

*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 MEETING  
OF UNITHOLDERS  
AND  
MANAGEMENT INFORMATION  
CIRCULAR**

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

**THURSDAY MAY 22, 2008**

**at the offices of  
Stikeman Elliott LLP  
53<sup>rd</sup> Floor, 5300 Commerce Court West  
199 Bay Street  
Toronto, Ontario  
M5L 1B9**

**Second Cup Royalty Income Fund  
6303 Airport Road  
Mississauga, Ontario  
L4V 1R8**

**NOTICE OF ANNUAL MEETING OF UNITHOLDERS**

**NOTICE IS HEREBY GIVEN** to unitholders of **SECOND CUP ROYALTY INCOME FUND** (the "Fund") that an annual meeting of unitholders will be held at the offices of Stikeman Elliott LLP, 53<sup>rd</sup> Floor, 5300 Commerce Court West, 199 Bay Street, Toronto, Ontario on Thursday, May 22, 2008 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, 2007;
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; and
4. 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 2007 Annual Report of the Fund; (ii) a management information circular of the Fund; (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 CDS Clearing and Depository Services Inc. ("CDS"), must provide voting instructions in the manner described in the enclosed voting instruction form and in the accompanying management information 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 20, 2008 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 18, 2008 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 18<sup>th</sup> day of April, 2008.

**SECOND CUP ROYALTY INCOME FUND**



David Bloom  
Chairman of the Board of Trustees

## TABLE OF CONTENTS

	<u>Page</u>
THE MEETING . . . . .	1
VOTING OF UNITS — INFORMATION FOR BENEFICIAL UNITHOLDERS . . . . .	2
RELATIONSHIP AMONG THE FUND, ITS SUBSIDIARIES AND THE SECOND CUP LTD. . . . .	3
Reorganization of the Fund . . . . .	3
Second Cup Royalty Income Fund . . . . .	4
MarksLP . . . . .	4
GP Trust . . . . .	5
GP Inc. . . . .	5
The Second Cup Ltd. . . . .	5
VOTING SECURITIES AND PRINCIPAL HOLDERS OF VOTING SECURITIES . . . . .	6
ANNUAL MEETING BUSINESS . . . . .	6
Financial Statements . . . . .	6
Election of Trustees . . . . .	6
Attendance Record of Trustees . . . . .	7
Appointment of Auditors . . . . .	7
COMPENSATION OF TRUSTEES AND DIRECTORS . . . . .	8
Employment Contracts . . . . .	8
Composition of Compensation Committee . . . . .	8
INDEBTEDNESS OF TRUSTEES AND DIRECTORS . . . . .	8
INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON . . . . .	8
CORPORATE GOVERNANCE . . . . .	8
Board of Trustees . . . . .	9
Administration Agreement . . . . .	10
Board of Directors of GP Inc. . . . .	10
Governance Agreement . . . . .	12
Position Descriptions . . . . .	14
Orientation and Continuing Education . . . . .	15
Ethical Business Conduct . . . . .	15
Nomination of Trustees and Directors . . . . .	15
Compensation of Trustees and Directors . . . . .	15
Assessments . . . . .	16
Audit Committee . . . . .	16
AUDITORS, TRANSFER AGENT AND REGISTRAR . . . . .	17
INTEREST OF EXPERTS . . . . .	17
ADDITIONAL INFORMATION . . . . .	17
OTHER BUSINESS . . . . .	17
APPROVAL OF CIRCULAR . . . . .	17
APPENDIX “A” . . . . .	A-1

## SECOND CUP ROYALTY INCOME FUND

### MANAGEMENT INFORMATION CIRCULAR

(Containing information as at April 18, 2008 unless otherwise noted)

#### THE MEETING

This Management Information Circular (this "Circular") is being sent to you as a holder of units (a "Unitholder") of Second Cup Royalty Income Fund (the "Fund") in connection with the annual meeting of Unitholders to be held on May 22, 2008 (the "Meeting").

#### Date, Time and Place of the Meeting

The Meeting is to be held at the offices of Stikeman Elliott LLP, 53<sup>rd</sup> Floor, 5300 Commerce Court West, 199 Bay Street, Toronto, Ontario, at 2:00 p.m. (Toronto time) on May 22, 2008.

#### Record Date and Quorum

The Trustees of the Fund have fixed April 18, 2008 as the record date (the "Record Date") for the Meeting. A quorum for the Meeting consists of two or more individuals present in person either holding personally or representing by proxy not less in aggregate than 10% of the votes attached to all outstanding Units. In the event that a quorum is not present within 30 minutes after the time fixed for the Meeting, the Meeting will be adjourned to a day not less than seven days later, at such time and place as determined by the chairperson of the Meeting and notified by a news release of the Fund. If at such adjourned meeting a quorum as defined above is not present, the Unitholders present either in person or by proxy shall form a quorum, and any business may be brought before or dealt with at such an adjourned meeting which might have been brought before or dealt with at the original meeting in accordance with the notice calling that Meeting.

#### Solicitation of Proxies

**This Circular is furnished in connection with the solicitation of proxies by management of Second Cup GP Inc. ("GP Inc."), a corporation incorporated under the laws of the Province of Ontario and a wholly owned subsidiary of the Fund, 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 GP Inc. 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 GP Inc. 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.

### **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 18, 2008) 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 Clearing and Depository Services Inc. (“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, Beneficial Unitholders will receive a voting instruction form or other similar document with this Circular from their broker or other intermediary holding Units on their behalf (“Intermediary”). 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](http://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 Beneficial Unitholders should communicate their voting instructions in accordance with directions received from the Intermediary holding Units on their behalf well in advance of the deadline for the receipt of proxies of 5:00 p.m. (Toronto time) on Tuesday, May 20, 2008 in order to allow their instructions to be processed before the deadline.**

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

**Reorganization of the Fund**

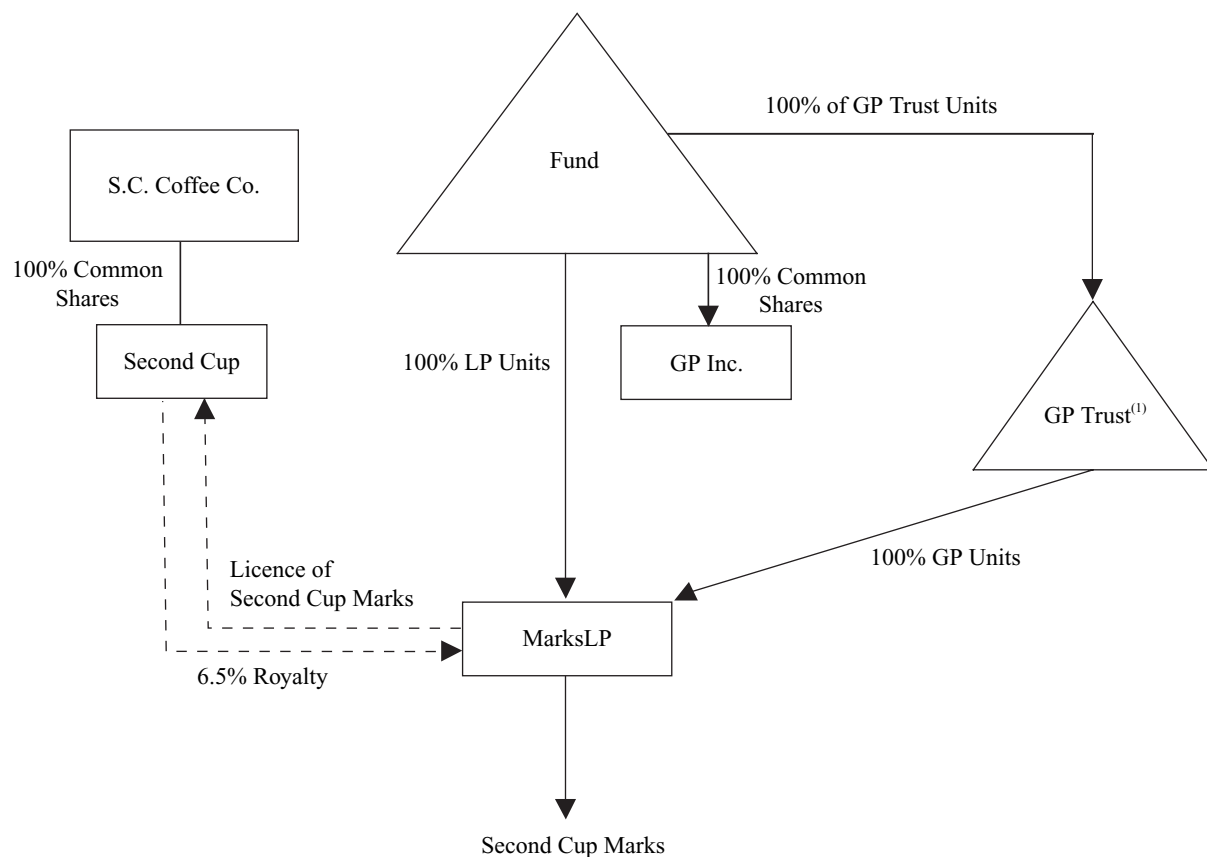
Effective April 2, 2007, the Fund completed a reorganization (the “Reorganization”) whereby the Fund restructured the manner in which it holds its interest in the trade-marks, trade names, operating procedures, methods, systems and other intellectual property and proprietary rights that are used in connection with the operation of Second Cup cafés in Canada and all associated rights (collectively, the “Second Cup Marks”). Since the completion of the Fund’s initial public offering in 2004, the Second Cup Marks had been held by the Fund through Second Cup Trade-Marks Inc. (“MarksCo”), an indirect wholly owned subsidiary of the Fund and 1636433 Ontario Inc. (“AcquisitionCo”), a wholly owned subsidiary of the Fund. As a result of the Reorganization, the Second Cup Marks are currently owned by the Fund through Second Cup Trade-Marks Limited Partnership (“MarksLP”), a limited partnership established under the laws of the Province of Ontario and a direct and indirect wholly owned subsidiary of the Fund.

MarksCo and AcquisitionCo were subject to income tax which, in turn, reduced the cash that would otherwise be available for distribution to Unitholders. As part of the Reorganization, MarksCo and AcquisitionCo were replaced with MarksLP and Second Cup GP Trust (“GP Trust”), a trust established under the laws of the Province of Ontario pursuant to a declaration of trust and the sole general partner of MarksLP. The Fund is the beneficial owner of all partnership units of MarksLP, both directly and indirectly through GP Trust. GP Inc. is the trustee of GP Trust. This new organization structure will provide the Fund with a “flow-through” structure that will eliminate income tax expense previously incurred by the Fund’s corporate subsidiaries, namely, MarksCo and AcquisitionCo, until the proposed income tax legislation on income funds becomes applicable in 2011.

The Reorganization was approved by Unitholders of the Fund at a meeting held on May 10, 2006. The Fund received a favourable Advance Income Tax Ruling from the Canada Revenue Agency with respect to the Reorganization on December 27, 2006. The Fund determined that it remained in the best interests of the Fund and its Unitholders to proceed with implementing the Reorganization, notwithstanding the proposed tax legislation regarding income trusts announced by the Federal Government of Canada on October 31, 2006, as it is anticipated that the tax savings resulting from the new structure will more than offset the costs of the Reorganization.

Effective April 11, 2007, the Fund and GP Inc. entered into an administration agreement pursuant to which GP Inc. provides certain administrative and advisory services required for the administration of the Fund similar to those previously provided to the Fund by MarksCo.

The organizational structure of the Fund is illustrated below.



(1) The sole trustee of GP Trust is GP Inc.

### 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 declaration of trust of the Fund, as amended or amended and restated from time to time (the “Fund Declaration of Trust”). The Fund was established to hold the Second Cup Marks, indirectly through its subsidiaries. The Fund holds all of the limited partnership units of MarksLP and all of the units of GP Trust. The Fund makes cash distributions to Unitholders of amounts received from MarksLP and GP Trust, 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. 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 18, 2008 was \$8.25.

### MarksLP

MarksLP is a limited partnership governed by the laws of the Province of Ontario. GP Trust, as general partner of MarksLP, is responsible for managing MarksLP. The business of MarksLP includes (i) the ownership of the Second Cup Marks, (ii) the taking of actions consistent with the license and royalty agreement dated November 26, 2004, as assigned on April 2, 2007 (as assigned, the “Licence and Royalty Agreement”), pursuant to which Second Cup (defined below) was granted a licence to use the Second Cup Marks in Canada, excluding the territory of Nunavut, for a period of 99 years, and pays a royalty (the “Royalty”) for the use of the Second Cup Marks to MarksLP, (iii) to exploit the use of the Second Cup

Marks by Second Cup, (iv) the collection of the Royalty payable to MarksLP under the Licence and Royalty Agreement, (v) borrowing funds, granting guarantees and providing security, and (vi) engaging in any activities reasonably related to the business which the general partner of MarksLP deems necessary or desirable from time to time. The head office of MarksLP is located at 6303 Airport Road, Mississauga, Ontario, L4V 1R8.

### **GP Trust**

GP Trust is a trust governed by the laws of the Province of Ontario and is a wholly owned subsidiary of the Fund. Under the terms of the limited partnership agreement governing MarksLP, GP Trust, acts as general partner and, as such, has exclusive authority to manage the business and affairs of MarksLP, to make all decisions regarding the business of MarksLP and to bind MarksLP. The authority and power vested in GP Trust to manage the business and affairs of MarksLP includes all authority necessary or incidental to carry out the objectives, purposes and business of MarksLP, including without limitation, the ability to engage agents of GP Trust to carry out its management obligations or administrative functions. The head office of GP Trust is located at 6303 Airport Road, Mississauga, Ontario, L4V 1R8.

### **GP Inc.**

GP Inc. is a corporation incorporated under the laws of the Province of Ontario and is a wholly owned subsidiary of the Fund. GP Inc. is the sole trustee of GP Trust. GP Inc. is also the administrator of the Fund. The head office of GP Inc. is located at 6303 Airport Road, Mississauga, Ontario, L4V 1R8.

### **The Second Cup Ltd.**

The Second Cup Ltd. ("Second Cup") 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 366 cafés across Canada as at December 29, 2007, of which 345 are franchised and 21 are company-owned. Pursuant to the License and Royalty Agreement, Second Cup has a licence to use the Second Cup Marks and pays a Royalty to MarksLP. Second Cup's principal and head office is located at 6303 Airport Road, Mississauga, Ontario, L4V 1R8.

In November 2006, Mr. Gabriel Tsampalieros, the Executive Chairman of Second Cup and the former Chief Executive Officer of Cara Operations Ltd. ("Cara"), purchased all of the issued and outstanding shares of Second Cup from Cara through The Second Cup Coffee Company Inc. (formerly Dinecorp Hospitality Inc.) ("S.C. Coffee Co."), a corporation controlled by him. The transaction excluded the Units previously held by Second Cup which were transferred to Cara prior to the acquisition of Second Cup by S.C. Coffee Co. In addition, S.C. Coffee Co. also purchased all the international Second Cup trade-marks which were held by Cara. Cara will continue to operate a number of Second Cup cafes as a franchisee under currently existing franchise agreements.

Mr. Tsampalieros has been actively involved with Second Cup for eleven years, first as a Director of Second Cup since 1996, and then as its Executive Chairman since 2002 following Second Cup's acquisition by Cara. Mr. Tsampalieros beneficially owns directly or indirectly or exercises control or discretion over an aggregate of 1,073,496 Units of the Fund, representing approximately 10.9% of the issued and outstanding Units.



## VOTING SECURITIES AND PRINCIPAL HOLDERS OF VOTING SECURITIES

As at the date hereof, the Fund has 9,884,733 Units issued and outstanding, each of which entitles the holder to one vote per Unit. As at the date hereof, to the knowledge of the Trustees, Mr. Tsampalieros and Montrusco Bolton Investments Inc. (“Montrusco”) are the only persons who beneficially own, directly or indirectly, or control or direct voting securities of the Fund carrying 10% or more of the voting rights attached to any class of voting securities of the Fund. Based on information publicly filed with applicable securities regulatory authorities, as of the date hereof, Mr. Tsampalieros own or exercises control of Units as described in the preceding paragraph and Montrusco owns approximately 1,006,100 Units, representing approximately 10.2% of the issued and outstanding Units. The Units held by Montrusco are being held for investment purposes only, and not for the purpose of exercising control or direction over the Fund. Pursuant to securities regulatory filings, Montrusco has indicated that it does not presently intend to: (i) make a formal take-over bid for any securities of the Fund, or (ii) propose a reorganization, amalgamation, merger arrangement or similar business combination with the Fund which would result in Montrusco’s client accounts controlling the fund, alone or collectively.

## ANNUAL MEETING BUSINESS

### Financial Statements

The audited consolidated financial statements of the Fund for the year ended December 31, 2007 are included in the 2007 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”). In the absence of instructions to the contrary, the enclosed form of proxy will be voted in favour of the election of 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 or indirectly, or which he controls or directs, as at the date hereof. Each Nominee has established his eligibility and willingness to serve as a Trustee.

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.

<u>Name, Position and Municipality of Residence</u>	<u>Present Office</u>	<u>Principal Occupation</u>	<u>Trust Units Beneficially Owned, Controlled or Directed<sup>(2)</sup></u>
DAVID BLOOM <sup>(1)</sup> . . . . . 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.	155,000
RAYMOND GUYATT <sup>(1)</sup> . . . . . 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.	12,000
MICHAEL ROSICKI <sup>(1)</sup> . . . . . 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.	5,800

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 2007 fiscal year.

**Summary of Attendance of Trustees**

<u>Trustee</u>	<u>Trustee Meetings Attended</u>	<u>Committee Meetings Attended</u>	<u>Special Meetings</u>
David Bloom . . . . .	11 of 11	4 of 4	11 of 11
Raymond Guyatt . . . . .	11 of 11	4 of 4	11 of 11
Michael Rosicki . . . . .	11 of 11	4 of 4	11 of 11

**Appointment of Auditors**

The persons named in the enclosed form of proxy intend to vote in favour of a resolution re-appointing PricewaterhouseCoopers LLP, Chartered Accountants, as auditors for the Fund for the ensuing year and authorizing the Trustees to fix the remuneration of the auditors unless the Unitholder who has given the proxy has directed that the Units represented thereby be withheld from voting in respect of the appointment of auditors.

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

## COMPENSATION OF TRUSTEES AND DIRECTORS

The annual compensation for each Trustee is \$24,000, plus \$1,000 for attending each special meeting of the board of trustees of the Fund (the "Board of Trustees") in person and \$500 to attend special meetings of the Board of Trustees by teleconference. Each of the directors of GP Inc., who is not an officer or full time employee of Second Cup or a subsidiary thereof receives compensation of \$24,000 per year, except for Bryna Goldberg, who receives \$25,000 per year for attendance at regularly scheduled meetings of the GP Inc. Board of Directors ("GP Board of Directors"). Each director of GP Inc. also receives \$1,000 for attending each special meeting of the GP Board of Directors in person and \$500 to attend special meetings of the GP Board of Directors by teleconference. No remuneration is received by any person for his or her role in acting as an officer of any of the Fund or GP Inc. (although such persons may be paid a salary in respect of their employment with Second Cup and/or its affiliates). Trustees and directors are reimbursed for their out-of-pocket expenses for attending meetings of the Board of Trustees and meetings of the committees thereof. The Chair of the Audit Committee of the Fund receives additional compensation of \$5,000 per year. The Chair of the governance committee of the GP Board of Directors (the "Governance Committee") receives additional compensation of \$3,000 per year. The Chair of the GP Board of Directors receives additional compensation of \$15,000 per year. During the fiscal year ended December 31, 2007, the aggregate amount paid to Trustees as compensation for acting as Trustees and directors of the Fund, GP Inc., MarksCo and/or AcquisitionCo (the latter two entities for the period prior to the completion of the Reorganization) was \$187,000. Payment of this compensation (and any expense reimbursement) was made out of the assets of the Fund and was arranged by GP Inc. as the administrator of the Fund following the Reorganization, and MarksCo as administrator of the Fund prior to the Reorganization.

### 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 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".

## INDEBTEDNESS OF TRUSTEES AND DIRECTORS

No Trustee, Nominee or director or officer of the Fund or any of its subsidiaries and none of their associates is currently or was at any time during the fiscal year ended December 31, 2007, indebted to the Fund or any of its subsidiaries 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 or any of its subsidiaries.

## 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 1,246,596 Units of the Fund, representing approximately 12.6% of the issued and outstanding Units.

## 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 Instrument 58-201, *Corporate Governance Guidelines* ("NI 58-201") and Multilateral Instrument 52-110, *Audit Committees* ("MI 52-110"). The Fund's current governance practices are disclosed below in accordance with NI 58-101.

The governance practices of the Fund and its subsidiaries must be considered within the context of the overall structure of the Fund. As a trust created to hold, indirectly through MarksLP, 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. GP Trust, as general partner of MarksLP, is responsible for overseeing the activities and affairs of MarksLP. GP Inc. is the sole trustee of GP Trust and acts as administrator for the Fund.

### **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 unitholder of MarksLP and GP Trust. 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 “A” 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 unitholder of MarksLP and GP Trust and as the sole shareholder of GP Inc.;
- 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). The board has determined that all of the Trustees are independent within the meaning of MI 52-110 and NI 58-101. 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 GP Inc. 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 members of the GP Board of Directors and certain officers of GP Inc. who are not also Trustees are generally invited to attend meetings of the Board of Trustees. However, where required, the Board of Trustees will meet without representatives from management or from Second Cup 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. GP Inc., 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.

### **Administration Agreement**

The Fund does not carry on an active business and does not have management staff. As a result, the Fund has entered into an administration agreement (the “Administration Agreement”) with GP Inc. as the administrator for a term of ten years from April 11, 2007 (with automatic renewal terms of three years each) whereby GP Inc. has agreed to provide certain administrative and advisory services to the Fund including, without limitation, those necessary to: (i) ensure compliance by the Fund with continuous disclosure obligations under applicable securities legislation, including the preparation of financial statements relating thereto; (ii) provide investor relations services; (iii) provide or cause to be provided to Unitholders all information to which Unitholders are entitled under the Fund Declaration of Trust, including relevant information with respect to income taxes; (iv) call and hold all meetings of Unitholders and distribute required materials, including notices of meetings and information circulars, in respect of all such meetings; (v) provide for the calculation of distributions to Unitholders; (vi) attend to all administrative and other matters arising in connection with any redemption of Units; (vii) ensure compliance with the Fund’s limitations on non-resident ownership; (viii) administer certain loans and (ix) meet general accounting, bookkeeping and administrative needs.

In carrying out its responsibilities as administrator of the Fund, GP Inc. may delegate specific aspects of its obligations to any person. GP Inc. 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. GP Inc. also serves as the sole trustee of GP Trust, the general partner of MarksLP.

### **Board of Directors of GP Inc.**

The GP Board of Directors currently consists of seven individuals. The individuals are set forth in the table below, along with the municipality in which he/she is ordinarily resident, all offices of GP Inc. currently

held by him/her, his/her principal occupation and the period of time for which he/she has been a director of GP Inc.

<u>Name, Position and Municipality of Residence</u>	<u>Principal Occupation</u>	<u>Service as Director</u>
JAMES S. ANAS . . . . . Director Burlington, Ontario, Canada	Vice Chairman of Second Cup. Executive Vice Chairman of S.C. Coffee Co. from 2008 following his tenure as President and Chief Executive Officer from 2001 to 2007. President, Chief Executive Officer and Director of Jumbo Entertainment Inc. from 1994 to 2001.	Since April 2, 2007
DAVID BLOOM <sup>(1)</sup> . . . . . 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
BRYNA GOLDBERG . . . . . Director Toronto, Ontario, Canada	Retired business executive; Executive Vice President, Legal Affairs, General Counsel and Secretary of Shoppers Drug Mart Inc. from 2001 to 2007; Senior Vice President, Legal Affairs, General Counsel and Secretary of Shoppers Drug Mart Inc. from 1997 to 2001.	Since July 9, 2007
RAYMOND GUYATT <sup>(1)</sup> . . . . . Director Westmount, Québec, Canada	Retired business executive; Executive Vice President and Chief Financial Officer of Imasco Limited from 1987 to 2000.	Since December 2, 2004
GABRIEL TSAMPALIEROS . . . . . Director Markham, Ontario, Canada	Chairman and Chief Executive Officer of Second Cup; Executive Chairman of S.C. Coffee Co.; Chairman and Chief Executive Officer of Falcon Capital Inc.; President, Chief Executive Officer and a Director of Cara from 1997 to 2006; President, Chief Operating Officer and a Director of Cara from 1995 to 1997.	December 2, 2004 to July 9, 2007; and Since February 14, 2007

<u>Name, Position and Municipality of Residence</u>	<u>Principal Occupation</u>	<u>Service as Director</u>
MICHAEL ROSICKI <sup>(1)</sup> . . . . . Director Oakville, Ontario, Canada	President of Wexford Group Inc.; Chairman and Chief Executive Officer of Parmalat North America from 1999 to 2004; President of Mattel Canada Inc. from 1997-1999.	Since July 9, 2007
STACEY MOWBRAY . . . . . Director Etobicoke, Ontario, Canada	President of Second Cup and S.C. Coffee Co.; Chief Marketing Officer of Molson Canada in 2007; President of Milestone's Restaurants Inc. in 2006; Senior Vice President at Cara Operations Limited from 2000 to 2006.	Since March 11, 2008

Note:

(1) Member of Governance Committee

GP Inc. is the sole trustee of GP Trust. GP Trust is the general partner of MarksLP. Accordingly, the GP Board of Directors is responsible for the stewardship of the activities and affairs of MarksLP. The GP Board of Directors seeks to discharge such responsibility by overseeing MarksLP's 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 MarksLP. The GP Board of Directors discharges its responsibilities for overseeing the affairs of MarksLP both directly, and through its committees, currently consisting of the Governance Committee. The Governance Committee is comprised of three directors who are each independent within the meaning of MI 52-110 and NI 58-101 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 GP Board of Directors is responsible for the implementation of appropriate risk management systems relating to MarksLP. 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, including the maintenance and enhancement of the Royalty from Second Cup. The GP Board of Directors may request an update from management of Second Cup, on a periodic basis, on any material changes in such risks and systems.

### **Governance Agreement**

At the time of the Fund's initial public offering in 2004, the Fund, MarksCo, AcquisitionCo, Second Cup and Cara entered into a governance agreement (the "Governance Agreement") which provided for various matters relating to the governance of MarksCo, rights of first offer in favour of the Fund and pre-emptive rights in favour of Second Cup, all subject to the terms and conditions contained in the Governance Agreement. In connection with the sale of Second Cup by Cara completed on November 14, 2006, the original parties to the Governance Agreement and S.C. Coffee Co. entered into a letter agreement which provides that the parties will amend the Governance Agreement to take into account, among other things, the fact that Cara is no longer the owner of Second Cup. The parties agreed to modify provisions of the Governance Agreement as described below to take into account the purchase of Second Cup by S.C. Coffee Co. At the time of the Reorganization, the right of MarksCo under the Governance Agreement was assigned to MarksLP.

Pursuant to the Governance Agreement, Second Cup will have the right to designate two nominees to the board of directors of GP Inc. until such time as Second Cup, its affiliates, Gabriel Tsampalieros, his heirs, executors or administrators cease to hold 10% or more of the total issued and outstanding Units and/or securities convertible or exchangeable into Units.



Pursuant to the Governance Agreement, the Fund has a right of first offer in respect of certain transactions involving the sale of the business of Second Cup. Pursuant to this right, neither S.C. Coffee Co., its affiliates, Gabriel Tsampalieros, Second Cup nor parties related to them will enter into any agreement for a transaction (a “Change of Control Transaction”) which, if completed, would result in a Change of Control (as defined below) of Second Cup unless the Fund or MarksLP is first provided with the opportunity to acquire, directly or indirectly through one or more subsidiaries, the assets and undertaking and/or the shares, as the case may be, of Second Cup (the “Second Cup Business”) held directly or indirectly by S.C. Coffee Co.. The acquisition opportunity will be offered for consideration and on terms to be set forth in a written notice (the “Right of First Offer Notice”) by Second Cup to the Fund and MarksLP. A Right of First Offer Notice must set forth a summary of the Change of Control Transaction and details of its material terms, including the amount of the purchase price to be paid by the Fund or MarksLP for the Second Cup Business.

The right of first offer will expire if:

- the Fund or MarksLP does not inform Second Cup in writing within 30 days after the receipt of the Right of First Offer Notice that it desires to purchase the Second Cup Business; or
- the Fund or MarksLP does not enter into an agreement with Second Cup, S.C. Coffee Co., its affiliates, Gabriel Tsampalieros or the relevant related party for the purchase of the Second Cup Business within 30 days after the Fund or MarksLP informs Second Cup in writing that it desires to purchase the Second Cup Business.

However, S.C. Coffee Co., its affiliates, Gabriel Tsampalieros, Second Cup or the related party may only enter into an agreement in respect of a Change of Control Transaction if:

- the amounts that would be received by Second Cup, S.C. Coffee Co., its affiliates, Gabriel Tsampalieros or the related party upon completion of the Change of Control Transaction, after taking into account the amount of income taxes that would be payable under the Tax Act by Second Cup, S.C. Coffee Co., its affiliates, Gabriel Tsampalieros or the related party if the consideration payable in respect of the Change of Control Transaction were immediately distributed to, or paid to, Second Cup, S.C. Coffee Co., its affiliates, Gabriel Tsampalieros or the related party, is at least equal to the purchase price to be paid by the Fund or MarksLP, as set forth in the Right of First Offer Notice;
- the terms of the transaction as contained in such agreement, when considered as a whole in a commercially reasonable manner, having regard to the nature of the transaction and the summary of the proposed transaction, as contained in the Right of First Offer Notice, are not materially more favourable to the purchaser than the summary of the terms of the proposed transaction contained in the Right of First Offer Notice; and
- in the case of an agreement to purchase the Second Cup Business, on or before the completion of the transaction, the purchaser (including a “Successor Corporation” as defined below) enters into an agreement with the Fund or MarksLP agreeing to assume the obligations of Second Cup under all agreements with the Fund or MarksLP, including the Governance Agreement and the Licence and Royalty Agreement.

If S.C. Coffee Co., its affiliates, Gabriel Tsampalieros, Second Cup or the related party does not enter into such an agreement within 210 days after the date the Right of First Offer Notice was given to the Fund or MarksLP in respect of such transaction, or a Change of Control Transaction permitted by the foregoing is not completed by the first anniversary of the date upon which such Right of First Offer Notice was first given, neither S.C. Coffee Co., its affiliates, Gabriel Tsampalieros, Second Cup nor the relevant related party may enter into an agreement that, if completed, would result in a Change of Control, unless the Fund or MarksLP is again provided with the opportunity to acquire the Second Cup Business in accordance with the foregoing.

A Change of Control is defined in the Governance Agreement as:

- the direct or indirect acquisition by a person or persons, acting jointly or in concert, of beneficial ownership (“acting jointly or in concert” and “beneficial ownership” are to be as defined in the



Securities Act in existence as of the Closing Date) of 50% or more of Second Cup's then outstanding voting securities; or

- the approval by the shareholder or shareholders of Second Cup of (a) an amalgamation involving Second Cup; or (b) a complete liquidation or dissolution of Second Cup or the sale or other disposition of all or substantially all of the assets of Second Cup.

Notwithstanding the foregoing, a Change of Control will be deemed to not occur if, following the completion of the proposed transaction:

- S.C. Coffee Co., its affiliates or Gabriel Tsampalieros would own, directly or indirectly, more than 50% of the combined voting power of the then outstanding voting securities of the corporation or other entity (each a "Successor Corporation") (a) that has acquired 50% or more of the combined voting power of Second Cup's then outstanding voting securities, (b) resulting from an amalgamation involving Second Cup, or (c) that acquires (including by virtue of a liquidation distribution) the assets and undertaking previously owned by Second Cup, provided that, in the case of (a) or (c), the Successor Corporation assumes all of the obligations of Second Cup under all agreements between Second Cup and the Fund and its subsidiaries;
- 50% or more of the combined voting power of the outstanding voting securities of Second Cup (or, as the case may be, a Successor Corporation) are held directly or indirectly by persons who are employees of Second Cup (or, as the case may be, a Successor Corporation) or its affiliates, provided that, in the case of a sale of the assets and undertaking of Second Cup, the Successor Corporation assumes all of the obligations of Second Cup under all agreements between Second Cup and the Fund and its subsidiaries; or
- following a transaction that involves the transfer of shares of Second Cup or an amalgamation of Second Cup, 50% or more of the combined voting power of Second Cup's then outstanding securities (or of a Successor Corporation, in the case of an amalgamation) are held by S.C. Coffee Co., its affiliates or Gabriel Tsampalieros, or by a trustee or other fiduciary holding securities solely for the benefit of S.C. Coffee Co., its affiliates or Gabriel Tsampalieros, or by employees of Second Cup or its affiliates, provided that in all cases, any such transferee of shares from S.C. Coffee Co., its affiliates or Gabriel Tsampalieros agrees to be bound by the terms of the right of first offer.

The right of first offer provisions do not apply to a Change of Control resulting from or related to pledges of shares of Second Cup to (or indirectly held by) a bank or other financial institution or to the direct or indirect realization on such pledge by the bank or other financial institution, including any related voting trust arrangements. However, if the bank or other financial institution realizes on any pledge and such realization would otherwise have resulted in a Change of Control, the Fund will have the right, exercisable for 60 days, to acquire the Second Cup Business at its agreed or arbitrated fair market value for the consideration and on the terms set forth in a Right of First Offer Notice by the bank or other financial institution to the Fund.

In light of the completion of the Reorganization, the amendments to the Governance Agreement will also reflect changes to the Fund's structure including the fact that the Fund now holds the Second Cup Marks through MarksLP as opposed to through AcquisitionCo and MarksCo and the fact that GP Inc., being the sole trustee of GP Trust, the general partner of MarksLP, is now the administrator of the Fund.

### **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 GP Board of Directors, 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.

### **Orientation and Continuing Education**

The Governance Committee oversees any orientation programs to familiarize new directors and Trustees with the affairs and operations of GP Inc., the Fund and its subsidiaries, 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. Members of the GP Board of Directors and the 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 GP Inc. is responsible for proposing new Trustee and director nominees and making recommendations to the Board of Trustees and the GP Board of Directors, as applicable. Trustees are also encouraged to identify potential candidates and the Chair of the Board of Trustees 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 and the GP Board of Directors. 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 GP Board of Directors and Board of Trustees. The committee may also make recommendations for changes to the composition of the GP Board of Trustees and Board of Directors, subject to the terms of the Governance Agreement and the Fund Declaration of Trust.

### **Compensation of Trustees and Directors**

The Governance Committee of GP Inc. 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 of GP Inc. will coordinate an annual evaluation of the Board of Trustees, the GP 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 GP Board of Directors on the evaluation of the performance of the Board of Trustees, the GP Board of Directors and each committee. The objective of the assessments is to ensure the continued effectiveness of the Board of Trustees, the GP 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 GP 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 GP Board of Directors 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 the Fund's subsidiaries 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 the Fund's subsidiaries 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.

## **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 the Fund's subsidiaries and Second Cup. Such firm is independent in accordance with the firm's rules of professional conduct in Ontario.

## **ADDITIONAL INFORMATION**

Additional information relating to the Fund is included in its 2007 annual information form, its audited consolidated financial statements for the year ended December 31, 2007 and the related management's discussion and analysis. Copies of these documents may be obtained from the SEDAR website at [www.sedar.com](http://www.sedar.com), the Fund's website at [www.secondcupincomefund.com](http://www.secondcupincomefund.com) or upon request from the Chief Financial Officer, Second Cup GP Inc., 6303 Airport Road, Mississauga, Ontario, L4V 1R8 (telephone 905-362-1818 or e-mail [investor@secondcup.com](mailto: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, 2007.

## **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 18<sup>th</sup> day of April 2008.

## **BY ORDER OF THE TRUSTEES**



David Bloom  
Chairman of the Board of Trustees

## APPENDIX “A”

### SECOND CUP ROYALTY INCOME FUND MANDATE FOR THE BOARD OF TRUSTEES

#### INTRODUCTION

##### Terminology:

“**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.

“**GP Inc.**” means Second Cup GP Inc., a direct subsidiary of the Fund and the sole trustee of GP Trust.

“**GP Trust**” means Second Cup GP Trust, a direct subsidiary of the Fund and the general partner of Marks LP.

“**Marks LP**” means Second Cup Trade-Marks Limited Partnership, a direct and 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 securityholder of GP Trust, Marks LP and GP Inc.
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 GP Inc.'s role in assisting the Fund with its continuous disclosure obligations; and
  - (i) receiving reports from time to time from GP Inc. or other parties on foreign ownership of the Fund's securities in connection with maintaining its mutual fund status.

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



TM/MC