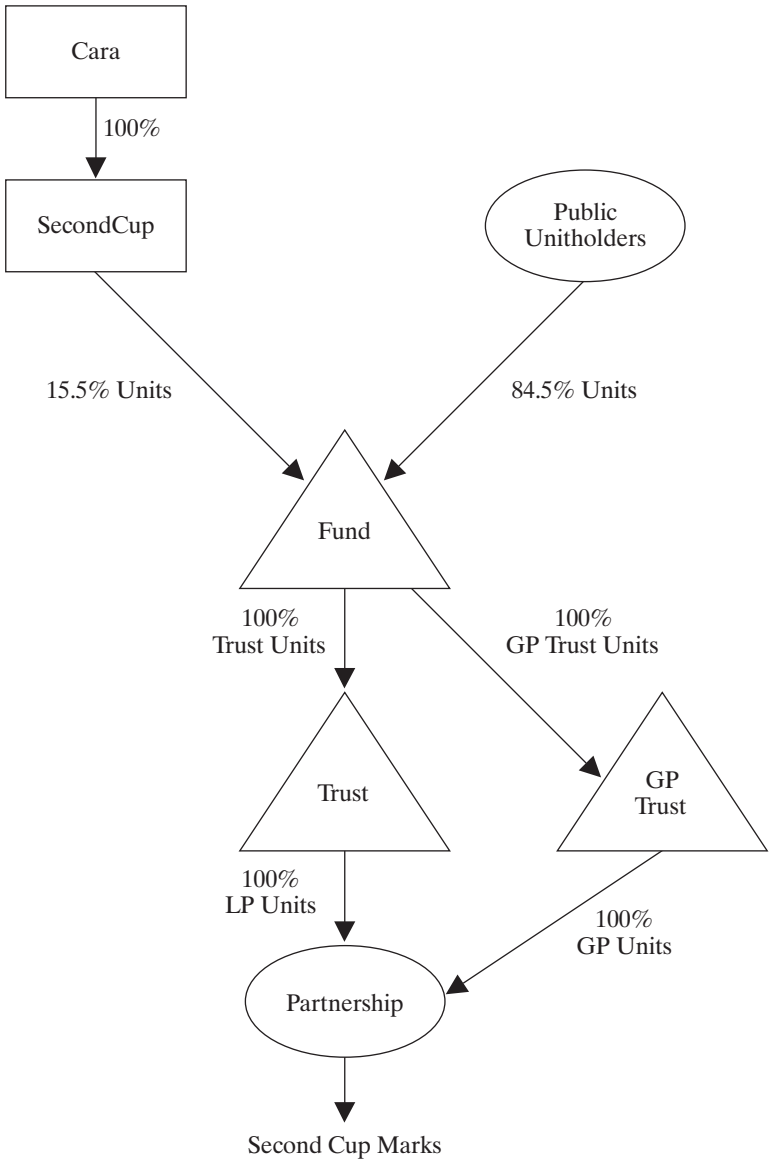
Organizational Structure Before and After the Reorganization

The following diagrams set out the organizational structure of the Fund before and after the Reorganization.

Before



After


Cara
100%
SecondCup
Public
Unitholders
15.5% Units
84.5% Units
Fund
100%
Trust Units
100%
GP Trust Units
Trust
GP
Trust
100%
LP Units
100%
GP Units
Partnership
Second Cup Marks

Reorganization Steps

The Reorganization is proposed to be implemented in a series of steps, which will be substantially as described below.

1. GP Trust will be established to act as general partner of the Partnership. GP Trust will be established pursuant to a declaration of trust governed by the laws of the Province of Ontario. The Fund will be the sole unitholder of GP Trust.

2. GP Trust, as general partner, and MarksCo, as limited partner, will form the Partnership under the *Limited Partnerships Act* (Ontario). GP Trust will have a 0.01% general partnership interest, and MarksCo will have a 99.99% limited partnership interest.

3. MarksCo will repay the outstanding amount of the MarksCo Term Loan (a total of $11 million), which represents bank indebtedness incurred by MarksCo in connection with the initial public offering of the Fund. In order to do this, the Fund will borrow $11 million from a third party. The Partnership, AcquisitionCo, MarksCo and New AcquisitionCo will guarantee this loan, and the guarantee will be secured by certain assets of the Partnership, AcquisitionCo, MarksCo and New AcquisitionCo. The Fund will use the borrowed funds to ultimately enable MarksCo to repay the MarksCo Term Loan.

4. AcquisitionCo and MarksCo will amalgamate to form a continuing corporation ("**New AcquisitionCo**"). All of the shares and notes of MarksCo will be cancelled as a result of the amalgamation, and New AcquisitionCo will temporarily hold the Second Cup Marks and be a party to the Licence and Royalty Agreement.

5. New AcquisitionCo and the Partnership will enter into a transfer agreement pursuant to which New AcquisitionCo will transfer the Second Cup Marks and assign all of its rights under the Licence and Royalty Agreement to the Partnership.

6. Newco will be incorporated under the *Business Corporations Act* (Ontario) (the "**OBCA**"). The authorized share capital of Newco will consist of an unlimited number of common shares, Class A Shares and Class B Shares. Both the Class A Shares and the Class B Shares will be redeemable and retractable. See "Description of Newco and Amalco".

7. The Fund will subscribe for one common share of Newco on incorporation for nominal consideration.

8. The Fund will subscribe for that number of Class A Shares of Newco equal to the number of issued and outstanding Units owned by Unitholders immediately prior to the distribution referred to in step 9 below for nominal cash consideration.

9. The Fund will distribute to Unitholders, as a return of capital, all of the Class A Shares that it subscribed for in step 8 above. Each Unitholder of the Fund will receive that number of Class A Shares equal to the number of Units held by the Unitholder as of the time immediately prior to the distribution of the Class A Shares.

10. The Fund and Newco will enter into a transfer agreement pursuant to which the Fund will transfer all of its shares and notes of New AcquisitionCo to Newco. Newco will satisfy the purchase price by issuing Class B Shares to the Fund.

11. Newco and New AcquisitionCo will amalgamate to form Amalco. All of the shares and notes of New AcquisitionCo will be cancelled by virtue of the amalgamation. Each share of Newco held by the Fund and Unitholders of the Fund will be converted into a share of Amalco with the same terms and conditions as that governing the class of Newco shares converted. In other words, upon the amalgamation, common shares of Newco will become common shares of Amalco, Class A Shares of Newco will become Class A Shares of Amalco and Class B Shares of Newco will become Class B Shares of Amalco.

12. The Fund Declaration of Trust will be amended as described under "Amendments of Agreements in Connection with the Reorganization — Fund Declaration of Trust".

13. The Fund and Amalco will enter into a combination agreement pursuant to which Amalco will transfer all of its assets (principally the LP Units) to the Fund. As consideration for this transfer, the Fund will assume any outstanding liabilities of Amalco and will issue Units and Special Units to Amalco. The Special Units will be a new class of units of the Fund created solely for the purpose of effecting the Reorganization. The Special Units will only be outstanding temporarily, and will be cancelled as part of the Reorganization such that they will not be outstanding following the completion of the Reorganization steps.

14. Upon the issuance of the Special Units, the entitlement of other Unitholders to receive distributions from the Fund will be temporarily subordinated such that they will not receive any distributions from the Fund until the holders of Special Units have been paid the Class B Redemption Price or until there are no Special Units issued and outstanding. However, as no distributions will be made by the Fund during the time that the Special Units are outstanding, distributions to Unitholders will not be affected. The Special Units will be cancelled in step 17 below.

15. The Fund and the Partnership will enter into a transfer agreement pursuant to which the Fund will transfer all of its Class B Shares to the Partnership.

16. Amalco will redeem all of the issued and outstanding Class B Shares held by the Partnership at the Class B Redemption Price and will redeem all of the issued and outstanding Class A Shares held by Unitholders at the Class A Redemption Price. Amalco will satisfy the Class B Redemption Price by transferring the Special Units it holds to the Partnership. Amalco will satisfy the Class A Redemption Price by transferring the Units it holds to Unitholders of the Fund.

17. Upon receiving the Special Units from Amalco, the Partnership will, as a unitholder, renounce, release and surrender all of its interest in the Fund (income, capital or otherwise). As a result, all of the Special Units will be cancelled and the Units held by other Unitholders of the Fund will no longer be subordinated.

18. The outstanding Units held by the Unitholders will be consolidated such that the number of Units outstanding following such consolidation will be equal to the number of Units outstanding immediately before the Reorganization.

19. The Trust will be established pursuant to the Trust Declaration of Trust. The Fund will be the sole unitholder of the Trust.

20. The Fund will transfer all of its LP Units to the Trust for Trust Units. As a result, the Trust will be the limited partner of the Partnership and will own all of the issued and outstanding LP Units. GP Trust will be the general partner of the Partnership and will continue to own all of the GP Units. The Fund will own all of the issued and outstanding units of the Trust.

21. Amalco will eventually be dissolved after all of the required elections have been filed under the applicable provisions of the Tax Act and any relevant provincial legislation.

Changes to the Reorganization Steps

Unitholders should be aware that the Special Resolution relating to the Reorganization provides the Trustees with the discretion to make changes to the steps in the Reorganization in their discretion or to elect not to proceed with the Reorganization notwithstanding that such resolution has been approved by Unitholders. Preserving the discretion of the Trustees in this regard is necessary as completion of the Reorganization is dependent on, among other things, receiving an Advance Tax Ruling from CRA (see "— Regulatory Approvals") and amendments to the Reorganization may be required in order to obtain this ruling. In addition, there are factors that might cause the Trustees to conclude that completing the Reorganization is not advisable. See "— Conditions and Other Factors Affecting Completion of the

Reorganization''. However, the Trustees will not exercise their discretion to change the steps in the Reorganization if this change would result in the Unitholders being treated in a manner that is materially different, and adverse, as compared to the treatment described in this Circular.

Unitholder Approval

The Reorganization must be approved, with or without variation, by a Special Resolution approved by at least 66⅔% of all of the votes cast by Unitholders represented at the Meeting, present in person or by proxy, voting by ballot.

Second Cup has advised the Fund that it will vote the Units of the Fund beneficially owned by Second Cup (representing approximately 15.5% of the issued and outstanding Units of the Fund) in favour of the Reorganization. In addition, the Trustees of the Fund, the directors of MarksCo and certain other members of management have indicated to the Fund that they intend to vote Units they beneficially own in favour of the Reorganization.

Conditions and Other Factors Affecting Completion of the Reorganization

The Special Resolution in the form attached as Appendix "A" to this Circular provides the Trustees with the discretion to not complete the Reorganization, notwithstanding that it has been approved by Unitholders. If any of the conditions listed below are not satisfied, the Trustees may elect either to not complete the Reorganization or to change the steps in the Reorganization so as to mitigate against any adverse consequences of conditions which have not been unsatisfied. However, the Trustees will not exercise their discretion to change the steps in the Reorganization if this change would result in Unitholders being treated in a manner that is materially different, and adverse, as compared to the treatment described in this Circular.

The following conditions and other factors will be relevant in connection with the Trustees' determination to complete the Reorganization, either in accordance with the steps described in this Circular, or in accordance with those steps as they may be changed:

(a) the receipt of required regulatory and TSX approvals on terms and conditions satisfactory to the Trustees, including the Advance Tax Ruling and any required exemptive relief from Canadian securities commissions in connection with the Reorganization;

(b) the receipt of certain third party approvals on terms and conditions satisfactory to the Trustees;

(c) the receipt of conditional approval to list the Class A Shares on the TSX;

(d) there being no order or decree of any court, tribunal, governmental agency or other regulatory authority or administrative agency, board or commission, and no law, regulation, policy, directive or order will have been enacted, promulgated, made, issued or applied to cease trade, enjoin, prohibit or impose material limitations on, the Reorganization or the transactions contemplated thereby in a manner unacceptable to the Trustees;

(e) the Trustees being satisfied that there will be no material adverse tax consequences under the Tax Act or any provincial tax legislation to the Fund, MarksCo, AcquisitionCo, New AcquisitionCo, the Partnership, Newco, Amalco, GP Trust, the Trust or a majority of the Unitholders in respect of the Reorganization; and

(f) there not existing any prohibition at law against the completion of the Reorganization.

Regulatory and Third Party Approvals

Advance Tax Ruling

On March 28, 2006, the Fund filed an application for the Advance Tax Ruling with the CRA which seeks various rulings and opinions with respect to the Reorganization. We cannot assure you that the Advance Tax Ruling will be obtained on a timely basis or on terms and conditions satisfactory to the Fund. If the Advance Tax Ruling is not obtained, the Trustees may decide not to proceed with the Reorganization or to amend or modify the steps in the Reorganization.

TSX Approvals

The Fund has notified the TSX of the Reorganization and has applied to list the Class A Shares of Newco on the TSX. Listing will be subject to the Fund fulfilling all of the listing requirements of the TSX. There can be no assurance that the TSX will approve matters relating to the Reorganization or the listing of the Class A Shares on terms and conditions satisfactory to the Fund. If the TSX does not agree to list the Class A Shares on terms satisfactory to the Fund, the Trustees may decide not to proceed with the Reorganization or may amend or modify the steps in the Reorganization.

Third Party Approvals

Certain of the transactions contemplated by the Reorganization will require the consent of the lender to MarksCo and certain other third parties. Prior to completing the Reorganization, the Fund and MarksCo will send notices to and request the consent of these third parties with respect to the Reorganization. However, there can be no assurance that the necessary consents from these third parties will be obtained on a timely basis or on terms and conditions satisfactory to the Fund or MarksCo. If these consents are not obtained, the Trustees may decide not to proceed with the Reorganization or to amend or modify the steps in the Reorganization.

In relation to the Reorganization, Second Cup will waive its pre-emptive right under the Governance Agreement to acquire Units of the Fund.

Timing of Completing the Reorganization

If the conditions to the Reorganization are satisfied, the Fund anticipates that the Reorganization will be completed during the fourth quarter of 2006.

Consequential Changes to Existing Agreements

It is anticipated that, in connection with the Reorganization, certain agreements to which Second Cup, the Fund, Cara, MarksCo and AcquisitionCo are party will be amended to give effect to the Reorganization and to reflect the modified organizational structure of the Fund that will exist following the completion of the Reorganization. See "Amendment of Agreements in Connection with the Reorganization".

If the Reorganization is not Completed

If the Reorganization is not completed, the organizational structure of the Fund will remain as it exists on the date of this Circular. The Fund will continue to hold all of the notes and shares of AcquisitionCo, and AcquisitionCo will continue to hold all of the notes and shares of MarksCo. MarksCo will continue to be a party to the Licence and Royalty Agreement and will receive payments of the Royalty and other amounts from Second Cup.

Expenses of the Reorganization

The estimated cash costs to be incurred by the Fund relating to the Reorganization (including, without limitation, tax, accounting and legal fees, the preparation and printing of this information circular and other

out-of-pocket expenses) are expected to aggregate approximately $700,000 and will be paid by MarksCo (out of the assets of the Fund) in accordance with the Administration Agreement.

GOVERNANCE FOLLOWING THE REORGANIZATION

In connection with the initial public offering of the Fund on December 2, 2004, a governance structure was put in place for the benefit of Unitholders. If the Reorganization is implemented, this governance structure will be modified in order to accommodate the new organizational structure of the Fund. However, these modifications will preserve, to the extent possible, the intent of the original governance structure of the Fund.

The following is a summary of the principal changes that will be made to the existing governance structure in connection with the Reorganization:

(a) The Trustees will continue to be comprised of residents of Canada, a majority of whom must be independent within the meaning of applicable Canadian securities laws. The current Fund Declaration of Trust refers to the definition of "independent" in Multilateral Instrument 52-110 — *Audit Committees* ("**MI 52-110**"). Current Canadian regulatory guidelines regarding the composition of boards of directors refer to the definition of "independent" in National Instrument 58-101 — *Disclosure of Corporate Governance Practices ("***NI 58-101**"). As NI 58-101 was not in effect at the time of the Fund's initial public offering, the Fund Declaration of Trust will be amended to require that a majority of Trustees be independent within the meaning of NI 58-101.

(b) The Trustees who are independent will assume the role of what is currently the Governance Committee of the Board of Directors of MarksCo, and will continue to constitute the Audit Committee of the Fund.

(c) The Partnership will assume the role currently performed by MarksCo. GP Trust, as general partner of the Partnership, will be responsible for managing the Partnership.

(d) The board of trustees of GP Trust will be comprised of five individuals (the same number of individuals currently on the Board of Directors of MarksCo), a majority of whom must be resident in Canada and may not be Trustees of the Fund. The Fund will be entitled to nominate three trustees and Second Cup will be entitled to nominate two trustees. Currently, the Fund is entitled to nominate three directors of MarksCo and Second Cup is entitled to nominate two directors of MarksCo. As is currently the case, Second Cup's entitlement to nominate two trustees of GP Trust will be subject to Second Cup or any of its affiliates holding 10% or more of the Units of the Fund or securities convertible or exchangeable into Units.

(e) As with the board of directors of AcquisitionCo, the board of trustees of the Trust will be comprised of three individuals. The Trust will be required to have a majority of trustees who are resident in Canada and are not Trustees of the Fund.

Amendments to the Fund Declaration of Trust, the Governance Agreement and other agreements will be made in order to implement the changes described above and to otherwise reflect the new organizational structure of the Fund. See "Amendment of Agreements in Connection with the Reorganization".

Trustees of GP Trust

The name, municipality of residence, position with GP Trust and principal occupation of the proposed initial trustees of GP Trust are set out below.

Name and Municipality of Residence	Position(s) with GP Trust	Principal Occupation
DAVID BLOOM Toronto, Ontario, Canada	Trustee, Chairman of the Board of Trustees	President, DGRB Consultants Inc.; Chairman and Chief Executive Officer of Shoppers Drug Mart Inc. from 1986 to 2001.
STEPHEN DEVITO Richmond Hill, Ontario, Canada	Trustee	Director of Finance and Administration of Second Cup.
BRUCE ELLIOT Toronto, Ontario, Canada	Trustee	President of Second Cup; President of Labatt Breweries of Canada from 2000 to 2003.
RAYMOND GUYATT Westmount, Québec, Canada	Trustee	Retired businessman; Executive Vice President and Chief Financial Officer of Imasco Limited from 1987 to 2000.
GABRIEL TSAMPALIEROS Markham, Ontario, Canada	Trustee	Chairman of Second Cup; Chief Executive Officer of Dinecorp Hospitality Inc.; President and Chief Executive Officer of Cara from 1997 to 2006.

Trustees of the Trust

The name, municipality of residence, position with the Trust and principal occupation of the proposed initial trustees of the Trust are set out below.

Name and Municipality of Residence	Position(s) with the Trust	Principal Occupation
BRUCE ELLIOT Toronto, Ontario, Canada	Trustee	President of Second Cup; President of Labatt Breweries of Canada from 2000 to 2003.
MICHAEL ROSICKI Oakville, Ontario, Canada	Trustee	President, Wexford Group Inc.; Chairman and Chief Executive Officer of Parmalat North America from 1999 to 2004.
GABRIEL TSAMPALIEROS Markham, Ontario, Canada	Trustee	Chairman of Second Cup; Chief Executive Officer of Dinecorp Hospitality Inc.; President and Chief Executive Officer of Cara from 1997 to 2006.

The following is a summary biography of each of the proposed initial trustees of the Trust and/or GP Trust.

David Bloom

David Bloom is the President and a director of DGRB Consultants Inc. From 1986 to 2001, he was the Chairman and Chief Executive Officer of Shoppers Drug Mart Inc. Mr. Bloom is a founder of the Canadian Association of Chain Drug Stores and a former Chairman of the Retail Council of Canada. He is a director of Sleep Country Canada Inc. and a trustee of Sleep Country Canada Income Fund, as well as a director of Swiss Herbal Remedies Limited and Sterling Centrecorp Inc. Mr. Bloom is also a member of the board of trustees of the Hospital for Sick Children and the board of directors and audit committee of the Toronto International Film Festival.

Stephen Devito

Mr. Devito has held various finance and accounting related positions since 1995 and is a designated Chartered Accountant with the Institute of Chartered Accountants of Ontario. From 1998 to 2000, Mr. Devito was employed as an auditor with PricewaterhouseCoopers LLP. From 2000 to 2001, Mr. Devito held the position of Controller for DWL Incorporated, a worldwide software developer. Mr. Devito joined Second Cup's senior management team in 2001 as Director of Finance.

J. Bruce Elliot

Mr. Elliot became Second Cup's President in August 2004. Mr. Elliot has been involved in many aspects of the food and beverage industries since the late 1970s. Prior to joining Second Cup, Mr. Elliot was at Labatt Breweries of Canada, where he spent over 25 years in progressively senior management roles. From 1977 through 1992, he held various senior marketing and sales management positions with the company and from 1992 until 1995 he was its Vice-President, Marketing and Sales. From 1995 until 1998, Mr. Elliot was the President of Labatt Atlantic; from 1998 until 2000, he was the President of Labatt Breweries of Ontario; and from 2000 until 2003, he was the President of Labatt Breweries of Canada.

Raymond Guyatt

Raymond Guyatt is a retired executive. From 1987 to 2000, Mr. Guyatt was the Executive Vice President and Chief Financial Officer of Imasco Limited. He was also a director of both Imasco and CT Financial Services from 1990 to 2000. Mr. Guyatt was a director of Mackenzie Financial Corporation from 2002 to 2005 and was Chairman of the Innovation Council of the Canadian Institute of Chartered Accountants from 2001 to 2003. Mr. Guyatt is a Chartered Accountant and a member of the Institute of Chartered Accountants of Ontario.

Michael Rosicki

Michael Rosicki is the President of Wexford Group Inc. From 1999 to 2004, Mr. Rosicki was Chairman and Chief Executive Officer of Parmalat North America. From 1997 to 1999, Mr. Rosicki was with Mattel, where he began as the President of Mattel Canada Inc. and later became President, Mattel Europe, Canada, Middle East and Africa. Prior to that, he was with Nestlé Canada Inc. for 12 years, where he held progressively senior management positions culminating in his role as President of the company's Foods Group. Mr. Rosicki is a director of the Hospital for Sick Children's Foundation and has held senior positions with various industry and charitable associations, including as past Chairman of the Food & Consumer Products Manufacturers of Canada, past Chairman of The Canadian Children's Foundation and Kids Help Phone, as Founding Chair of National Kids Day and past President of the Ontario Grocery Industry Foundation.

Gabriel Tsampalieros

Mr. Tsampalieros has been involved in many aspects of the foodservice industry for over 20 years. In October 1995, Mr. Tsampalieros became the President and Chief Operating Officer of Cara. From 1997 to February 2006, Mr. Tsampalieros was the President and Chief Executive Officer of Cara. He became a director of Second Cup in May 1996 and its Chairman in 2002.

AMENDMENT OF AGREEMENTS IN CONNECTION WITH THE REORGANIZATION

In the event that the Reorganization is completed, certain agreements to which the Fund, Second Cup, Cara, MarksCo and AcquisitionCo are a party will be amended, assigned or replaced with new agreements in order to give effect to the Reorganization and to reflect the new organizational and governance structure of the Fund. The following is a summary of the principal amendments that are anticipated to be made to those agreements (whether they are amended, assigned or replaced with new agreements). Following completion of the Reorganization, a copy of these amended agreements and any new material agreements will be made available on SEDAR at www.sedar.com.

Fund Declaration of Trust

Unitholders who vote in favour of the Special Resolution will be authorizing and approving amendments to the Fund Declaration of Trust in connection with the Reorganization. Among other things, amendments will be made to remove all references to MarksCo and AcquisitionCo and to add references to the Trust, GP Trust and the Partnership, as applicable. These amendments will be incorporated into an amended and restated declaration of trust of the Fund. The following is a general description of the nature of the amendments expected to be made to the Fund Declaration of Trust. A copy of the current version of the Fund Declaration of Trust is available on SEDAR at www.sedar.com.

(a) Definitions such as "Administration Agreement", "Governance Agreement", "Licence and Royalty Agreement" and "Subscription Agreement" will be amended to remove references to MarksCo and AcquisitionCo and to add references to the Trust, GP Trust and the Partnership, as applicable.

(b) The definition of "Trust Assets" will be amended to remove references to AcquisitionCo and MarksCo and the common shares and notes of those corporations and to add references to the Trust, GP Trust and (indirectly) the Partnership and units or other securities of the Trust, GP Trust and the Partnership.

(c) The provision regarding the activities of the Fund will be amended to remove the references to investing in or acquiring or disposing of securities issued by AcquisitionCo and MarksCo and their affiliated entities and replacing such references with references to the Trust, GP Trust and the Partnership. The references to guaranteeing the payment or performance of any indebtedness of AcquisitionCo, MarksCo or their wholly-owned affiliated entities will also be changed in order to facilitate the direct borrowing by the Fund of amounts representing the equivalent of the current MarksCo Term Loan and MarksCo Operating Loan.

(d) If necessary, the provisions regarding the consolidation of Units will be amended so that the consolidation of Units contemplated by step 18 in "— Reorganization Steps" above will not require the consent of Unitholders.

(e) The provisions regarding the issuance of Units by the Fund will be amended to remove the references to AcquisitionCo Common Shares and AcquisitionCo Notes and other securities issued by AcquisitionCo or MarksCo.

(f) The *in specie* redemption provisions will be revised to provide that the redemption proceeds may be paid and satisfied by way of a distribution *in specie* of Trust Notes by the Fund to Unitholders.

(g) A class of Special Units will be created and authorized for issuance. Each Special Unit will entitle the holder thereof to benefit from the subordination of the distribution entitlement of the holders of Units. Each Special Unit will entitle the holder thereof to one vote, be redeemable at the option of the holder at an amount equal to the Class B Redemption Price, and in addition thereto, will entitle the holder to exercise a right of renunciation in respect of such Special Unit.

(h) The remuneration and expenses section of the Fund Declaration of Trust will be amended to remove references to AcquisitionCo and MarksCo and to replace those references with the appropriate party.

(i) The requirement for a majority of the Trustees to be "independent" within the meaning of MI 52-110 will be amended to refer instead to the definition of "independent" in NI 58-101.

(j) The specific powers and authority of the Trustees provided by the Fund Declaration of Trust will be modified to remove references to AcquisitionCo or MarksCo in respect of effecting payment of distributions to Unitholders contrary to terms of AcquisitionCo Notes or the AcquisitionCo Note Indenture or in respect of insurance to be provided to such parties.

(k) The restrictions in the Fund Declaration of Trust that limit the ability of Trustees to effect certain fundamental transactions in respect of AcquisitionCo and MarksCo without first obtaining Unitholder approval, will be amended to provide that:

(i) the Trustees shall not vote any securities held by the Fund to authorize, or cause to be authorized, nor permit the Trust to vote its LP Units to authorize any of the following transactions without the prior authorization of the Unitholders obtained by Special Resolution:

(A) any sale, lease or other disposition of all or substantially all of the direct or indirect assets of the Trust or the Partnership, except in conjunction with an internal reorganization or a permitted charge, pledge or lien or pursuant to any guarantee of any obligation of the Trust or the Partnership;

(B) any amalgamation, arrangement or other merger of the Trust or the Partnership with any other person, except in conjunction with an internal reorganization or in conjunction with the acquisition by the Trust or the Partnership of the securities or assets of another entity; or

(C) any material amendment to the constating documents of the Trust or the Partnership to change their authorized capital in a manner which may reasonably be expected to be prejudicial to the Fund,

without the approval of Unitholders by Special Resolution; and

(ii) the Trustees shall have no power to sell or otherwise dispose of any of the Trust Units, or to sell all or substantially all of the assets of the Fund or cause, directly or indirectly, the Trust or the Partnership to sell all or substantially all of their respective assets, without the approval of Unitholders by Special Resolution, or except as part of an internal reorganization of the direct or indirect assets of the Fund as a result of which the Fund has the same interest, whether direct or indirect, in the assets as the interest, whether direct or indirect, that it had prior to the internal reorganization;

(l) The restrictions on how the Trustees vote the securities held by the Fund shall be modified to provide that the Trustees shall only vote any units or notes of the Trust in the manner provided for in the Fund's amended and restated declaration of trust and in the amended governance agreement or permitted under the Trust Note Indenture;

(m) The limitation on liability and the indemnification of the Trustees shall be amended to remove any provisions in the Fund Declaration of Trust referring to AcquisitionCo and MarksCo and to replace them with references to the Trust and the Partnership, as applicable; and

(n) The references to MarksCo as the administrative agent of the Fund and as being granted power of attorney of the Fund shall be removed and GP Trust, as general partner for the Partnership, shall be added as the new administrative agent of the Fund with the power of authority granted by the Trustees.

The Licence and Royalty Agreement

The Fund anticipates that, in connection with the Reorganization, the Licence and Royalty Agreement will be amended to provide the Partnership with all of the rights and obligations of MarksCo as exist under the current Licence and Royalty Agreement, to remove all references to MarksCo and AcquisitionCo and to add references to the Trust, GP Trust and the Partnership, as applicable.

Governance Agreement

The Fund anticipates that, in connection with the Reorganization, the Governance Agreement will be amended to provide the Trust and the Partnership with all of the rights and obligations of MarksCo and

AcquisitionCo, respectively, thereunder, to remove all references to MarksCo and AcquisitionCo and to add references to the Trust, GP Trust and the Partnership, as applicable. The following is a general description of the nature of the amendments expected to be made to the Governance Agreement:

(a) All references to the terms "Board of Directors" or "Director" shall be removed and replaced with references to "Board of Trustees" and "Trustee".

(b) The provisions with respect to the Board of Directors and the committees of MarksCo will be amended to provide that:

  (i) The number of Trustees shall be five (as is currently provided for in the Governance Agreement with respect to MarksCo);

  (ii) Three of the Trustees shall at all times be nominees of the Fund ("**Fund Nominees**") and two of the Trustees shall at all times be nominees of Second Cup (as is currently provided for in the Governance Agreement with respect to MarksCo); and

  (iii) Two of the Fund Nominees shall be "independent" of Second Cup within the meaning of NI 58-101 (instead of being an "unrelated director" with respect to Second Cup within the meaning of the corporate governance policy of the TSX and "independent" of Second Cup within the meaning of MI 52-110 as currently provided for in the Governance Agreement). The Governance Agreement currently provides that each of the Fund Nominees shall be independent of Second Cup.

Administration Agreement

The Fund anticipates that, in connection with the Reorganization, the Administration Agreement will be amended to provide GP Trust, as general partner for the Partnership, with all of the rights and obligations of MarksCo under that agreement, to remove all references to MarksCo and AcquisitionCo and to add references to the Trust, GP Trust and the Partnership, as applicable.

Other Agreements

Credit Agreement

MarksCo is currently a party to a credit agreement with the Bank under which MarksCo has $11.0 million of indebtedness outstanding under the MarksCo Term Loan and has $1.0 million of availability under the Operating Loan. The Fund anticipates that, in connection with the Reorganization, either those credit facilities will be assigned by MarksCo to the Fund, or similar credit facilities will be provided to the Fund by the Bank on terms comparable to those contained in the current credit agreement. See "General Development of the Business — MarksCo Term Loan and Operating Loan" in the Fund's latest annual information form. The approval of MarksCo's lender will be required in order to complete the Reorganization.

General Security Agreement, Other Security and Guarantees

Pursuant to the General Security Agreement, Second Cup has granted MarksCo a security interest over all present and after-acquired property and assets of Second Cup as security for the performance of Second Cup's obligations under the Licence and Royalty Agreement. The indebtedness and liability of MarksCo under the MarksCo Term Loan and the Operating Loan are, in turn, secured by a first ranking security interest in all property of MarksCo, including the Second Cup Marks and the rights and interest of MarksCo in the General Security Agreement with Second Cup and the Licence and Royalty Agreement. The Fund and AcquisitionCo guarantee the liability of MarksCo under the MarksCo Term Loan and the Operating Loan. These guarantees are secured by all of the respective assets of the Fund and AcquisitionCo.

The Fund anticipates that, in connection with the Reorganization, modifications will be made to existing security and guarantee arrangements in order to reflect the new organizational structure of the Fund and the fact that the Fund, rather than MarksCo, will be the new debtor under what are currently the MarksCo Term Loan and the Operating Loan, and the Partnership and the Trust will be the new guarantors of those loans. The Fund anticipates that new general security arrangements will be on terms comparable to those currently in effect with respect to the Fund, AcquisitionCo, MarksCo and Second Cup. See "General Development of the Business — MarksCo Term Loan and Operating Loan" and "Licence and Royalty Agreement — Security for the Royalty" in the Fund's latest annual information form.

DESCRIPTION OF THE TRUST

The Trust will be a trust governed by the laws of the Province of Ontario. The head office of the Trust will be 6303 Airport Road, Mississauga, Ontario, L4V 1R8.

The Trust Declaration of Trust will contain provisions substantially similar to those of the Fund Declaration of Trust relating to the Fund. However, it is not intended that the Trust qualify as a mutual fund trust for the purposes of the Tax Act. As a result, certain provisions of the Trust Declaration of Trust will differ from those in the Fund Declaration of Trust. The following is a summary of what will be the material attributes and characteristics of the Trust Units and certain provisions to be contained in the Trust Declaration of Trust.

General

The Trust will be an unincorporated, open-ended trust established under the laws of the Province of Ontario pursuant to a declaration of trust. Its activities will be restricted to, among other things:

(a) acquiring, investing in, transferring, disposing of and otherwise dealing with securities, including those issued by the Partnership;

(b) paying the expenses and liabilities of the Trust, paying amounts owing by the Trust in connection with the redemption of any Trust Units or other securities of the Trust and making distributions to Trust Unitholders and temporarily holding cash in interest bearing accounts, short-term government debt or short-term investment grade corporate debt for such purposes;

(c) issuing Trust Units and other securities of the Trust (including warrants, convertible or exchangeable securities, options or other rights to acquire Trust Units or other securities of the Trust pursuant to the Trust Declaration of Trust), including for the purposes of:

  (i) obtaining funds to conduct the activities described in paragraph (a) above, including raising funds for acquisitions or investments;

  (ii) repayment of any indebtedness or borrowings of the Trust; and

  (iii) making non-cash distributions to Trust Unitholders as contemplated by the Trust Declaration of Trust;

(d) issuing debt securities, including any Trust Notes and any debt securities convertible into, or exchangeable for, Trust Units or other securities of the Trust, or otherwise borrowing funds and mortgaging, pledging, charging, granting a security interest in or otherwise encumbering any of its assets as security;

(e) redeeming Trust Units or Trust Notes;

(f) repurchasing securities issued by the Trust;

(g) guaranteeing (as guarantor, surety or co-obligor) the payment of any indebtedness, liability or obligation of the Fund or any other affiliate of the Trust, or the performance of any obligation of the Fund or any other affiliate of the Trust, and mortgaging, pledging, charging, granting a security interest in or otherwise encumbering all or any part of the assets of the Trust, including securities issued by the Partnership, as security for such guarantee, and where considered appropriate, postponing or subordinating the Trust's rights under indebtedness or other obligations;

(h) satisfying the obligations, liabilities or indebtedness of the Trust;

(i) disposing of all or any part of the assets of the Trust;

(j) entering into and performing its obligations under any material contracts relating to the Fund or contracts relating to the Fund's structure; and

(k) undertaking such other activities, or taking such actions, including investing in securities, as are related to or in connection with the foregoing or as are contemplated by the Trust Declaration of Trust or as may otherwise be approved by the Trust Trustees from time to time;

provided that the Trust shall not undertake any activity, take any action or make or retain any investment which would result (or fail to take any action where such failure would result) in (i) the Trust not being considered a "unit trust" for purposes of the Tax Act or (ii) the Trust becoming subject to tax under Part XII.2 of the Tax Act.

As at the date of this Circular, it is not contemplated that the Trust will hold securities of any entities other than the Partnership or in connection with its short-term cash management.

Trust Units

An unlimited number of Trust Units may be issued pursuant to the Trust Declaration of Trust. Upon completion of the Reorganization, the Fund will hold all of the issued and outstanding Trust Units. Each Trust Unit will be transferable and will represent an equal undivided beneficial interest in any distributions from the Trust whether of net income, net realized capital gains or other amounts, and in the net assets of the Trust in the event of termination or winding-up of the Trust. All Trust Units will have equal rights and privileges and each Trust Unit will entitle the holder thereof to one vote. The Trust Units will not be subject to future calls or assessments. Except as set out below under "— Redemption Right", the Trust Units will have no conversion, retraction, redemption or pre-emptive rights.

Issuance of Trust Units

The Trust Declaration of Trust will provide that the Trust Units or rights to acquire Trust Units may be issued at the times, to the persons, for the consideration and on the terms and conditions that the Trust Trustees determine. Trust Units may be issued in satisfaction of any non-cash distribution of the Trust to Trust Unitholders on a *pro rata* basis. The Trust Declaration of Trust will also provide that immediately after any *pro rata* distribution of Trust Units to all Trust Unitholders in satisfaction of any non-cash distribution, the number of outstanding Trust Units will be consolidated such that each Trust Unitholder will hold after the consolidation the same number of Trust Units as the Trust Unitholder held before the non-cash distribution. In this case, each certificate representing a number of Trust Units prior to the non-cash distribution will be deemed to represent the same number of Trust Units after the non-cash distribution and the consolidation.

Trustees of the Trust

The Trust will have a minimum of three trustees and a maximum of ten trustees, a majority of whom must be residents of Canada within the meaning of the Tax Act and must not be Trustees of the Fund. The Trust Trustees will supervise the activities and manage the affairs of the Trust.

The three initial Trust Trustees will be appointed prior to the completion of the Reorganization. See "Governance Following the Reorganization — Trustees of the Trust". Trust Trustees will be appointed annually.

Any one or more of the Trust Trustees may resign upon 30 days' prior written notice to the Trust and may be removed by a resolution passed by a majority of the Trust Unitholders and the vacancy created by such removal or resignation must be filled by the same majority of Trust Unitholders, failing which it may be filled by the remaining Trust Trustees.

A quorum of the Trust Trustees, being a majority of the Trust Trustees then holding office, may fill a vacancy in the board of the Trust Trustees, except a vacancy resulting from an increase in the maximum number of Trust Trustees or from a failure of the Trust Unitholders to appoint the required number of Trust Trustees. In the absence of a quorum of Trust Trustees, or if the vacancy has arisen from a failure of the Trust Unitholders to appoint the required number of Trust Trustees, the Trust Trustees will forthwith request the Trust Unitholders to fill the vacancy.

The Trust Declaration of Trust provides that, subject to the terms and conditions thereof, the Trust Trustees may, in respect of the Trust's assets, exercise any and all rights, powers and privileges that could be exercised by a legal and beneficial owner thereof and shall supervise the investments and conduct the affairs of the Trust. The Trust Trustees will be responsible for, among other things:

- acting for the Trust, voting on behalf of the Trust and representing the Trust as a limited partner of the Partnership;
- maintaining records and providing reports to Trust Unitholders as appropriate;
- supervising the activities of the Trust, including the investments of the Trust; and
- declaring distributions and arranging for the payment of distributions by the Trust to Trust Unitholders.

The Trust Declaration of Trust will provide that the Trust Trustees shall act honestly and in good faith with a view to the best interests of the Trust and in connection therewith shall exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Trust Declaration of Trust will provide that the Trust Trustees will be entitled to indemnification from the Trust in respect of the exercise of their powers and the discharge of their duties provided that they acted honestly and in good faith with a view to the best interests of the Trust Unitholders. The Trust Trustees will be insured under an insurance policy to be obtained by the Partnership.

Redemption Rights

The Trust Units will be redeemable at any time on demand by the holders thereof upon delivery to the Trust of a duly completed and properly executed irrevocable notice requiring the Trust to redeem the Trust Units, in a form reasonably acceptable to the Trust Trustees, together with the certificates for the Trust Units representing the Trust Units to be redeemed and written instructions as to the number of Trust Units to be redeemed. Upon tender of Trust Units by a holder thereof for redemption, the holder of the Trust Units tendered for redemption will no longer have any rights with respect to such Trust Units, other than the right to receive the redemption price for such Trust Units. The redemption price for each Trust Unit tendered for redemption will be equal to the greater of $0.01 and the result of the following formula:

$$\frac{(A \times B) - C + D}{E}$$

Where:

A = the cash redemption price per Unit, as determined under the Fund Declaration of Trust, calculated as of the close of business on the date the Trust Units were so tendered for redemption by a Trust Unitholder;

B = the aggregate number of Units outstanding as of the close of business on the date the Trust Units were so tendered for redemption by a Trust Unitholder;

C = the aggregate unpaid principal amount of any indebtedness of the Trust held by or owed to the Fund and the fair market value of any other assets or investments held by the Fund (other than Trust Units) as of the close of business on the date the Trust Units were so tendered for redemption by a Trust Unitholder;

D = the aggregate unpaid liabilities of the Fund as of the close of business on the date the Trust Units were so tendered for redemption by a Trust Unitholder (prior to redemption of Units for such date); and

E = the aggregate number of Trust Units outstanding held by the Fund as of the close of business on the date the Trust Units were so tendered for redemption by a Trust Unitholder.

The aggregate redemption price payable by the Trust in respect of any Trust Units tendered for redemption by the Trust Unitholders thereof during any month will be satisfied, at the option of the Trust Trustees, (i) in immediately available funds by cheque; (ii) by the issuance to or to the order of the holder whose Trust Units are to be redeemed of such aggregate amount of the Series 1 Trust Notes as is equal to

the aggregate redemption price payable to such holder of Trust Units rounded down to the nearest $10.00, with the balance of any such aggregate redemption price not paid in Series 1 Trust Notes to be paid in immediately available funds by cheque; or (iii) by any combination of funds and Series 1 Trust Notes as the Trust Trustees shall determine in their sole discretion, in each such case payable or issuable on the day before the last day of the calendar month following the calendar month in which the Trust Units were so tendered for redemption. A holder of Trust Units whose Trust Units are tendered for redemption may elect, at any time prior to the payment of the redemption price, to receive Series 1 Trust Notes pursuant to (ii) above in the place of all or part of the funds otherwise payable, the amount of such Series 1 Trust Notes payable to be equal to the funds otherwise payable, rounded down to the nearest $10.00, with the difference to be paid in immediately available funds by cheque.

Distributions

The Trust intends to make monthly cash distributions to the holders of Trust Units of its net monthly cash receipts, after satisfaction of its debt service obligations including principal and interest, if any, and less any provisions for amounts required to satisfy expenses and other obligations of the Trust, any cash redemptions or repurchases of Trust Units or Trust Notes, any tax liabilities and such reasonable working capital reserves as are considered appropriate by the Trust Trustees. Such distributions will be paid within 21 days following each calendar month end and are intended to be received by the Fund prior to its related cash distribution to Unitholders. The Trust Trustees may increase or decrease or halt cash distributions from time to time as they see fit. The Trust may borrow funds from the Partnership in order to finance distributions by the Trust to the Fund. To the extent that the Trust borrows funds from the Partnership for these purposes, these amounts will be set-off against the distributions payable by the Partnership to the Trust.

The distribution payable in respect of the month ending December 31 in each calendar year will be required to include such amounts in respect of the taxable income and net realized capital gains, if any, of the Trust for such calendar year as are necessary to ensure that the Trust will not be liable for ordinary income taxes under the Tax Act in such year and will also be required to include the non-taxable portion of any capital gains realized by the Trust in such year.

If the Trust Trustees determine that the Trust does not have cash in an amount sufficient to make payment of the full amount of any distribution, then the payment may include the issuance of additional Trust Units or Trust Notes having a value equal to the difference between the amount of such distribution and the amount of cash which has been determined by the Trust's Trustees, to be available for the payment of such distribution.

Any Trust Notes transferred to Unitholders pursuant to a distribution *in specie* may be subject to resale and transfer restrictions pursuant to which they may not be able to be resold or transferred, except as permitted by applicable securities laws.

Trust Notes

The following is a summary of what are expected to be the material attributes and characteristics of the Trust Notes that may be issued by the Trust under the Trust Note Indenture to be entered into between the Trust and the Note Trustee, which will be a trust corporation to be selected by the Fund.

The aggregate principal amount of Trust Notes issuable under the Trust Note Indenture will be unlimited. Trust Notes may be issued in series from time to time as determined by the Trust pursuant to the Trust Note Indenture. The Trust expects to authorize the issuance of Series 1 Trust Notes in connection with the Reorganization. However, no Trust Notes are contemplated to be outstanding immediately following the Reorganization.

Trust Notes will be issuable in Canadian currency and in denominations of $10.00 and integral multiples of $10.00. No fractional Trust Notes will be distributed and, where the number of Trust Notes to be received by a Unitholder includes a fraction, such number will be rounded to the next lowest whole number (with the balance paid in cash).

Series 1 Trust Notes will be reserved by the Trust to be issued exclusively to holders of Trust Units as full or partial payment of the redemption price of Trust Units, as the Trust Trustees may decide or, in certain circumstances, may be obliged to issue.

Interest and Maturity

Any Series 1 Trust Notes that are issued will mature on a date which is no later than the tenth anniversary of the date of issuance thereof and will be interest bearing at a market rate to be determined by the Trust Trustees at the time of issuance of those notes (after receiving advice from financial advisors if considered appropriate). Interest will be payable on or before the 21st day of each calendar month that such Series 1 Trust Notes are outstanding in respect of interest accruing during the immediately preceding calendar month.

Payment upon Maturity

On maturity, the Trust will be required to repay the Trust Notes by paying to the trustee under the Trust Note Indenture in cash an amount equal to the principal amount of the outstanding Trust Notes which have then matured, together with accrued and unpaid interest thereon.

Redemption

The Trust Notes will be redeemable (at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, payable in cash) at the option of the Trust prior to maturity.

Ranking and Subordination

All Trust Notes will rank equally with each other. However, payment of the principal amount and interest on the Trust Notes will be subordinated in right of payment to the prior payment in full of the principal of and accrued and unpaid interest on, and all other amounts owing in respect of, all senior indebtedness (which will be defined as all indebtedness, liabilities and obligations of the Trust which, by the terms of the instrument creating or evidencing the same, are expressed to rank in right of payment senior or in priority to the indebtedness evidenced by notes issued under the Trust Note Indenture). The Trust Note Indenture will provide that, upon any distribution of the assets of the Trust in the event of any dissolution, liquidation, reorganization or other similar proceedings relating to the Trust, the holders of all such senior indebtedness will be entitled to receive payment in full before the holders of the Trust Notes are entitled to receive any payment.

Default

The Trust Note Indenture will provide that any of the following shall constitute an event of default:

(a) default in repayment of the principal amount of the Trust Notes when it becomes due;

(b) subject to the terms of any senior indebtedness, the failure to pay the interest obligation on the Trust Notes when it becomes due, for a period of six months;

(c) the occurrence of an event of default on any senior indebtedness so that an amount in excess of $1,000,000 is or becomes due and payable;

(d) certain events of winding-up, liquidation, bankruptcy, insolvency or receivership;

(e) the taking of possession by an encumbrancer of, in the opinion of the Note Trustee, all or substantially all of the property of the Trust;

(f) the Trust ceasing to own all of the issued and outstanding LP Units of the Partnership;

(g) the Trust or any of its material subsidiaries ceasing to carry on its business or a substantial part of its business; or

(h) default in the observance or performance of any other covenant or condition of the Trust Note Indenture and the continuance of the default for a period of not less than 30 days after notice in writing has been given by the Note Trustee to the Trust specifying the default and requiring the Trust to rectify the default.

The Trust Note Indenture will also provide that the Note Trustee shall not take steps or actions with respect to an event of default without the prior consent of the Fund if the Fund holds, directly or indirectly, at least 25% of the aggregate principal amount of the outstanding Trust Notes.

The provisions governing an event of default under the Trust Note Indenture and remedies available thereunder will not provide protection to the holders of Trust Notes which would be comparable to the provisions generally found in debt securities issued to the public as, among other things, covenants thereunder may be amended by agreement by the Trust and the Note Trustee without further approvals.

Unit Certificates

Registration of interests in, and transfers of, the Trust Units will not be made through the book-entry system administered by CDS. Rather, holders of Trust Units will be entitled to receive certificates for Trust Units in fully registered form.

Meetings of Trust Unitholders

Meetings of Trust Unitholders may be held at such time and place as shall be prescribed for the purpose of transacting such business as the Trust Trustees may determine or as may properly be brought before the meeting.

Term of the Trust

Unless the Trust is sooner terminated, the Trust will continue in full force and effect so long as any property of the Trust is held by the Trust Trustees, and the Trust Trustees will have all the powers and discretions, expressed and implied, conferred upon them by law or by the Trust Declaration of Trust.

The Trust Unitholders may vote by Special Resolution to terminate the Trust at any meeting of Trust Unitholders duly called for the purpose of considering the termination of the Trust. Following the approval of such termination, the Trust Trustees shall commence to wind up the affairs of the Trust. Such Special Resolution may contain such directions to the Trust Trustees as the Trust Unitholders determine.

DESCRIPTION OF THE PARTNERSHIP

The Partnership will be a limited partnership governed by the laws of the Province of Ontario. The head office of the Partnership will be 6303 Airport Road, Mississauga, Ontario, L4V 1R8.

The following is a summary of what will be the material attributes and characteristics of the LP Units and certain provisions to be contained in the Partnership Agreement.

General

If the Reorganization is completed, the Partnership will assume the role currently performed by MarksCo. GP Trust, as general partner of the Partnership, will be responsible for managing the Partnership.

The business of the Partnership will be the ownership of the Second Cup Marks, the taking of actions consistent with the Licence and Royalty Agreement to exploit the use of those marks by Second Cup, the collection of the Royalty payable to the Partnership under the Licence and Royalty Agreement and the administration of the Fund and the Trust pursuant to the Administration Agreement.

Partnership Interests

The Partnership will be entitled to issue various classes of partnership interests for such consideration and on such terms and conditions as may be determined by GP Trust. The LP Units will entitle the holder

thereof to one vote for each whole LP Unit at all meetings of unitholders of the Partnership. GP Trust will have one vote at all meetings of unitholders of the Partnership.

Following the completion of the Reorganization, the respective interests of the partners in the Partnership will be as follows:

(a) the Trust will have a 99.99% limited partnership interest in the form of LP Units; and

(b) GP Trust will have a 0.01% general partnership interest in the form of GP Units.

Distributions

It is intended that distributions of distributable cash of the Partnership derived from the receipt of the Royalty and other amounts from Second Cup will be made primarily by way of loans by the Partnership to the Trust. These loans will be made and repaid in the manner described below.

GP Trust, as general partner, will cause the Partnership to make monthly loans from its distributable cash to holders of record of LP Units within 21 days of the end of each month so that the loans to the Trust will be equal on a *pro rata* basis to the distributions to be made to Unitholders by the Fund. Such loan amounts are intended to be received by the Trust prior to its related cash distribution to the Fund as holder of Trust Units. At the end of, or shortly thereafter, the fiscal year, GP Trust, as general partner, will cause the Partnership to declare a distribution payable to the Trust and all or a portion of such distributions received by the Trust may be applied to satisfy amounts loaned by the Partnership to the Trust.

GP Trust intends to loan the available cash of the Partnership to the holders of the LP Units after:

- satisfying the Partnership's debt service obligations, including principal and interest and other expense obligations;
- making provisions for administrative expenses and other obligations and liabilities (including taxes, if any) of the Partnership;
- making provisions for any additional amounts that may become payable by the Partnership to Second Cup pursuant to the Licence and Royalty Agreement in the event that additional Second Cup cafés are added to the Royalty Pool;
- making provisions for sustaining capital expenditures in respect of the Partnership's assets; and
- retaining such reasonable working capital and other reserves as may be considered appropriate by GP Trust.

The Partnership may make additional distributions at any other time as determined by GP Trust.

Allocation of Net Income and Losses

The income or loss for income tax purposes of the Partnership for a particular taxation year will be allocated to each partner in an amount calculated by multiplying the total income or loss for income tax purposes allocated to the partners by a fraction, the numerator of which shall be the sum of the cash distributions received by that partner with respect to that taxation year and the denominator of which shall be the total amount of the cash distributions made by the Partnership to all partners with respect to that taxation year. The amount of income for income tax purposes allocated to a partner may exceed or be less than the amount of cash distributed by the Partnership to that partner. If no cash distribution is made by the Partnership to its partners in a taxation year, the income or loss of the Partnership for that taxation year will be allocated to the partners based on the number of LP Units held by the partners at the end of that taxation year.

The income or loss of the Partnership for accounting purposes shall be allocated to each partner in the same proportion as income or loss shall be allocated for income tax purposes.

Limited Liability

The Partnership will be required to operate in a manner so as to ensure to the greatest extent possible the limited liability of the limited partners. If limited liability is lost by reason of the gross negligence of GP Trust in performing its duties and obligations under the Partnership Agreement, GP Trust will indemnify the limited partners in respect of any loss, damage, cost or expense arising from the absence of the limited liability intended by the Partnership Agreement. However, since GP Trust has no significant assets or financial resources, any indemnity from GP Trust may have only nominal value.

Transfer of LP Units

LP Units will not be transferable except in accordance with the Partnership Agreement and in compliance with applicable securities laws. LP Units will not be transferable to any person that is a non-resident of Canada for purposes of the Tax Act or to a partnership other than a Canadian partnership. An LP Unit will not be transferable in part.

Amendment

The Partnership Agreement may be amended at any time with approval by special resolution of the holders of LP Units, except for amendments which require unanimous approval of holders of LP Units. Unanimous approval of holders of LP Units will be required for:

(a) altering the ability of the limited partners to involuntarily remove GP Trust as general partner;

(b) changing the liability of any limited partner;

(c) changing the right of a limited partner to vote at any meeting;

(d) changing the allocation or priority of distributions or the allocation or priority of the distribution of proceeds of liquidation, dissolution or winding up of the Partnership; or

(e) changing the Partnership from a limited partnership to a general partnership.

Notwithstanding the foregoing, no amendment which would adversely affect the rights and obligations of GP Trust, as general partner, may be made without its prior written consent. GP Trust may, without unitholder approval, make amendments to the Partnership Agreement to reflect: (i) a change in the name of the Partnership or the location of the principal place of business of the Partnership or the registered office of the Partnership; (ii) a change in the governing law of the partnership to any other province of Canada; (iii) admission, substitution, withdrawal or removal of limited partners in accordance with the Partnership Agreement; (iv) a change that, as determined by GP Trust, is reasonable and necessary or appropriate to qualify or continue the qualification of the Partnership as a limited partnership in which the limited partners have limited liability under applicable laws; (v) a change that, as determined by GP Trust, is reasonable, necessary or appropriate to enable the Partnership to take advantage of, or not be detrimentally affected by, changes in the Tax Act or other taxation laws; (vi) a change to amend or add any provision, or to cure any ambiguity or to correct or supplement any provisions contained in the Partnership Agreement which may be defective or inconsistent with any other provision contained in the Partnership Agreement; or (vii) a change that, as determined by GP Trust, does not materially adversely affect the limited partners.

Meetings of Partners

Meetings of partners of the Partnership may be held at such time and place as shall be prescribed for the purpose of transacting such business as the GP Trust may determine or as may properly be brought before the meeting.

DESCRIPTION OF GP TRUST

GP Trust will be a trust governed by the laws of the Province of Ontario. The head office of GP Trust will be 6303 Airport Road, Mississauga, Ontario, L4V 1R8.

Functions and Powers of GP Trust

Under the terms of the Partnership Agreement, GP Trust, as general partner, will have exclusive authority to manage the business and affairs of the Partnership, to make all decisions regarding the business of the Partnership and to bind the Partnership. GP Trust will exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Partnership and exercise the care, diligence and skill of a reasonably prudent person in comparable circumstances. The authority and power vested in GP Trust to manage the business and affairs of the Partnership includes all authority necessary or incidental to carry out the objects, purposes and business of the Partnership, including without limitation, the ability to engage agents to assist GP Trust to carry out its management obligations or administrative functions. GP Trust will not be able to dissolve the Partnership or wind up the Partnership's affairs, except in accordance with the provisions of the Partnership Agreement.

The Partnership Agreement will provide that all material transactions and agreements involving the Partnership (other than the agreements entered into in connection with the formation of the Partnership or the Reorganization) must be approved by GP Trust's board of trustees.

GP Trust Units

An unlimited number of GP Trust Units may be issued pursuant to the declaration of trust of GP Trust. Each GP Trust Unit will be transferable and represents an equal undivided beneficial interest in any distributions from GP Trust whether of net income, net realized capital gains or other amounts, and in the net assets of GP Trust in the event of termination or winding-up of GP Trust. All GP Trust Units will have equal rights and privileges and each GP Trust Unit will entitle the holder thereof to one vote. The GP Trust Units will not be subject to future calls or assessments.

The GP Trust Units will be redeemable on demand for cash at a redemption price equal to their fair market value at the time of the redemption, which fair market value will be determined by the trustees of GP Trust (after receiving advice from financial advisors if considered appropriate).

Trustees of GP Trust

GP Trust will have a minimum of three trustees and a maximum of ten trustees, a majority of whom must be residents of Canada within the meaning of the Tax Act and must not be Trustees of the Fund. The GP Trustees will supervise the activities and manage the affairs of GP Trust.

Immediately following the Reorganization, the board of trustees of GP Trust will be comprised of five individuals. Pursuant to the terms of the Governance Agreement, as it will be amended, the Fund will be entitled to nominate three trustees and Second Cup will be entitled to nominate two trustees. Second Cup's entitlement to nominate two trustees of GP Trust will be subject to Second Cup or any of its affiliates holding 10% or more of the Units of the Fund or securities convertible or exchangeable into Units. See "Governance Following the Reorganization — Trustees of GP Trust". Trustees of GP Trust will be appointed annually.

Any one or more of the trustees of GP Trust may resign upon 30 days' prior written notice to GP Trust and may be removed by a resolution passed by a majority of the unitholders of GP Trust and the vacancy created by such removal or resignation must be filled by the same majority of unitholders, failing which it may be filled by the remaining trustees of GP Trust.

A quorum of the trustees of GP Trust, being a majority of the trustees then holding office, may fill a vacancy in the board of the trustees, except a vacancy resulting from an increase in the maximum number of trustees or from a failure of the unitholders of GP Trust to appoint the required number of trustees of GP Trust. In the absence of a quorum of trustees, or if the vacancy has arisen from a failure of the unitholders of GP Trust to appoint the required number of trustees, the trustees will forthwith request the unitholders of GP Trust to fill the vacancy.

Following the completion of the Reorganization, trustees of GP Trust (and Trustees of the Fund) will be compensated at the same rates and in the same manner as directors of MarksCo and Trustees of the Fund currently. See "Compensation of Trustees and Directors". Compensation for Trustees of the Fund, trustees of the Trust and trustees of GP Trust will be reviewed annually.

Restrictions on Authority of GP Trust

The authority of GP Trust will be limited in certain respects under the Partnership Agreement. GP Trust will be prohibited from dissolving the Partnership or selling, exchanging or otherwise disposing of all or substantially all of the assets of the Partnership (otherwise than in conjunction with an internal reorganization) without the prior approval of the partners.

Reimbursement of General Partners

The Partnership will reimburse GP Trust for all out-of-pocket costs and expenses approved by GP Trust and incurred by GP Trust in the performance of its duties under the Partnership Agreement on behalf of the Partnership.

Withdrawal or Removal of GP Trust

GP Trust may resign on not less than 180 days' written notice to the limited partners of the Partnership, provided that GP Trust will not resign if the effect would be to dissolve the Partnership.

GP Trust may not be removed as general partner of the Partnership unless (i) GP Trust has committed a material breach of the Partnership Agreement, which breach has continued unremedied for 30 days after notice, and that removal is also approved by a special resolution of the limited partners of the Partnership; or (ii) the unitholders or trustees of GP Trust pass a resolution in connection with the bankruptcy, dissolution, liquidation or winding-up of GP Trust, or GP Trust commits certain other acts of bankruptcy or ceases to be a subsisting trust, provided that certain other conditions are satisfied, including a requirement that a successor general partner agrees to act as general partner under the Partnership Agreement.

DESCRIPTION OF NEWCO AND AMALCO

Newco will be a corporation governed by the laws of the Province of Ontario. The registered office of Newco will be 6303 Airport Road, Mississauga, Ontario, L4V 1R8.

Newco will be established solely to faciliate the Reorganization. As part of the Reorganization, Newco will amalgamate with the corporation formed by the amalgamation of AcquisitonCo and MarksCo. This will result in the formation of Amalco. Following the completion of the Reorganization, Amalco will not carry on any business and eventually will be dissolved.

Share Capital

The authorized share capital of Newco and Amalco (Newco and Amalco, as applicable, are referred to in this section of the Circular as the "corporation") will consist of an unlimited number of Common Shares, Class A Shares and Class B Shares. These shares are expected to have substantially the terms described below.

Common Shares

The Common Shares will:

(a) entitle each holder to receive notice of, to attend all meetings of the corporation's shareholders and to one vote per Common Share on all matters to be voted on at such meetings;

(b) entitle the holder thereof to receive dividends if, as and when declared by the board of directors of the corporation, and to the exclusion of holders of Class A Shares or Class B Shares; and

(c) on the liquidation, dissolution or winding-up of the corporation, subject to the rights of the holders of any other class of shares of the corporation entitled to receive assets of the corporation upon a liquidation, distribution or winding-up of the corporation in priority to or rateably with the holders of the Common Shares, entitle the holder thereof to share rateably in any remaining assets of the corporation.

Class A Shares

The Class A Shares will:

(a) be non-voting shares in the capital of the corporation;

(b) entitle the holder thereof to receive dividends if, as and when declared by the board of directors of the corporation, and to the exclusion of holders of the Common Shares or Class B Shares;

(c) be redeemable at the option of the corporation without notice to the holders thereof at the Class A Redemption Price, which may be satisfied by delivering Units of the Fund held by the corporation;

(d) be retractable at the option of the holder upon not less than three business days prior written notice to the corporation at the Class A Redemption Price, which may be satisfied by delivering Units of the Fund held by the corporation;

(e) on the liquidation, dissolution or winding-up of the corporation, entitle the holder thereof to receive the aggregate Class A Redemption Price, *pari passu* with the holders of Class B Shares, before any amount will be paid or any assets of the corporation will be distributed to the holders of the Common Shares, or any shares ranking junior to the Common Shares.

Class B Shares

The Class B Shares will:

(a) be non-voting shares in the capital of the corporation;

(b) entitle the holder thereof to receive dividends if, as and when declared by the board of directors of the corporation, and to the exclusion of holders of the Common Shares or Class A Shares;

(c) be redeemable at the option of the corporation without notice to the holders thereof at the Class B Redemption Price, which may be satisfied by delivering Units or Special Units of the Fund held by the corporation;

(d) be retractable at the option of the holder upon not less than three business days prior written notice to the corporation at the Class B Redemption Price, which may be satisfied by delivering Units or Special Units of the Fund held by the corporation;

(e) on the liquidation, dissolution or winding-up of the corporation, entitle the holder thereof to receive the Class B Redemption Price, *pari passu* with holders of Class A Shares, before any amount will be paid or any assets of the corporation will be distributed to the holders of the Common Shares, or any shares ranking junior to the Common Shares.

Directors

The initial directors of Newco are expected to be Michael Forsayeth (who is the Chief Financial Officer of Cara, Second Cup and the Fund and its subsidiaries) and Wayne Bishop (who is an officer of Cara and the Controller of the Fund and its subsidiaries).

Restrictions on Business

The articles of the corporation will restrict the business that it can carry on. In this regard, the corporation will only be entitled to (i) invest its funds in property (other than real property or an interest in real property), (ii) acquire, hold, maintain, improve, lease or manage real property (or interests in real

property) that is capital property (as defined in the Tax Act) of the corporation, as applicable, or (iii) any combination of the activities described in (i) and (ii).

Listing on the TSX

An application has been made to list the Class A Shares on the TSX. Listing will be subject to the corporation fulfilling all of the listing requirements of the TSX.

Class A Shares will be outstanding only for a brief period of time. No Class A Shares will be outstanding following the completion of the Reorganization, as they will be redeemed by Amalco as part of the steps in the Reorganization. See "Special Meeting Business — Reorganization Steps".

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Osler, Hoskin & Harcourt LLP, legal counsel for the Fund, the following is, as of the date of this Circular, a summary of the principal Canadian federal income tax considerations relating to the Reorganization and the acquisition, holding and disposition of Units generally applicable under the Tax Act to a Unitholder who, at all relevant times and for the purposes of the Tax Act, holds Units as capital property and who deals at arm's length, and is not affiliated, with the Fund. Generally, Units will be considered to be capital property to a Unitholder provided that the Unitholder does not hold the Units in the course of carrying on a business and has not acquired them in one or more transactions considered to be an adventure in the nature of trade. Certain Unitholders who might not otherwise be considered to hold their Units as capital property may, in certain circumstances, be entitled to make an irrevocable election in accordance with subsection 39(4) of the Tax Act to have such Units, and any other "Canadian security" (as defined in the Tax Act) owned in the taxation year in which the election is made and all subsequent taxation years, deemed to be capital property.

This summary is not applicable to a Unitholder that is a "financial institution" (as defined in the Tax Act for purposes of the mark-to-market rules) or a "specified financial institution" or to a Unitholder an interest in which is a "tax shelter investment" (all as defined in the Tax Act).

This summary is based upon the provisions of the Tax Act and the regulations thereunder in force as of the date hereof, counsel's understanding of the current published administrative policies and assessing practices of the CRA and certificates as to certain factual matters. This summary is based on the assumption that the Advance Tax Ruling will be issued. There is no assurance that the CRA will not change its administrative policies and assessing practices. There is also no assurance that the Advance Tax Ruling will be issued. This summary takes into account all specific proposals to amend the Tax Act and the regulations thereunder publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date of this Circular, as well as a letter issued by Brian Ernewein on behalf of the Department of Finance which is dated February 14, 2006 with respect to sections 132.2, 116 and 218.3 of the Tax Act (the "**Proposed Amendments**"). There is no assurance that the Proposed Amendments will be enacted in the form announced or at all. This summary does not otherwise take into account or anticipate any changes in the law, whether by judicial, governmental or legislative decision or action, or any changes in the administrative policies and assessing practices of the CRA, nor does it take into account provincial, territorial or foreign tax legislation or considerations, which may differ significantly from those discussed in this Circular.

This summary is not exhaustive of all possible Canadian federal income tax considerations. This summary is of a general nature only and is not intended to be legal or tax advice to any particular Unitholder. Unitholders should consult their own tax advisors for advice with respect to the income tax consequences of the Reorganization, based on their particular circumstances, including the application and effect of the income and other tax laws of any country, province, territory, state or local tax authority.

Status of the Fund

This summary is based on the assumption that the Fund qualifies, and will continue to qualify at all relevant times, as a "mutual fund trust" as defined in the Tax Act. If the Fund were not to qualify as a mutual fund trust, the income tax considerations below would, in some respects, be materially different.

Unitholders Resident in Canada

The following portion of the summary is applicable to Unitholders who at all relevant times are, or are deemed to be, resident in Canada for purposes of the Tax Act and any applicable tax treaty or convention.

Tax Considerations Applicable to the Reorganization

The Fund and its affiliates will not be required to include any amount in their income as a result of the Reorganization.

Taxable Participating Unitholders

Unitholders will not be required to include in computing their income for the year the fair market value of the Class A Shares received from the Fund as a return of capital. A Unitholder will, however, be required to reduce the adjusted cost base of the Unitholder's Units by the fair market value of the Class A Shares received by that Unitholder as a return of capital. To the extent that the adjusted cost base of a Unit would otherwise be a negative amount, the negative amount will be deemed to be a capital gain and the adjusted cost base of the Unit to the Unitholder will, immediately thereafter, be nil. The cost to a Unitholder of a Class A Share distributed to such holder will be equal to its fair market value at the time of the distribution.

Unitholders will not realize a capital gain or a capital loss on the amalgamation of Newco and New AcquisitionCo. The cost to a Unitholder of the Class A Shares held by the Unitholder immediately following the amalgamation will be equal to the adjusted cost base of the Class A Shares to that Unitholder immediately prior to the amalgamation.

Unitholders holding Class A Shares will not be considered to have received a dividend and will not realize a capital gain or a capital loss as a result of the receipt of Units of the Fund on the redemption of the Class A Shares.

The cost to a Unitholder of Units received by such Unitholder on the redemption of Class A Shares will be equal to the adjusted cost base of the redeemed Class A Shares to the Unitholder immediately prior to the redemption. The cost of these Units will be required to be averaged with the adjusted cost base of all other Units held by the Unitholder as capital property immediately before the redemption in order to determine the adjusted cost base of each Unit.

The consolidation of Units will not be considered to result in a disposition of Units by Unitholders. The consolidation of Units will therefore not result in the realization of any income, gain or loss by a Unitholder.

In general, the aggregate adjusted cost base of the Units owned by a Unitholder immediately after the Reorganization should be equal to the aggregate adjusted cost base of the Units owned by such Unitholder immediately prior to the Reorganization.

Tax Exempt Unitholders

The Class A Shares will be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans, each as defined in the Tax Act (referred to in this summary as the "plans" and separately, a "plan").

Tax Considerations Following the Reorganization

The Fund

The taxation year of the Fund is the calendar year. In each taxation year, the Fund will be subject to tax under Part I of the Tax Act on its income for the year, including net realized taxable capital gains computed in accordance with the provisions of the Tax Act, less the portion thereof that it deducts in respect of the amounts paid or payable in the year to Unitholders. An amount will not be considered to be payable to a Unitholder in a taxation year unless it is paid to the Unitholder in the year by the Fund or if the Unitholder is entitled in that year to enforce payment of the amount.

The Fund will include in its income for each taxation year such portion of the income of the Trust and the GP Trust, including net realized capital gains, as is paid or payable or deemed to be paid or payable, to the Fund in the year in respect of the Trust Units and GP Trust Units, as the case may be. The Fund will generally not be subject to tax on any amounts received as distributions on the Trust Units or the GP Trust Units that are in excess of the income of the Trust or the GP Trust, as the case may be, in a year, which amounts will generally reduce the adjusted cost base of those Trust Units or GP Trust Units, as the case may be, to the Fund. Where the adjusted cost base of the Trust Units or GP Trust Units to the Fund would otherwise be a negative amount, the Fund will be deemed to realize a capital gain to the extent of such negative amount, and its adjusted cost base of the Trust Units or GP Trust Units, as the case may be, will, immediately thereafter, be nil. In computing its income, the Fund may deduct reasonable administrative costs and other expenses incurred by it for the purpose of earning income to the extent such expenses are not capital in nature.

Redemptions of Trust Units and distributions by the Fund of Trust Notes upon the redemption of Fund Units will be treated as dispositions by the Fund of the securities so redeemed or distributed for proceeds of disposition equal to their fair market value. The Fund's proceeds of disposition of Trust Notes will be reduced by any accrued but unpaid interest in respect of those notes, which interest will generally be included in the Fund's income in the year of disposition to the extent it was not included in the Fund's income in a previous year. The Fund will realize a capital gain (or a capital loss) to the extent that the proceeds from each such disposition exceed (or are less than) the adjusted cost base of the relevant property and any reasonable costs of disposition. It is intended that the Fund will designate any such interest income and capital gains as being paid to the Unitholder(s) whose Fund Units were redeemed.

Under the Fund Declaration of Trust, an amount equal to all of the income of the Fund (determined without reference to paragraph 82(1)(b) and subsection 104(6) of the Tax Act), together with the non-taxable portion of any net capital gain realized by the Fund, but excluding income or capital gains arising on a disposition of Trust Units or Trust Notes in connection with a redemption of Fund Units which are designated by the Fund to redeeming Unitholders and capital gains that may be offset by capital losses carried forward from prior years or the tax on which is recoverable by the Fund, will be paid or made payable in the year to the Unitholders by way of cash distributions, subject to the exceptions described below. Where cash of the Fund is applied to fund redemptions of Units or is otherwise unavailable for cash distributions, distributions will be paid to Unitholders in the form of additional Units. Income of the Fund paid or made payable to Unitholders, whether in cash, additional Units or otherwise, will generally be deductible by the Fund in computing its income.

The Fund will be entitled for each taxation year to reduce (or receive a refund in respect of) its liability, if any, for tax on its net realized taxable capital gains by an amount determined under the Tax Act based upon the redemption of Units during the year (the "capital gains refund"). In certain circumstances, the "capital gains refund" in a particular taxation year may not completely offset the Fund's tax liability for that taxation year arising as a result of a disposition of Trust Units or Trust Notes in connection with a redemption of Fund Units. The Fund Declaration of Trust provides that all or a portion of any capital gain realized by the Fund as a result of that redemption may, at the discretion of the Trustees, be treated as a capital gain paid or made payable to the redeeming Unitholder. The taxable portion of any such capital gain will be deductible by the Fund. In addition, certain accrued interest on the Trust Notes distributed to a redeeming Unitholder may be treated as an amount paid or payable to that Unitholder and will then be deductible by the Fund.

Counsel has been advised that the Fund intends to make sufficient distributions in each year of its net income for tax purposes and net realized taxable capital gains so that the Fund will generally not be liable in that year for income tax under Part I of the Tax Act.

The Trust

The taxation year of the Trust will be the calendar year. In each taxation year, the Trust will be subject to tax under Part I of the Tax Act on its income for the year, which will include its allocated share of the income of the Partnership for the Partnership's fiscal period ending on or before the year end of the Trust.

The Trust will also include in its income for each taxation year net capital gains realized by the Trust in that year. In computing its income, the Trust may deduct reasonable administrative costs and other expenses incurred by it for the purpose of earning income to the extent such expenses are not capital in nature. Under the Trust Declaration of Trust, an amount equal to all of the income of the Trust (determined without reference to paragraph 82(1)(b) and subsection 104(6) of the Tax Act), together with the non-taxable portion of any net capital gain realized by the Trust but excluding capital gains, which may be offset by capital losses carried forward from prior years, will be paid or made payable in the year to the Fund and will generally be deductible by the Trust in computing its income.

Counsel has been advised that the Trust intends to make sufficient distributions in each year of its net income for tax purposes and net realized taxable capital gains so that the Trust will generally not be liable in that year for income tax under Part I of the Tax Act.

Generally, distributions received by the Trust from the Partnership in excess of the income of the Partnership for a taxation year will result in a reduction of the adjusted cost base of the Trust's LP Units by the amount of such excess. If, as a result, the Trust's adjusted cost base of its LP Units at the end of a taxation year would otherwise be a negative amount, the Trust will be deemed to realize a capital gain to the extent of such negative amount in that year, and the Trust's adjusted cost base of its LP Units at the beginning of the next taxation year will be nil. If the Partnership were to incur losses for income tax purposes, then the Trust's ability to deduct such losses may be limited by certain rules in the Tax Act.

The Partnership

The Partnership will not be subject to tax under the Tax Act. Each partner of the Partnership, including the Trust and the GP Trust, will be required to include in computing the partner's income for a particular taxation year the partner's share of the income or loss of the Partnership, as the case may be, for its fiscal period ending in, or coincidentally with the end of, the partner's taxation year, whether or not any such income is distributed to the partner in the taxation year. For this purpose, the income or loss of the Partnership will be computed for each fiscal period as if the Partnership was a separate person resident in Canada. In computing the income or loss of the Partnership, the Partnership may generally deduct reasonable administrative costs and other expenses incurred by it for the purpose of earning income to the extent such expenses are not capital in nature. The income or loss of the Partnership for a fiscal period will be allocated to the partners of the Partnership, including the Trust and the GP Trust, on the basis of their respective share of such income or loss as provided in the Partnership Agreement, subject to the rules in the Tax Act.

Taxable Unitholders

Fund Distributions

A Unitholder will generally be required to include in computing income for a particular taxation year the portion of the net income of the Fund for a taxation year, including the net realized taxable capital gains, that is paid or payable or deemed to be paid or payable to the Unitholder in the particular taxation year, whether that amount is received in cash, additional Units or otherwise.

Provided that appropriate designations are made by the Fund, such portions of its net taxable capital gains, taxable dividends received or deemed to be received on shares of taxable Canadian corporations as are paid or payable or deemed to be paid or payable to a Unitholder will effectively retain their character and be treated as such in the hands of the Unitholder for the purposes of the Tax Act. To the extent that amounts are designated as having been paid to Unitholders out of taxable dividends received or deemed to be received on shares of taxable Canadian corporations, the normal gross-up and dividend tax credit provisions will be applicable in respect of Unitholders who are individuals, the refundable tax under Part IV of the Tax Act will be payable by Unitholders that are private corporations and certain other corporations controlled directly or indirectly by or for the benefit of an individual or related group of individuals and the deduction in computing taxable income will be available to Unitholders that are corporations.

The non-taxable portion of any net realized capital gains of the Fund that is paid or payable or deemed to be paid or payable to a Unitholder in a taxation year will not be included in computing the Unitholder's income for the year. Any other amount in excess of the net income of the Fund that is paid or payable or deemed to be paid or payable to a Unitholder in a year will not generally be included in the Unitholder's income for the year. However, where such an amount is paid or payable to a Unitholder (other than as proceeds of disposition in respect of the redemption of Units), the Unitholder will be required to reduce the adjusted cost base of the Units by that amount. To the extent that the adjusted cost base of a Unit would otherwise be a negative amount, the negative amount will be deemed to be a capital gain realized by the Unitholder and the adjusted cost base of the Unit to the Unitholder will, immediately thereafter, be nil.

Dispositions of Units

Upon a disposition or deemed disposition of a Unit, whether on a redemption or otherwise, the Unitholder will realize a capital gain (or capital loss) equal to the amount by which the Unitholder's proceeds of disposition exceed (or are less than) the aggregate of the adjusted cost base of the Unit and any reasonable costs of disposition. Proceeds of disposition on a redemption will not include an amount payable by the Fund that is otherwise required to be included in the Unitholder's income, including any income or capital gains realized by the Fund as a result of a redemption which has been designated by the Fund to the redeeming Unitholder.

The adjusted cost base of a Unit to a Unitholder will include all amounts paid by the Unitholder for the Unit, with certain adjustments. The cost to a Unitholder of additional Units received in lieu of a cash distribution of income will be the amount of income distributed by the issue of those Units. For the purpose of determining the adjusted cost base to a Unitholder of Units, when a Unit is acquired, the cost of the newly-acquired Unit will be averaged with the adjusted cost base of all of the Units owned by the Unitholder as capital property immediately before that acquisition.

Where the redemption price for Units is paid by the distribution of Trust Notes to the redeeming Unitholder, the proceeds of disposition to the Unitholder of the Units will be equal to the fair market value of the property so distributed less any income or capital gain realized by the Fund as a result of the redemption of those Units (where such income or capital gain is designated by the Fund to the redeeming Unitholder). Where income or a capital gain realized by the Fund as a result of the redemption of Units has been designated by the Fund to a redeeming Unitholder, the Unitholder will be required to include in income such income and the taxable portion of the capital gain so designated. The cost of any Trust Note distributed by the Fund to a Unitholder upon a redemption of Units will be equal to the fair market value of such Trust Note at the time of the distribution less any accrued interest on the Trust Note. The Unitholder will thereafter be required to include in income interest on any such Trust Note so distributed in accordance with the provisions of the Tax Act and may deduct in computing its income for the year in which such distribution occurred any interest in respect of such Trust Note that was accrued but unpaid at the time of the distribution to the extent that such amount was included as interest in computing the Unitholder's income for the year.

Capital Gains and Capital Losses

One-half of any capital gain realized by a Unitholder and the amount of any net taxable capital gains designated by the Fund in respect of a Unitholder will be included in the Unitholder's income as a taxable capital gain. One-half of any capital loss realized by a Unitholder on a disposition or deemed disposition of Units may generally be deducted only from taxable capital gains of the Unitholder in accordance with the provisions of the Tax Act.

Where a Unitholder that is a corporation or a trust (other than a mutual fund trust) disposes of a Unit, the Unitholder's capital loss from the disposition will generally be reduced by the amount of dividends previously designated by the Fund to the Unitholder, except to the extent that a loss on a previous disposition of a Unit has been reduced by those dividends. Analogous rules apply where a corporation or a trust (other than a mutual fund trust) is a member of a partnership that disposes of Units.

Alternative Minimum Tax

In general terms, net income of the Fund paid or payable or deemed to be paid or payable to Unitholders that are individuals or certain trusts, that is designated as taxable dividends or as net taxable capital gains and capital gains realized on the disposition of Units may increase the Unitholder's liability for alternative minimum tax.

Refundable Tax

Tax payable by a Unitholder that is a "Canadian-controlled private corporation" (as defined in the Tax Act) may include a refundable tax that is payable by the corporation on its "aggregate investment income". For this purpose, all or a portion of distributions by the Fund may be included in the Unitholder's aggregate investment income. Taxable capital gains realized by such a Unitholder, or distributed by the Fund and considered to be realized by such a Unitholder, may be included in the Unitholder's aggregate investment income.

Tax Exempt Unitholders

The Units are qualified investments for plans. If the Fund ceases to qualify as a mutual fund trust, the Units will cease to be qualified investments for those plans. Trust Notes received as a result of an *in specie* redemption of Units may not be qualified investments for plans, and this could give rise to adverse consequences to such plan or the annuitant under that plan. Accordingly, plans that own Units should consult their own tax advisors before deciding to exercise the redemption rights attached to the Units.

Unitholders Not Resident in Canada

The following portion of the summary generally applies to a Unitholder who, at all relevant times and for purposes of the Tax Act and an applicable tax treaty or convention, is not, and is not deemed to be, resident in Canada and whose Units or Class A Shares are not taxable Canadian property (as defined in the Tax Act) (in this summary, a "**Non-Resident Unitholder**"). Special rules, which are not discussed in this summary, may apply to a Non-Resident Unitholder that is an insurer that carries on an insurance business in Canada and elsewhere. Generally, Units and Class A Shares will not be taxable Canadian property of a Non-Resident Unitholder provided that, (i) in the case of the Units, the Fund is a mutual fund trust at the time of a disposition of the Units, (ii) such Unitholder does not use or hold, and is not deemed to use or hold, the Units or Class A Shares, as the case may be, in connection with carrying on a business in Canada, and (iii) persons with whom the Unitholder did not deal at arm's length, or the Unitholder, either alone or in combination with such persons, has not owned 25% or more of the issued Units or Class A Shares, as the case may be, at any time within 60 months preceding the date of disposition of the Units or Class A Shares, as the case may be.

Tax Considerations Applicable to the Reorganization

A Non-Resident Unitholder will be subject to the same tax considerations in respect of the Reorganization as described above under "Unitholders Resident in Canada" and such Non-Resident Unitholder will not be subject to income tax under the Tax Act as a result of the Reorganization.

Tax Considerations Following the Reorganization

Where the Fund pays or credits, or is deemed to pay or credit, an amount to a Non-Resident Unitholder out of the income of the Fund, the Non-Resident Unitholder will be subject to Canadian withholding tax at a rate of 25%, unless that rate is reduced under the provisions of an applicable tax treaty or convention. In addition, a portion of a distribution to a Non-Resident Unitholder, which distribution is considered to have been made out of net capital gains of the Fund from dispositions of taxable Canadian property after March 22, 2004 will be subject to Canadian withholding tax at a rate of 25%, unless such rate is reduced under the provisions of an applicable tax treaty or convention. The rate of withholding in either of these circumstances is generally reduced to 15% for distributions to residents of the U.S. under the *Canada-United States Tax Convention, (1980)*.

A disposition (whether on redemption, by virtue of capital distributions in excess of adjusted cost base or otherwise) of a Non-Resident Unitholder's Units will not give rise to any capital gain that is subject to tax under the Tax Act.

RISK FACTORS

In addition to the other information contained in this Circular, you should give careful consideration to the following risk factors. Some of these risk factors relate specifically to the Reorganization, while other risk factors relate to the business of Second Cup and the structure of the Fund. The risks described below relating to the structure of the Fund assume the completion of the Reorganization. They are similar to the risks described in the Fund's latest annual information form, but they have been modified to take into account the structure of the Fund following the Reorganization. For a description of the risks relevant to an investment in Units of the Fund that do not take into account the effects of the Reorganization, see "Risk Factors" in the Fund's latest annual information form.

Risks Relating to the Reorganization

Failure to Complete the Reorganization

If the Reorganization is not completed, there is a risk that the market price of the Units of the Fund may decline to the extent that the market price reflects a market assumption that the Reorganization will be completed.

Required Regulatory and Third Party Approvals

Completion of the Reorganization will require that the Fund, MarksCo and Second Cup obtain a number of regulatory and third party approvals. Such approvals include, without limitation, the Advance Tax Ruling, approvals of the TSX, approvals of Canadian securities regulatory authorities (if applicable) and approval of MarksCo's lenders to the assignment of the MarksCo Term Loan and the Operating Loan to the Fund. If any of the required regulatory and third party approvals cannot be obtained on terms satisfactory to the Trustees, or at all, the terms of the Reorganization may have to be amended, which could result in a change or reduction in the benefits of the Reorganization. In the event that the terms of the Reorganization cannot be amended so as to mitigate against an adverse consequence of the failure to obtain a required approval, the Reorganization may not be completed.

Amendment of Material Agreements

Following completion of the Reorganization, a number of agreements to which the Fund, Second Cup, MarksCo and/or AcquisitionCo are a party will have to be amended in order to give effect to the organizational and governance structure resulting from the Reorganization. Certain of these agreements are with parties that are not under the control of the Fund, AcquisitionCo, MarksCo or Second Cup, and those parties will have to agree to any changes proposed. If agreement cannot be reached with these parties on terms satisfactory to the Trustees, or at all, the terms of the Reorganization may have to be amended, which could result in a change or reduction in the benefits of the Reorganization. In the event that the terms of the Reorganization cannot be amended so as to mitigate against an adverse consequence of the failure to reach agreement with a third party, the Reorganization may not be completed.

Risks Related to the Business of Second Cup

The Canadian specialty coffee industry is characterized by intense competition and limited diversification and depends on numerous factors affecting discretionary consumer spending.

The Fund's performance will be dependent upon the Royalty to be received by the Partnership from Second Cup. The amount of the Royalty will be dependent upon System Sales, which are subject to a number of factors that affect the Canadian specialty coffee industry. The Canadian specialty coffee industry is intensely competitive with respect to price, location and coffee and food quality. In addition to Second Cup there are two other major specialty coffee retailers in Canada, as well as a growing number of smaller, mainly regional, competitors. In addition to competing directly with specialty coffee retailers, Second Cup competes with "mainstream" coffee retailers as well as all restaurants and food service outlets that serve coffee. In the whole and ground bean segment of the specialty coffee industry, Second Cup franchisees compete against specialty coffee chains as well as supermarkets, many of which have substantially

greater financial and other resources than Second Cup franchisees have. If Second Cup franchisees are unable to successfully compete in the Canadian specialty coffee industry, System Sales may be adversely affected, the amount of the Royalty may be reduced and the ability of the Fund to pay distributions will be adversely affected.

The Canadian specialty coffee industry is also affected by changes in discretionary spending patterns, which in turn are dependent on consumer confidence, disposable consumer income and general economic conditions. Adverse changes to these factors could reduce customer traffic at Second Cup cafés or impose practical limits on pricing, either of which could reduce System Sales and the Royalty received by the Partnership. Because the industry's revenues are predominantly derived from the sale of coffee and coffee beverages, changes in consumer preferences which result in decreases in coffee consumption would have an adverse effect on the industry, including Second Cup and the Second Cup franchisees. The coffee business is also affected by changes in demographic trends, traffic patterns and the type, number and proximity of competing cafés. In addition, factors such as inflation, increased ingredient, raw material, labour and benefit costs and the availability of experienced management and hourly employees may adversely affect the Canadian specialty coffee industry in general and therefore potentially affect Second Cup and the Second Cup franchisees.

A shortage in the supply or an increase in the price of premium quality coffee beans could adversely affect Second Cup.

The success of Second Cup franchisees in generating System Sales depends to a large extent upon the availability of premium quality green coffee beans at reasonable prices. The availability and price of premium quality green coffee beans are influenced by several factors that are beyond Second Cup's and Second Cup franchisees' control, including changes in weather patterns and other natural phenomena, political events or disruptions of shipping and port channels. In addition, green coffee bean prices have been affected in the past, and could be affected in the future, by the actions of governments or organizations which have attempted to influence commodity prices of green coffee beans through agreements establishing export quotas or restricting coffee supplies worldwide. Price increases for green coffee beans could result in increases in the retail price of coffee beverages and other coffee products sold in Second Cup cafés, which could adversely affect System Sales and reduce the Royalty. Similarly, a significant reduction in the availability of coffee beans purchased by Second Cup could have a material adverse effect on System Sales and the Royalty to be received by the Partnership.

Second Cup has no long term or written contracts with coffee bean suppliers and relies upon historical relationships to ensure availability. While there are a number of coffee bean suppliers, there can be no assurance that coffee bean suppliers that have relationships with Second Cup will continue to supply coffee beans at competitive prices.

The growth of the café network is dependent on Second Cup's ability to attract qualified franchisees.

The growth of the café network is dependent upon the ability of Second Cup to attract qualified franchisees. The opening and success of Second Cup cafés is dependent on a number of factors, including: availability of suitable sites; negotiations of acceptable leases for new locations; availability, training and retention of management and other employees necessary to staff new Second Cup cafés; adequately supervising construction; and securing suitable financing; among other factors, some of which are beyond the control of Second Cup. Furthermore, Second Cup franchisees may not have all the business abilities or access to financial resources necessary to successfully develop or operate a Second Cup café. Second Cup provides training and support to its franchisees, but the quality of franchised operations may be diminished by any number of factors beyond Second Cup's control. There is no assurance that Second Cup franchisees will successfully operate cafés in a manner consistent with Second Cup's standards and requirements, or hire and train qualified managers and other personnel. If they do not, the image and reputation of Second Cup may suffer and/or System Sales and results of operations of the Second Cup cafés could remain flat or decline.

The ability to locate and secure acceptable Second Cup cafés sites may be limited.

Second Cup faces competition for café locations and franchisees from its competitors and from franchisors and operators of other businesses. The success of Second Cup franchisees is significantly influenced by the location of their cafés. There can be no assurance that current Second Cup café locations will continue to be attractive, or that additional café sites can be located and secured as demographic patterns change. Also, there is no guarantee that the property leases in respect of the Second Cup cafés will be renewed or suitable alternative locations will be obtained and, in such event, one or several cafés could be closed. It is possible that the current locations or economic conditions where Second Cup cafés are located could decline in the future, resulting in potentially reduced sales in those locations, which will have an adverse effect on System Sales and the ability of Second Cup to pay the Royalty. There is also no assurance that future café sites will produce the same results as past sites.

The closure of Second Cup cafés may affect the amount of the Royalty.

The amount of the Royalty to be payable to the Partnership by Second Cup will depend on System Sales, which in turn depends on the number of Second Cup cafés that are included in the Royalty Pool and the System Sales of these Second Cup cafés. Each year, a number of Second Cup cafés may close in the normal course and, while Second Cup will be required to replace the System Sales that are lost as a result of the closure of Second Cup cafés with the System Sales from new Second Cup cafés or pay Make-Whole Payments to the Partnership, there is no assurance that Second Cup will be able to open sufficient numbers of new Second Cup cafés to replace the System Sales of the Second Cup cafés that have closed, or will have the financial resources to make Make-Whole Payments to the Partnership.

Second Cup's ability to pay the Royalty will depend primarily on the ability of franchisees to generate Gross Revenue.

The ability of Second Cup to continue to pay the Royalty to the Partnership will depend primarily on Second Cup franchisees' ability to generate Gross Revenue and to pay royalties to Second Cup. Failure to achieve adequate levels of collection from Second Cup franchisees could have an adverse effect on the ability of Second Cup to pay the Royalty.

Franchisees report Gross Revenue to Second Cup without audit or other form of independent assurance.

Pursuant to the franchise agreements, franchisees report Gross Revenue to Second Cup on a weekly basis without audit or other form of independent assurance. Although Second Cup has developed various mechanisms to seek to verify Gross Revenue reported by its franchisees, Second Cup does not have a centralized accounting system in place to monitor such Gross Revenue. Second Cup seeks to verify Gross Revenue reported by its franchisees through, among other things, analytical reviews performed by management that consist of historical and year to date comparisons of individual café performance and performance within the network, and by comparing purchases of raw materials by café (provided by suppliers) against reported Gross Revenue. Furthermore, audits are performed at random by an internal audit team on cafés throughout the network. There can be no assurance, however, that Gross Revenue reported by franchisees will be accurate and in accordance with the terms of the franchise agreements.

The loss of key personnel could have a material impact on Second Cup's operations.

The success of Second Cup will depend on the efforts of key personnel to retain and attract appropriate franchisee candidates and locate new café sites in order to continue to successfully grow Second Cup's business and thereby increase System Sales. The loss of the services of such key personnel could have an adverse effect on the operations of Second Cup. If such key personnel depart Second Cup and subsequently compete with Second Cup or devote significantly more time to other business interests, such activities could have a material adverse effect on Second Cup's ability to conduct its business, maintain existing franchises, generate new franchises and locate new café sites. This in turn could affect the Royalty to be paid to the Partnership.

The failure to enforce or maintain, or a successful challenge to, the Second Cup Marks may have an adverse impact on the Royalty.

The ability of Second Cup to maintain or increase its System Sales depends on its ability to capitalize on the Second Cup brand through the use of the Second Cup Marks licensed from the Partnership. If the Partnership fails to enforce or maintain any of its intellectual property rights, Second Cup may be unable to capitalize on its efforts to utilize its brand equity. In addition, if any Second Cup Marks are ever successfully challenged, this may have an adverse impact on System Sales and therefore on the Royalty.

The Partnership will own the Second Cup Marks in Canada. It will not own identical or similar trade-marks relating to the Second Cup business in other jurisdictions. Third parties may use such trade-marks in jurisdictions other than Canada in a manner that diminishes the value of such trade-marks. If this occurs, the value of the Second Cup Marks may suffer and System Sales could decline. Similarly, negative publicity or events associated with such trade-marks in jurisdictions outside of Canada may negatively affect the image and reputation of Second Cup cafés in Canada, resulting in a decline in System Sales.

Changes in or failure to comply with government regulation could have an adverse effect on Second Cup.

Second Cup franchisees are subject to various federal, provincial and local laws affecting their business. Each Second Cup café is subject to licensing and regulation by a number of governmental authorities, which may regulate among other things, food inspection, health, employee and public safety, zoning, smoking laws and fire prevention. Difficulties in obtaining or failures to obtain the required licences or approvals could delay or prevent the development of a new Second Cup café in a particular area. In addition, changes in laws and regulations to which Second Cup and its franchisees are currently subject may have an adverse effect on System Sales. The loss of a licence or approval, or a violation of laws, could force the temporary or permanent shut down of a Second Cup café, which could adversely affect System Sales.

Potential litigation and other complaints could adversely affect System Sales.

Second Cup franchisees may be the subject of complaints or litigation from customers alleging food related illness, injuries suffered on the premises or other food quality, health or operational concerns. Adverse publicity resulting from such allegations may adversely affect the Gross Revenue of Second Cup cafés, regardless of whether such allegations are true or whether Second Cup or the Second Cup franchisee is ultimately held liable. In addition, due to the nature of its business, Second Cup may from time to time be involved in litigation with past and existing franchisees, suppliers and other third parties. Although historically Second Cup's involvement in such litigation has been rare and has not been material to the operation of the business of Second Cup, litigation is expensive, time consuming and may divert management's attention away from the operation of the business. Management cannot be certain that a substantial claim may not arise that would be material to the operations of Second Cup.

Risk Related to the Structure of the Fund

The cash distributions to Unitholders are not guaranteed and will depend on the Trust's ability to make distributions to the Fund.

The cash distributions made to Unitholders are not guaranteed and will be dependent on the ability of the Trust to pay distributions on the Trust Units. Payments by the Trust will depend, in turn, on the ability of the Partnership to loan funds to the Trust or pay the distributions on the LP Units held by the Trust. Payments by the Trust and the Partnership will be after provisions for administrative expenses and other obligations and liabilities (including taxes, if any) and other amounts. See "Description of the Trust — Distributions" and "Description of the Partnership — Distributions".

The Partnership will be dependent on Second Cup to pay the Royalty to it.

The primary source of revenue of the Partnership will be the Royalty payable to it by Second Cup. Second Cup collects royalties, franchise fees and other amounts from Second Cup franchisees and also generates revenues from its company-owned cafés. In the conduct of its business, Second Cup pays expenses

and incurs debt and obligations to third parties. These expenses, debts and obligations could impact the ability of Second Cup to pay the Royalty to the Partnership.

The Partnership will depend on the operations and assets of Second Cup to pay the Royalty and any Make Whole Payment to it, and will be subject to the risks encountered by Second Cup in the operation of its business, including the risks relating to the Canadian specialty coffee industry referred to above and the results of operations and financial condition of Second Cup.

The Units do not represent a direct investment in the Trust or the Partnership.

The Units do not represent a direct investment in the Trust or the Partnership and should not be viewed by investors as units in the Trust or the Partnership. Unitholders of the Fund will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. The Units represent a fractional interest in the Fund's distributions. The Fund's primary assets will be the Trust Units. The price per Unit will be a function of anticipated distributable cash.

The security interest expected to be granted by Second Cup to the Partnership may not attach to leases relating to certain Second Cup cafés.

No agreements or consents in respect of the security interest expected to be granted by Second Cup to the Partnership will be obtained from landlords of Second Cup. As a result, due to the nature of the security interest to be provided by Second Cup and the fact that no agreements or consents are being sought, the security interest to be granted by Second Cup may not attach to leases relating to certain Second Cup cafés. In addition, where a security interest is created, the rights to be granted by Second Cup to the Partnership will be subject to the rights of the landlords under the leases. If there is an event of default under the Licence and Royalty Agreement or the General Security Agreement (as those agreements are amended as a result of the Reorganization) and the Partnership seeks to realize on its security, there is a risk that, in certain circumstances, the leases for certain Second Cup cafés may be terminated. The appointment of a receiver may trigger cross default provisions in other agreements, including many of the leases relating to Second Cup cafés. Landlords may also have rights in respect of the non-payment of rent that may rank in priority to the rights of the Partnership.

The Fund may issue additional Units diluting existing Unitholders' interests.

The Fund Declaration of Trust authorizes the Fund to issue an unlimited number of Units for such consideration and on such terms and conditions as shall be established by the Trustees of the Fund without the approval of any Unitholders. Any subsequent issuances of Units by the Fund may dilute the interests of existing Unitholders.

An investment in Units is subject to certain income tax considerations.

Although the Fund is of the view that all expenses to be claimed by the Fund, the Trust or the Partnership in the determination of their respective incomes under the Tax Act will be reasonable and deductible in accordance with the applicable provisions of the Tax Act, there can be no assurance that the Tax Act or the interpretation of the Tax Act will not change, or that CRA will agree with the expenses claimed.

There can be no assurance that Canadian federal and provincial income tax laws respecting the treatment of mutual fund trusts will not be changed in a manner which adversely affects the Unitholders.

Further, interest on the Trust Notes will accrue at the Fund level for income tax purposes whether or not actually paid. The Fund Declaration of Trust provides that an amount equal to the Fund's taxable income will be distributed each year to Unitholders in order to reduce the Fund's taxable income to zero. Where interest payments on the Trust Notes are due but not paid in whole or in part such that there is insufficient cash for distributions, the Fund Declaration of Trust provides that additional Units must be distributed to Unitholders in lieu of cash distributions.

Where Units are issued to Unitholders in lieu of cash distributions, including in the circumstances set out above, Unitholders will generally be required to include an amount equal to the fair market value of those Units into their taxable income, in circumstances when they do not directly receive a cash distribution.

Proposed amendments to the Tax Act, if adopted, may cause the Fund to lose its status as a mutual fund trust in certain circumstances.

Currently, a trust will not be considered to be a mutual fund trust if it is established or maintained primarily for the benefit of non-residents unless all or substantially all of its property is property other than taxable Canadian property as defined in the Tax Act. On September 16, 2004, the Minister of Finance (Canada) released draft amendments to the Tax Act. Under the draft amendments, a trust would lose its status as a mutual fund trust if the aggregate fair market value of all units issued by the trust held by one or more non-resident persons or partnerships that are not Canadian partnerships is more than 50% of the aggregate fair market value of all the units issued by the trust where more than 10% (based on fair market value) of the trust's property is taxable Canadian property or certain other types of property. If the draft amendments are enacted as proposed, and if, at any time, more than 50% of the aggregate fair market value of Units of the Fund were held by non-residents and partnerships other than Canadian partnerships, the Fund would thereafter cease to be a mutual fund trust. The draft amendments do not currently provide any means of rectifying a loss of mutual fund trust status. The December 6, 2004 Notice of Ways and Means Motion to implement the tax proposals contained in the 2004 Federal Budget does not contain this proposal and the Department of Finance indicated in a concurrent release that further discussions would be pursued with the private sector in this regard.

The Fund monitors ownership of its Units which are held by non-residents by periodically obtaining and reviewing unit ownership reports from its transfer agent or other service providers.

There is no assurance of the Units' continued investment eligibility.

There can be no assurance that the Units will continue to be qualified investments for Deferred Income Plans and registered education savings plans under the Tax Act. The Tax Act imposes penalties for the acquisition or holding of non-qualified or ineligible investments.

Distribution of securities on redemption of Units or termination of the Fund may result in Unitholders holding illiquid securities.

Upon a redemption of Units or termination of the Fund, the Trustees may distribute the Trust Notes or Trust Units held by the Fund or the Fund's other assets directly to the Unitholders, subject to obtaining all required regulatory approvals. There is currently no market for the Trust Notes or Trust Units. In addition, the Trust Notes and Trust Units will not be freely tradable and are not expected to be listed on any stock exchange. Securities of the Trust so distributed may not be qualified investments for trusts governed by Deferred Income Plans and registered education savings plans, depending upon the circumstances at the time.

The Fund is expected to have outstanding indebtedness.

The Fund is expected to have third party debt service obligations under a credit agreement that is expected to replace the existing credit agreement between MarksCo and the Bank. The degree to which the Fund is leveraged could have important consequences to the holders of the Units, including: (i) a portion of the Fund's cash flows from operations will be dedicated to the payment of the principal and/or interest on its indebtedness, thereby reducing funds available for distribution to Unitholders; and (ii) certain of the Fund's borrowings are expected to be at variable rates of interest, which would expose the Fund to the risk of increased interest rates. The Fund's ability to make scheduled payments of the principal of, or interest on, or to refinance, its indebtedness will ultimately depend on the payment of the Royalty by Second Cup. In the event that the Fund is unable to refinance such expected loan upon its maturity on terms at least as favourable as the current terms, or at all, the cash available for distribution by the Fund to its Unitholders

may be reduced until such time as the expected loan is fully repaid or alternative financing arrangements are made.

The credit agreement governing the MarksCo Term Loan and Operating Loan currently contains numerous restrictive covenants that limit the discretion of MarksCo with respect to certain business matters. In certain circumstances, these restrictive covenants may restrict the cash available for distribution by MarksCo to the Fund (and therefore the cash ultimately available for distribution to Unitholders). It is expected that such covenants will remain under any new credit agreement entered into as part of the Reorganization.

Although Second Cup has no outstanding third party indebtedness, future borrowings by Second Cup could adversely affect Second Cup's ability to pay the Royalty and the Make-Whole Payments to the Partnership.

The Partnership will have contingent liabilities.

As part of the Reorganization, the Partnership will assume the liabilities of MarksCo, which include certain historical liabilities of the predecessor corporation that formerly carried on the business now carried on by Second Cup. These liabilities became liabilities of MarksCo upon the amalgamation of the predecessor corporation to form MarksCo in connection with the initial public offering of the Fund.

In the acquisition agreement executed in connection with the initial public offering, Cara and Second Cup jointly and severally provided an absolute, dollar-for-dollar indemnity in favour of MarksCo in respect of those historical liabilities. This indemnity will be provided by Cara and Second Cup in favour of the Partnership, such that the Partnership will have full recourse to Cara and Second Cup for those liabilities. However, there is no guarantee that Cara or Second Cup will be financially capable of meeting their obligations pursuant to the indemnity and the Partnership may find itself without recourse to Cara or Second Cup with respect to any liabilities that may arise.

There is a remote risk that a Unitholder could be personally responsible for the Fund's obligations.

The Fund Declaration of Trust provides that no Unitholder will be subject to any liability whatsoever to any person in connection with a holding of Units. However, there remains a risk, which is considered to be remote in the circumstances, that a Unitholder could be personally liable despite such statement in the Fund Declaration of Trust for the Fund's obligations to the extent that claims are not satisfied out of the Fund's assets. It is intended that the Fund's affairs will be conducted to seek to minimize such risk wherever possible.

CONSOLIDATED CAPITALIZATION OF THE FUND

The only material change in the Fund's consolidated capitalization from December 31, 2005 to April 13, 2006 is the increase in Unitholders' equity by $547,868 as a result of the issuance of 55,316 Units in conjunction with the adjustment to the Royalty Pool. Refer to note 12 (Subsequent Event) of the Fund's annual financial statements for the year ended December 31, 2005 for further information.

As at April 13, 2006, the Fund has 9,638,076 Units issued and outstanding.

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 approximately 15.5% of the issued and outstanding 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 from Cara for a total purchase price of $86,940,392. This purchase price was satisfied in cash and by the purchase by Second Cup, a wholly-owned subsidiary of Cara, of 1,437,414 Units of the Fund for a total purchase price of $14,374,140 which was satisfied in cash.

MarksCo and Second Cup are currently parties to the Licence and Royalty Agreement. Pursuant to this agreement, Second Cup pays MarksCo a royalty equal to 6.5% of System Sales of the Second Cup cafés included in the 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.

On January 1, 2006, nine Second Cup cafés were added to the Royalty Pool, of which three cafés were operational at the Fund's inception, but had been excluded from the initial Royalty Pool due to uncertainty as to their future operational status. These locations have now secured long-term lease commitments, making them suitable for inclusion in the Royalty Pool. The System Sales of these nine cafés has been estimated at $4.06 million annually. These were offset by $2.91 million in actual system sales of eight cafés closed from the Royalty Pool since the Fund's inception. The total number of cafés in the Royalty Pool increased from 351 to 352.

In connection with this adjustment to the Royalty Pool, the Fund issued 55,316 Units representing 80% of the total estimated consideration due to MarksCo, which in turn delivered those Units to Second Cup. The Fund used the proceeds from the issuance of the Units to invest in additional AcquisitionCo Notes and AcquisitionCo Common Shares. AcquisitionCo, in turn, used the proceeds received from the Fund to invest in additional MarksCo Notes and MarksCo Common Shares. The yield of the Fund units was determined to be 10.08% calculated using a weighted average unit price of $9.90. After a full year of performance of the new cafés, the Fund expects to issue additional units to satisfy the remaining obligation.

Subsequent to this adjustment, Second Cup owns 1,492,370 Units, representing approximately 15.5% of the issued and outstanding Units.

INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON

The trustees and executive officers of the Fund and its subsidiaries as a group beneficially own, directly or indirectly, or exercise control or direction over, an aggregate of 144,600 Units of the Fund, representing approximately 1.50% of the issued and outstanding Units.

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 the 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.

The Administration Agreement is expected to be amended in connection with the Reorganization with the result that the Partnership will act as administrator for the Fund and the Trust in accordance with substantially the same terms and conditions as are currently in the Administration Agreement.

CORPORATE GOVERNANCE

The Fund is committed to maintaining high standards of governance. The Fund has continued to refine its governance practices in light of Canadian regulatory initiatives, particularly National Policy 58-201 — *Corporate Governance Guidelines* ("**NP 58-201**") and MI 52-110. The Fund's current governance practices are disclosed below in accordance with NI 58-101. These governance practices are expected to be amended in connection with the Reorganization in order to take into account the new organizational and governance structure of the Fund. In addition, the Trustees will continue to review the Fund's governance practices on an ongoing basis in response to evolving regulatory standards.

The 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 Fund 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 of Trustees discharges its responsibilities directly and through its committees, currently consisting of the Audit Committee. The Board of Trustees has adopted a mandate that sets out the role of the Trustees consistent with the terms of the Fund Declaration of Trust. The text of this mandate is set out in Appendix "B" to this Circular. The Fund 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 as required;
- supervising the activities of the Fund, including the investments of the Fund; and
- declaring and effecting payments of distributions from the Fund to Unitholders.

The Trustees will also supervise the application of the Fund's written disclosure and insider trading policies. These policies, 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 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 Fund 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 independent within the meaning of MI 52-110 and NI 58-101. 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 Governance Committee will review on an annual basis the contributions of the Trustees and consider whether the current composition of the Board of Trustees 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 of Trustees. The Board of Trustees 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 and the officers of the Fund attend meetings of the Board of Trustees. However, where required, the Board of Trustees will meet without representatives from management or 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 is 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.

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 independent as defined by MI 52-110 and NI 58-101. Mr. Tsampalieros and Mr. Elliot are the two nominees of Second Cup who, by virtue of their employment or former employment arrangements with Cara or Second Cup, are not independent.

The Board of Directors is responsible for the stewardship of the activities and affairs of MarksCo. The Board of Directors seeks to discharge such responsibility by overseeing MarksCo's limited activities and communicating with management of Second Cup regarding compliance with the Licence and Royalty Agreement 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 relating to MarksCo. 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. The Board of Directors will request an update from management of Second Cup, on a periodic basis, on any material changes in such risks and systems.

Position Descriptions

The Board of Trustees has adopted 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 of Trustees in its discharge of its duties in the Fund Declaration of Trust and in the Board of Trustees'

mandate; overseeing the distribution of information to the Board of Trustees and presiding over board meetings; establishing procedures to govern the effective and efficient conduct of the Board of Trustees' work; acting as a liaison between the Board of Trustees, 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. Management succession planning of Second Cup is the responsibility of the board of directors of Second Cup. Management of Second Cup will periodically report on such matters to the Board of Directors of MarksCo, including anticipated or forthcoming changes in senior management personnel of Second Cup and succession planning initiatives.

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 has been 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 management although the Board of Trustees has the ultimate responsibility for monitoring compliance with the Code, including granting any departures or waivers from the Code.

Nomination of Trustees and Directors

Subject to the Fund Declaration of Trust 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 independent, within the meaning of MI 52-110 and NI 58-101.

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 Fund 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. 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 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, the board of directors of AcquisitionCo and the Board of Trustees, and reviews the Fund's governance structures to ensure that the various boards are 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 MI 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 of Trustees 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 of Trustees for approval, the Fund's annual and interim consolidated financial statements and related management's discussion and analysis 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 relating to the Audit Committee and a copy of the Audit Committee's charter is set out in the latest annual information form of the Fund.

LEGAL PROCEEDINGS

Neither the Fund nor Second Cup are involved in any litigation or proceedings which, if determined adversely, would be material to any of the Fund or Second Cup, and no such proceedings are known to the Fund or Second Cup to be contemplated. See "Risk Factors" and note 15 to the audited annual financial statements of Second Cup, which are incorporated by reference.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditor of the Fund and Second Cup is PricewaterhouseCoopers LLP, Chartered Accountants.

The transfer agent and registrar for the Units is Computershare Investor Services Inc, 100 University Avenue, Toronto, Ontario.

INTEREST OF EXPERTS

The Fund's annual consolidated financial statements have been audited by PricewaterhouseCoopers LLP, Chartered Accountants, Toronto, Ontario, which are also the auditors of AcquisitionCo, MarksCo and Second Cup. Such firm is independent in accordance with the firm's rules of professional conduct in Ontario.

Osler, Hoskin & Harcourt LLP, Canadian legal counsel to the Fund and Second Cup, has advised the Fund and Second Cup with respect to certain Canadian legal matters disclosed in this Circular. As of the date hereof, the partners and associates of that firm owned beneficially, directly or indirectly, less than 1% of the issued and outstanding Units.

PROMOTER

Cara was within the past three years a promoter of the Fund for the purposes of applicable securities legislation by reason of its initiative in founding and organizing the Fund. Cara, through its wholly-owned subsidiary, Second Cup, owns 1,492,730 Units, representing approximately 15.5% of the issued and outstanding Units.

As part of the transactions relating to the initial public offering of the Fund, AcquisitionCo acquired from Cara all of the then-issued and outstanding MarksCo Common Shares on December 2, 2004. The purchase price for the MarksCo Common Shares was $86,940,392. The purchase price and the terms of the acquisition agreement were determined by negotiation between Cara, Second Cup, the Fund on behalf of AcquisitionCo and the underwriters for the initial public offering of the Fund. See "Interest of Informed Persons in Material Transactions".

ADDITIONAL INFORMATION

Additional information relating to the Fund is included in its 2005 annual information form, its audited consolidated financial statements for the year ended December 31, 2005 and the related management's discussion and analysis. Copies of these documents may be obtained from the SEDAR website at www.sedar.com, the Fund's website at www.secondcupincomefund.com or upon request from the Manager, Communications, for Second Cup Royalty Income Fund, 6303 Airport Road, Mississauga, Ontario, L4V 1R8 (telephone 905-405-6904 or e-mail investor@secondcup.com). Financial information is provided in the Fund's consolidated financial statements and management's discussion and analysis for the year ended December 31, 2005.

EXEMPTIONS FROM THE INSTRUMENT

The Fund obtained exemptive relief from Section 13.1 of National Instrument 51-102 — *Continuous Disclosure Obligations* from the requirement under Section 14.2 of Form 51-102F5 — *Information Circular* to include financial statement disclosure for certain entities involved in the Reorganization. This relief was granted by the Ontario Securities Commission, as principal regulator, and by certain other jurisdictions in Canada.

OTHER BUSINESS

Management is not aware of any amendments or variations to matters identified in the notice of the Meeting or of any other matters that are to be presented for action at the Meeting, other than those described in the notice.

APPROVAL OF CIRCULAR

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

DATED at Mississauga, Ontario, this 13th day of April 2006.

BY ORDER OF THE TRUSTEES

David Bloom
Chairman of the Board of Trustees

APPENDIX "A"

SECOND CUP ROYALTY INCOME FUND (THE "FUND")

SPECIAL RESOLUTION

RESOLVED AS A SPECIAL RESOLUTION THAT:

Reorganization

1. The reorganization (the "**Reorganization**") of the organizational structure of the Fund as described in the Management Information Circular of the Fund dated April 13, 2006 (the "**Circular**") is authorized and approved.

2. Notwithstanding that this special resolution has been passed by holders of trust units of the Fund (the "**Unitholders**"), the trustees of the Fund are hereby authorized, in their discretion and without the further approval of the Unitholders, to:

   (a) modify the specific steps involved in the Reorganization approved under paragraph 1 provided that the Trustees are satisfied that any such modification would not result in Unitholders being treated in a manner that is materially different, and adverse, as compared to the treatment described in the Circular;

   (b) finalize the timing and arrange for the implementation of the Reorganization;

   (c) decide not to proceed with the Reorganization; and

   (d) revoke this special resolution before it is acted on.

Amendments to Declaration of Trust

3. An amended and restated declaration of trust containing such amendments as are described in the Circular or as are otherwise necessary or advisable in order to give effect to the Reorganization is authorized and approved with such additions, deletions or modifications as the trustees of the Fund shall approve, such approval to be conclusively evidenced by the execution of such amended and restated declaration of trust by the trustees.

4. Any trustee or officer of the Fund is authorized to execute or cause to be executed and to deliver or cause to be delivered all such documents, agreements and instruments (including, without limitation, the amended and restated declaration of trust and any amendments to agreements or new agreements as described in the Circular) and to do or cause to be done all such other acts and things as such trustee or officer shall determine to be necessary or desirable in order to carry out the intent of the foregoing resolutions and the matters authorized thereby, such determination to be conclusively evidenced by the execution and delivery of any such document, agreement or instrument by such person or the doing of any such act or thing.

APPENDIX "B"

SECOND CUP ROYALTY INCOME FUND

MANDATE FOR THE BOARD OF TRUSTEES

INTRODUCTION

Terminology:

"**AcquisitionCo**" means 1636433 Ontario Inc., a direct subsidiary of the Fund.

"**Board of Trustees**" means the board of trustees of the Fund.

"**Declaration of Trust**" means the declaration of trust governing the Fund, as amended from time to time.

"**Fund**" means Second Cup Royalty Income Fund.

"**MarksCo**" means Second Cup Trade-Marks Inc., an indirect subsidiary of the Fund.

"**Second Cup**" means The Second Cup Ltd.

The Board of Trustees is elected by the unitholders of the Fund and is responsible for the overall stewardship of the affairs of the Fund. The Board of Trustees shall be subject to the fiduciary standard and standard of care set out in the Declaration of Trust. The Board of Trustees is responsible for establishing and maintaining a culture of integrity in the conduct of the Fund's affairs.

DUTIES OF TRUSTEES

1. The Board of Trustees discharges its responsibilities both directly and through its committees, currently consisting of the Audit Committee. The Board of Trustees may appoint other committees as permitted by the Declaration of Trust, including ad hoc committees to address certain issues of a more short-term nature.
2. 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.

Oversight of the Fund

1. The Board of Trustees is responsible for 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.
2. The Board of Trustees is responsible for maintaining records and providing reports to unitholders of the Fund as required.
3. The Board of Trustees is responsible for supervising the activities of the Fund, including the investments of the Fund.
4. The Board of Trustees is responsible for declaring and effecting payments of distributions from the Fund to unitholders of the Fund.
5. The Board of Trustees may delegate to committees matters it is responsible for, but the Board of Trustees retains its oversight function and ultimate responsibility for all delegated responsibilities.

Monitoring of Financial Performance and Other Financial Reporting Matters

1. The Board of Trustees will receive all financial statements, material change reports and such other additional information regarding the financial position or business of Second Cup as Second Cup has undertaken to provide to the Fund and as the Fund may reasonably request in order to comply with any continuous disclosure obligations applicable to the Fund.
2. The Board of Trustees is responsible for overseeing Second Cup's compliance with its undertakings to applicable securities regulatory authorities regarding financial statements and other information regarding its financial position or business, and regarding insider reporting and trading.

3. The Board of Trustees shall be responsible for approving the unaudited quarterly and audited annual financial statements of the Fund and the notes thereto and auditors' reports thereon, as applicable, and the Management's Discussion and Analysis accompanying such financial statements, as well as annual reports, management information circulars, annual information forms and other securities law filings of the Fund.
4. The Board of Trustees is responsible for reviewing and approving material transactions involving the Fund and those matters which the Board of Trustees is required to approve under the Declaration of Trust including the payment of distributions, the purchase and issuance of units, acquisitions and dispositions of material assets by the Fund and material expenditures by the Fund.

Policies and Procedures

1. The Board of Trustees is responsible for:
   (a) maintaining records on the Fund's affairs and investments;
   (b) approving and monitoring compliance with all significant policies and procedures by which the Fund is bound;
   (c) approving policies and procedures designed to ensure that the Fund operates at all times within applicable laws and regulations and to the highest ethical and moral standards; and
   (d) enforcing obligations of the trustees respecting confidential treatment of the Fund's proprietary information and Board deliberations.
2. The Board of Trustees is responsible for approving a Corporate Disclosure Policy respecting communications to the public, an Insider Trading Policy respecting insider trading and reporting matters, and a Code of Business Conduct and Ethics respecting ethical business practices.

Communications and Reporting

1. The Board of Trustees is responsible for:
   (a) overseeing the accurate reporting of the financial performance of the Fund to unitholders, other security holders and regulators on a timely and regular basis;
   (b) overseeing that financial results of the Fund are reported fairly and in accordance with generally accepted accounting standards and related legal disclosure requirements;
   (c) taking steps to enhance the timely disclosure of any other developments that have a significant and material impact on the Fund;
   (d) reporting annually to unitholders on its stewardship for the preceding year;
   (e) overseeing the provision to unitholders of all such information as is required by applicable law and regulatory requirements, prior to each meeting of unitholders;
   (f) overseeing the investor relations and communications strategy of the Fund;
   (g) overseeing the Fund's ability to accommodate feedback from unitholders;
   (h) overseeing MarksCo's role in assisting the Fund with its continuous disclosure obligations; and
   (i) receiving reports from time to time from MarksCo or other parties on foreign ownership of the Fund's securities in connection with maintaining its mutual fund status.

Notwithstanding any of the foregoing, MarksCo may act on behalf of the Fund and perform any of the administrative functions that MarksCo is permitted to perform pursuant to the terms of the administration agreement between MarksCo, AcquisitionCo and the Fund.

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