



SECOND CUP ROYALTY INCOME FUND

Annual Information Form

For the year ended December 31, 2008

March 9, 2009

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GLOSSARY OF TERMS

In addition to the other terms defined in this Annual Information Form, the following terms are used frequently and are defined below. Unless the context otherwise requires, any reference in this Annual Information Form to any agreement, instrument, indenture, declaration or other document will be deemed to be a reference to that agreement, instrument, indenture or other document, as amended, supplemented and restated from time to time.

“Acquisition Agreement” means the acquisition agreement entered into on the Closing Date by Cara, Second Cup and AcquisitionCo pursuant to which AcquisitionCo acquired all the issued and outstanding MarksCo Common Shares.

“AcquisitionCo” means 1636433 Ontario Inc., which prior to the Reorganization was a wholly-owned subsidiary of the Fund that acquired all the issued and outstanding MarksCo Common Shares from Cara.

“Additional Cafés” means Second Cup cafés in Canada which, on November 1 of the previous calendar year, had been open for at least 60 days and which were not previously included in the Royalty Pool.

“Adjustment Date” means January 1 of each year from 2006 onwards.

“Administration Agreement” means the restated administration agreement effective as of April 11, 2007 among GP Inc. and the Fund, as amended or amended and restated from time to time, pursuant to which GP Inc. agreed to provide or arrange for the provision of services required for the administration of the Fund.

“affiliate” means, in respect of a person or company, another person or company that would be considered to be an “affiliated entity” in respect of such person or company for the purposes of Ontario Securities Commission Rule 45-501, as amended or replaced from time to time.

“associate” has the meaning ascribed to it in the Securities Act.

“Bank” means the Canadian chartered bank affiliate of Scotia Capital Inc.

“Book-Entry Only System” means the book-based system administered by CDS for registration of interest in and transfer of the Units.

“Cara” means Cara Operations Limited, a private corporation formed under the laws of the Province of Ontario.

“CDS” means The Canadian Depository for Securities Limited.

“CDS Participant” means a participant in the CDS depository service.

“Closed Café” means, in any year, a Second Cup café that was included in the Royalty Pool at the beginning of the year but was Permanently Closed during that year.

“Closing” means the completion of the initial public offering of the Fund and the transactions to complete the offering as described in the prospectus.

“Closing Date” means December 2, 2004, the date of completion of the initial public offering of the Fund.

“Current Market Price of the Units” means, as at any date or for any period, the weighted average price at which the Units have traded on a Stock Exchange during the period of 20 consecutive trading days ending on the fifth trading day before such date or the end of such period, as the case may be.

“Declaration of Trust” means the declaration of trust dated December 1, 2004, as amended or as amended and restated from time to time, establishing and governing Second Cup Royalty Income Fund.

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

“EBITDA” means earnings before interest, taxes, depreciation and amortization.

“Fund” means Second Cup Royalty Income Fund.

“Fund Operating Loan” means the revolving loan facility in the amount of up to \$1,000,000 established by the Bank in favour of the Fund.

“Fund Term Loan” means the term loan in the principal amount of \$11,000,000 made on April 2, 2007 by the Bank to the Fund, any renewal thereof and any replacement thereof by a financial institution carrying on business in Canada as more fully described under “General Development of the Business — Fund Term Loan and Fund Operating Loan”.

“GAAP” means Canadian generally accepted accounting principles.

“General Security Agreement” means the general security agreement dated November 26, 2004 between Second Cup and MarksLP, as amended or amended and restated from time to time, pursuant to which Second Cup granted MarksLP 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, as amended or amended and restated from time to time, among Second Cup, S.C. Coffee Co., MarksCo, AcquisitionCo and the Fund, which following the Reorganization governs the relationship among Second Cup, S.C. Coffee Co., MarksLP, and the Fund in relation to, among other matters, the governance of MarksLP.

“GP Inc.” means Second Cup GP Inc., a corporation established under the laws of Ontario and a direct subsidiary of the Fund and sole trustee of GP Trust.

“GP Trust” means Second Cup GP Trust, a trust established under the laws of the Province of Ontario pursuant to a declaration of trust and the general partner of MarksLP.

“Gross Revenue” has the meaning ascribed to it in “Business of Second Cup — Franchise Operations — Second Cup Franchise Agreements” as it relates to both company-owned cafés and franchised cafés.

“Initial Cafés” means the 351 Second Cup cafés in Canada included in the Royalty Pool as of the Closing Date.

“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, as amended, or amended and restated from time to time, between MarksLP and Second Cup pursuant to which Second Cup was granted the Licence and agreed to pay the Royalty to MarksLP.

“Limited Partnership Agreement” means the limited partnership agreement of MarksLP, as amended or amended and restated from time to time, dated March 28, 2007 between GP Trust and the Fund.

“MarksCo” means Second Cup Trade-Marks Inc., which prior to the Reorganization was a wholly-owned subsidiary of AcquisitionCo that held the Second Cup Marks and was a party to the Licence and Royalty Agreement.

“MarksCo Common Shares” means the common shares in the capital of MarksCo.

“MarksCo Term Loan” means the term loan in the principal amount of \$11,000,000 made on the Closing Date by the Bank to a predecessor corporation of MarksCo.

“MarksLP” means Second Cup Trade-Marks Limited Partnership, a limited partnership established under the laws of the Province of Ontario and an indirect wholly owned subsidiary of the Fund.

“MarksLP Note” means the subordinated unsecured promissory note in the principal amount of \$9,170,467 made on April 2, 2007 by MarksLP to MarksCo, and which was assigned by MarksCo to the Fund on April 2, 2007.

“Payment Period” means each month in a calendar year, except in respect of the first payment of the Royalty by Second Cup, in which case the Payment Period was the period from the Closing Date to December 31, 2004.

“Permanently Closed” means a Second Cup Café (i) if operated under a franchise agreement or other permitted licence agreement, for which the franchise agreement or other permitted licence agreement has expired, has been terminated by Second Cup, or that has permanently closed or (ii) if owned and operated by Second Cup or a subsidiary of Second Cup, has permanently closed. A Second Cup Café shall not be considered permanently closed if it is closed due to a strike, lock-out, renovations, fire, natural calamity or is closed seasonally in the ordinary course (a **“Temporarily Closed Café”**), provided that in the case of fire or natural calamity, appropriate plans are made within 30 days of the fire or calamity, by the operator to repair the damage and re-open the Second Cup Café as soon as reasonably possible. A Second Cup Café other than a Temporarily Closed Café shall be deemed to be Permanently Closed if it is closed for a continuous period of 90 days for any reason, or for 90 days in any 365 day period. A Temporarily Closed Café shall be deemed to be permanently closed if it remains closed for a continuous period of 180 days for any reason, or for 180 days in any 365 day period.

“Redemption Price” has the meaning ascribed thereto under “Description of the Fund — Redemption Right”.

“Reorganization” means the reorganization of the Fund and its subsidiaries completed effective April 2, 2007, whereby the Fund restructured the manner in which it holds its interest in the Second Cup Marks.

“Royalty” means the royalty for each Payment Period to be paid pursuant to the Licence and Royalty Agreement by Second Cup to MarksLP for the Licence in an amount equal to 6.5% of System Sales for all Second Cup cafés in the Royalty Pool during such Payment Period.

“Royalty Pool” means, initially, the Initial Cafés, and subsequently consists of the most recently adjusted number of Second Cup cafés to be used for determining System Sales for a particular Payment Period.

“**S.C. Coffee Co.**” means The Second Cup Coffee Company Inc. (formerly Dinecorp Hospitality Inc.), a private corporation formed under the laws of the Province of Ontario.

“**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**” refers to 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 owned by MarksLP 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.

“**Stock Exchange**” means a stock exchange recognized by the Ontario Securities Commission for such purposes, and where the Units have traded on more than one Stock Exchange during the relevant period, “**Stock Exchange**” means the Stock Exchange where the greatest volume of Units traded during the relevant period.

“**Subscription Agreement**” means the subscription agreement among the Fund, MarksLP and Second Cup dated April 16, 2007, pursuant to which, among other things, the Fund will ensure that MarksLP 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 company-owned 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).

“**trustees**” means, at the relevant time, the trustees of the Fund.

“**Underwriting Agreement**” means the underwriting agreement dated November 22, 2004 among Cara, Second Cup, the Fund and a syndicate of underwriters (the “**Underwriters**”) pursuant to which the Fund agreed to sell and the Underwriters severally agreed to purchase a total of 8,145,346 Units.

“**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.

“**Unit Yield**” as of an Adjustment Date means the amount of the cash distributions paid by the Fund to Unitholders for each Unit held during the year ended immediately prior to such date divided by the Current Market Price of a Unit on such date.

“**Unitholders**” means, at the relevant time, the holders of the Units.

“**Unitholders’ Special Resolution**” means a resolution passed by a majority of not less than 66²/₃% of the votes cast, either in person or by proxy, at a meeting of Unitholders, called for the purpose of approving such resolution, or approved in writing by the holders of not less than 66²/₃% of the Units entitled to be voted on such resolution.

FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Information Form that are not current or historical factual information 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 Annual Information Form. 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 Fund’s actual results, performance or achievements, or those of MarksLP, Second Cup, 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 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 closure of Second Cup cafés; loss of key personnel, compliance with government regulation; potential litigation; 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 and economic conditions on such patterns; reporting of Gross Revenue 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 Annual Information Form is based upon assumptions, current estimates, expectations and projections, which we believe are reasonable in the circumstances as of the current date, there can be no assurance that actual results will be consistent with this forward-looking information. You should not place undue importance on forward-looking information and should not rely upon this information as of any other date. The Fund is providing the forward-oriented financial information and financial outlook set out in this Annual Information Form for the purpose of helping explain the objectives and strategies of the Fund. Readers are cautioned that this information may not be appropriate for any other purpose.

Other than as required under securities laws, the Fund does not undertake to update any such forward-looking information. Additional information about these assumptions and risks and uncertainties is contained in the Fund’s filings with securities regulators. These filings are also available at www.sedar.com or on the Fund’s website at www.secondcupincomefund.com.

GENERAL

All information contained in this Annual Information Form is presented as of December 31, 2008 unless otherwise indicated. All dollar amounts are stated in Canadian currency unless otherwise stated. Reference is made to the glossary for the meaning of certain defined terms.

FUND STRUCTURE

Name, Address and Jurisdiction of Formation

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. The Fund's registered and head office is located at 6303 Airport Road, Mississauga, Ontario L4V 1R8.

MarksLP

MarksLP is a limited partnership governed by the laws of the Province of Ontario. 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. The head office of GP Trust is located at 6303 Airport Road, Mississauga, Ontario, L4V 1R8. 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 .

GP Inc.

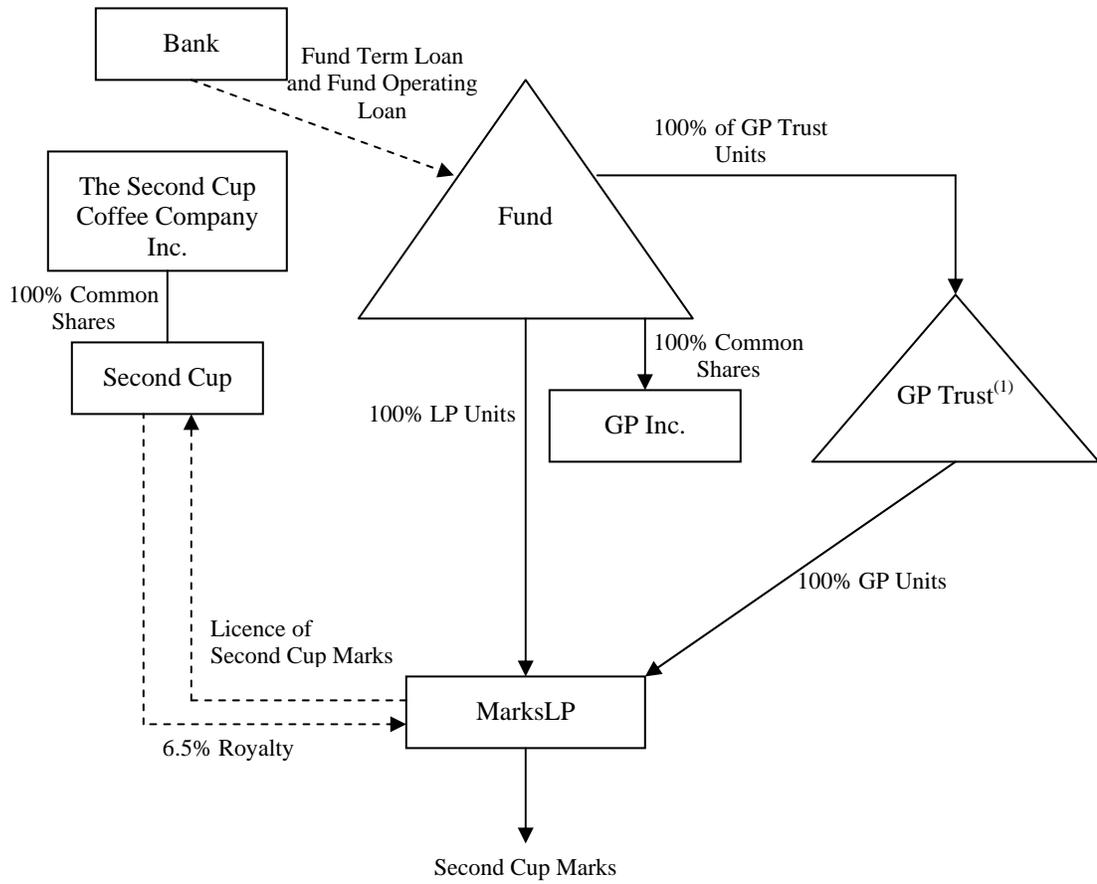
GP Inc. is a corporation incorporated under the laws of the Province of Ontario and is a wholly owned subsidiary of the Fund. The head office of GP Inc. is located at 6303 Airport Road, Mississauga, Ontario, L4V 1R8.

The Second Cup Ltd.

Second Cup is a wholly-owned subsidiary of S.C. Coffee Co., incorporated under the laws of the Province of Ontario. The company's registered and head office is located at 6303 Airport Road, Mississauga, Ontario L4V 1R8.

Intercorporate Relationships

The following diagram illustrates the Fund's organizational structure:



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

GENERAL DEVELOPMENT OF THE BUSINESS

Establishment of the Fund

The Fund was established on October 22, 2004 and completed an initial public offering of 8,145,346 Units on December 2, 2004 at \$10.00 per Unit for aggregate proceeds of \$81,453,000 before cash issuance costs of \$8,887,000. The Units commenced trading on the Toronto Stock Exchange (the “TSX”) on December 2, 2004. In addition, the Fund issued 1,437,414 Units to Second Cup on the Closing Date at \$10.00 per Unit for aggregate proceeds of \$14,374,000. The Fund did not carry on any business prior to that date.

The Fund used the proceeds of its initial public offering (net of fees payable to the Underwriters of the offering and offering expenses) plus the proceeds of Second Cup’s subscription for Units, to indirectly acquire from Cara the Second Cup Marks through the indirect acquisition of MarksCo. As a result of this acquisition, MarksCo became an indirect wholly-owned subsidiary of the Fund, a party to the Licence and Royalty Agreement and the borrower under a term loan in the amount of \$11,000,000 obtained from the Bank (the “MarksCo Term Loan”).

On April 2, 2007 the Unitholder-approved Reorganization of the Fund became effective pursuant to which the subsidiary corporations of the Fund, including MarksCo, were replaced with a newly formed trust, GP Trust, and limited partnership, MarksLP. MarksLP, has been consolidated for reporting purposes with Second Cup as a Variable Interest Entity (“VIE”) for the same reasons that MarksCo had historically been consolidated by Second Cup.

As a result of the Reorganization, the Licence and Royalty Agreement was assigned by MarksCo to MarksLP. In addition, the Fund negotiated a new term loan of \$11,000,000 with the Bank (the “Fund Term Loan”) on similar terms and conditions as the MarksCo Term Loan. Under the new structure, the new wholly owned subsidiaries of the Fund are not subject to income tax.

Commencing April 2, 2007, payments under the Licence and Royalty Agreement by Second Cup for royalties equal to 6.5% of System Sales of cafés in the Royalty Pool are being paid to MarksLP. As a result of the Reorganization, the Fund’s earnings are predominantly comprised of distribution income from MarksLP in place of interest and dividend income from MarksCo.

Business of the Fund

The Fund was created as a limited purpose trust to use the proceeds of an initial public offering to indirectly acquire the Second Cup Marks. The Second Cup Marks were then licensed to Second Cup in return for a royalty of 6.5% of System Sales of certain Second Cup cafés in Canada (the “Royalty Pool”). Units of the Fund are traded on the Toronto Stock Exchange under the symbol “SCU.UN”. The Fund’s fiscal year ends December 31. The Fund makes cash distributions to Unitholders from income derived from distributions received from MarksLP, less estimated amounts required for the payment of expenses, any cash redemptions of Units and other amounts. See “Description of the Fund — Cash Distributions”. The Fund carries on no active business of its own and has no employees.

Business of GP Inc.

GP Inc. is a wholly owned subsidiary of the Fund. GP Inc. is the sole trustee of GP Trust and is also responsible for the administration of the Fund pursuant to the Administration Agreement. GP Inc. carries on no active business of its own.

Business of GP Trust

GP Trust is a wholly owned subsidiary of the Fund. GP Trust is the general partner of MarksLP. GP Trust carries on no active business of its own other than acting as general partner of MarksLP and has no employees.

Business of MarksLP

The business of MarksLP is the ownership of the Second Cup Marks, the taking of actions consistent with the Licence and Royalty Agreement 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 payable to MarksLP under the Licence and Royalty Agreement (see “Licence and Royalty Agreement”). MarksLP does not operate the Second Cup business and 100% of the revenue of MarksLP, including revenue for the financial year ended December 31, 2008, has been derived from the Royalty.

Under the Licence and Royalty Agreement, MarksLP has the contractual right to control the character and quality of the wares produced or services delivered by Second Cup and its franchisees or sublicensees, and to require that the Second Cup Marks be used by Second Cup and its franchisees or sublicensees in a manner that enhances the reputation of the Second Cup Marks. Under the Licence and Royalty Agreement, MarksLP is entitled to:

- inspect the use of the Second Cup Marks by Second Cup and its franchisees or sublicensees to ensure that Second Cup and its franchisees or sublicensees are protecting and enhancing the reputation associated with the Second Cup Marks;
- obtain, on a quarterly basis, a certificate from an officer of Second Cup to the effect that Second Cup is using the Second Cup Marks in accordance with the Licence and Royalty Agreement;
- require Second Cup to submit a report, on a quarterly basis, detailing the use of the Second Cup Marks by Second Cup and its franchisees or sublicensees in the quarter, including details of all licences of the Second Cup Marks granted by Second Cup to franchisees or sublicensees during the quarter; and
- establish the standards governing the character and quality of the wares produced or services delivered, and the manner of use of the Second Cup Marks, by Second Cup and its franchisees and sublicensees.

Second Cup is required to submit to MarksLP for prior written approval any proposed use of the Second Cup Marks not expressly permitted at the time the Licence and Royalty Agreement was entered into.

Fund Term Loan and Fund Operating Loan

The Fund has outstanding a term loan of \$11,000,000 (“Fund Term Loan”) and operating loan of \$1,000,000 (“Fund Operating Loan”). The Fund Operating Loan is repayable on demand and provides the Fund with working capital from time to time, if required. As at December 31, 2008, there was no balance owing by the Fund on the Fund Operating Loan.

The indebtedness and liability of MarksLP under the Fund Term Loan and the Fund Operating Loan are secured by a first ranking security interest in all property of MarksLP, including the Second Cup Marks and the rights and interest of MarksLP in the General Security Agreement and Licence and Royalty Agreement. The indebtedness secured by the Bank’s security interest (including the Fund Term Loan, the Fund Operating Loan and any interest rate hedging facility) ranks senior to all other indebtedness of MarksLP.

Pursuant to the terms of the Fund Operating Loan and Fund Term Loan, MarksLP is subject to certain financial and other customary covenants, including requirements to maintain a ratio of senior debt to EBITDA of less than 1.25:1.0 and to maintain trailing four quarter EBITDA in excess of \$9,000,000. In addition, the Bank may accelerate repayment of the Fund Term Loan and Fund Operating Loan in the case of certain events, including a change in control of MarksLP or a default by MarksLP under material agreements or other indebtedness. During the year ended December 31, 2008, MarksLP was in compliance with all financial and other covenants of the Fund Operating Loan and Fund Term Loan. See “Risk Factors – MarksLP has outstanding indebtedness”.

The Fund, GP Inc. and GP Trust guarantee the liability of MarksLP under the Fund Term Loan and Fund Operating Loan, which guarantees are secured by all of their respective assets, including a pledge of the GP Inc. shares, a pledge of the GP Trust units, and a pledge of the MarksLP partnership units.

LICENCE AND ROYALTY AGREEMENT

The Licence

The Licence and Royalty Agreement provides Second Cup with a licence to use and a further right to sublicense the right 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 from the date of the agreement (November 26, 2004). See “Management and Corporate Governance of GP Inc. — The Second Cup Marks”. MarksLP will retain and defend ownership of the Second Cup Marks. Subject to certain exceptions, MarksLP has a right of first refusal over any intended use of the Second Cup Marks by Second Cup in association with any ware or service, or any intended licence to a third party for use of the Second Cup Marks in Canada in connection with any ware or service. The Second Cup Marks do not include the rights outside of Canada to any trade-marks or trade names used by Second Cup or any affiliated entities in their business, and in particular they do not include the rights outside of Canada to the trade-marks registered or pending registration under the *Trade-marks Act* (Canada).

The Royalty

In consideration of the Licence, Second Cup is required to pay MarksLP the Royalty for each Payment Period in an amount equal to 6.5% of System Sales for all Second Cup cafés in the Royalty Pool during such Payment Period. The Royalty Pool initially consisted of the Initial Cafés, and subsequently consists of the most recently

adjusted number of Second Cup cafés to be used for determining System Sales for a particular Payment Period. See “Adjustments to the Royalty Pool and Payments Made Under the Licence and Royalty Agreement” below. As of December 31, 2008, there were 361 Second Cup cafés operating in Canada, 341 of which were included in the Royalty Pool. On January 1, 2009, subsequent to the Royalty Pool adjustment, there were 359 cafés in the Royalty Pool. See “January 1, 2009 Adjustment to the Royalty Pool”.

The amount of the Royalty will be determined at the end of each Payment Period and will be payable within 21 days following the end of the Payment Period, except in respect of the first Royalty payment and, if applicable, the final Royalty payment in connection with the termination of the Fund.

Each time Second Cup pays the Royalty to MarksLP, Second Cup provides MarksLP with a statement of the Royalty for the relevant Payment Period, certified as correct in all material respects by the chief financial officer of Second Cup. In addition, MarksLP will be entitled at any time to inspect the books and records of Second Cup (at MarksLP’s expense) in order to review Second Cup’s determination of the amount of the Royalty.

Second Cup provides MarksLP and the Fund with Second Cup’s unaudited quarterly financial statements within 40 days of the end of each quarterly accounting period of Second Cup (other than the fourth quarterly accounting period) and audited annual consolidated financial statements within 85 days of the end of each fiscal year of Second Cup. These financial statements are required to be prepared in accordance with GAAP and also include a statement of System Sales for the relevant period.

Second Cup is required to deliver to MarksLP and the Fund, as soon as practical and in any event within 30 days after the end of each accounting period, selected unaudited consolidated financial information of Second Cup (including sales, EBITDA, net income and a forecast for such items for the balance of the year) in summary form in respect of such accounting period.

All payments of the Royalty (and all financial covenants in the Licence and Royalty Agreement) are based on GAAP as applied by Second Cup and in effect on the Closing. In the event of any changes to GAAP, each of the applicable parties has agreed to make the appropriate adjustments to any contractual arrangements to account for changes to GAAP.

Security for the Royalty

Payment of the Royalty and all other obligations of Second Cup under the Licence and Royalty Agreement are secured by a first ranking security interest in all property of Second Cup (subject to customary permitted liens and certain other exceptions as described below), including all amounts payable to Second Cup by the Second Cup franchisees operating Second Cup cafés in Canada. The security interest was granted pursuant to the General Security Agreement. Although it is not currently contemplated that Second Cup will have any subsidiaries, in the event that Second Cup transfers any portion of its business or property to a subsidiary, a guarantee and general security agreement will also be provided by that subsidiary to further secure the obligations of Second Cup under the Licence and Royalty Agreement.

Under the General Security Agreement, MarksLP is entitled, in the case of an uncured event of default by Second Cup, to appoint a receiver of Second Cup with the power to carry on the business of Second Cup and, in the event of a material default by Second Cup, to require Second Cup to prepay the amount of the Royalty for 52 weeks. All amounts realized by the receiver, after costs, will be applied to the costs of operating the business of Second Cup and to the payment to MarksLP of amounts due under the Licence and Royalty Agreement.

No agreements or consents in respect of the security interest granted by Second Cup to MarksLP were obtained in connection with the Fund's inception and initial public offering. As a result, due to the nature of the security interest provided by Second Cup and the fact that no agreements or consents were sought, the security interest 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 granted by Second Cup to MarksLP will be subject to the rights of the landlords under the leases. 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 MarksLP.

Negative Covenants in the General Security Agreement

Second Cup has covenanted in the General Security Agreement, among other things, that it will not (and will not permit any of its subsidiaries to), without the prior written consent of MarksLP:

1. assume, incur or permit to exist or otherwise become liable upon any indebtedness or obligation for or in respect of borrowed money (including letters of credit, bankers' acceptances, guarantees, capital leases and the unpaid purchase price of property purchased by Second Cup), except indebtedness ("Permitted Indebtedness"):
 - (i) in an aggregate principal amount outstanding at any time of not more than the dollar amount which is equal to 2.5 multiplied by Second Cup's EBITDA (for this purpose, capital leases, but not operating leases, shall be treated as debt and, for greater certainty, guarantees shall be treated as debt as provided in paragraph 3 below) for the most recently completed four quarterly accounting periods of Second Cup and/or its predecessor (excluding the impact of any sale of the Units during such period); and
 - (ii) in respect of a security interest referred to in paragraph 2 below;
2. assume, create, grant or permit to exist, without the prior written consent of MarksLP, any security interest on any of the property of Second Cup (other than on certain excluded assets of Second Cup) or any of its subsidiaries that ranks equal or prior to the security interest granted to MarksLP, other than:
 - (i) purchase money security interests limited to the property purchased;
 - (ii) security interests existing as at the completion of the initial public offering and security interests created in connection with the construction, renovation, equipping, fixturing, furnishing and opening of a Second Cup café;
 - (iii) leases in respect of furniture, fixtures, equipment and similar items up to \$350,000 per lease, to be adjusted upward in accordance with the Consumer Price Index;
 - (iv) security interests on any assets of Second Cup to secure indebtedness or obligations permitted under paragraph 1 above; and
 - (v) a security interest on the Units held by Second Cup so long as
 - (A) recourse in respect of such indebtedness is limited to the Units securing such indebtedness and proceeds thereof, and
 - (B) the provisions of the Governance Agreement are complied with;

3. guarantee or otherwise become liable in respect of the obligations of another person, other than a Second Cup franchisee with respect to the franchisee's obligations (including rent) to its landlord; provided that the aggregate amount of such guarantee shall form part of and be included (without double counting) in the calculation of Permitted Indebtedness described under paragraph 1 above;
4. pay any dividends or redeem or repurchase any of its shares or otherwise make, directly or indirectly, any distribution (whether by dividend, distribution of property, repurchase of shares, bonus or other payment of any kind whatsoever, other than regular compensation) to any of its direct or indirect shareholders unless at the time of such payment, redemption, repurchase or other distribution, all amounts of the Royalty that are due and payable at the time of such payment, redemption, repurchase or other distribution have been paid, except distributions paid by a wholly-owned direct or indirect subsidiary of Second Cup to its parent corporation;
5. make any investment in a business or the property of another person carrying on business, other than: (a) repurchases of economic interests in a direct or indirect wholly-owned subsidiary of Second Cup that has granted a security interest in all of its present and after-acquired property to MarksLP as contemplated herein and that is related to specialty coffee cafés that are, or may at MarksLP's option, become part of the Royalty Pool, provided, in each case, that all amounts of the Royalty and all interest payments that are due and payable at the time of such investment have been paid, or (b) cash equivalent (money market) investments;
6. except as permitted under the Governance Agreement or the Licence and Royalty Agreement, directly or indirectly, consolidate, amalgamate or merge with, or sell, lease or otherwise dispose of all or substantially all of its assets (whether now owned or hereafter), or enter into any arrangement or reorganization having a similar effect, except internal reorganizations, provided that such internal reorganizations would not reasonably be expected to have a material adverse effect on Second Cup or its ability to meet its obligations to pay the Royalty;
7. enter into any sublicense agreement with any other person other than a Second Cup franchisee or a wholly-owned subsidiary of Second Cup which has provided a guarantee to further secure the obligations of Second Cup under the Licence and Royalty Agreement; or
8. dispose of the shares or other interests in any subsidiary that owns a Second Cup café in Canada or that has granted a security interest in all of its property to MarksLP, except to Second Cup or another wholly-owned subsidiary of Second Cup that has granted a security interest in all of its property to MarksLP.

MarksLP has agreed to subordinate its security interest under the General Security Agreement to any security interest permitted by paragraph 2 above.

Certain Remedies

Upon the occurrence and continuance (after agreed cure periods) of an event of default by Second Cup under the Licence and Royalty Agreement or the General Security Agreement, including the failure to pay the Royalty, MarksLP is entitled to a number of remedies, both at law and under those agreements. The principal remedies are as follows:

- MarksLP could commence legal proceedings against Second Cup to collect the amount of the Royalty and other amounts then due;

- MarksLP could give notice to the Second Cup franchisees operating a Second Cup café in Canada of the assignment to MarksLP of the amounts payable under the franchise agreements with Second Cup and require those Second Cup franchisees to pay these amounts to MarksLP;
- MarksLP could terminate the Licence and Royalty Agreement and, in so doing, would be required to provide for reasonable transition arrangements; and
- MarksLP could appoint, or apply to the court for the appointment of, a receiver to take possession of the assets of Second Cup over which MarksLP has a security interest and carry on the business of Second Cup until the payments, or other arrangements satisfactory to MarksLP, are made. The receiver could, if the payments are not made, sell the assets of Second Cup over which MarksLP has a security interest.

In the event of a material default by Second Cup, the Licence and Royalty Agreement requires Second Cup to immediately pay to MarksLP, as additional security, an amount equal to the Royalty payable to MarksLP by Second Cup for 12 months. In the event of the bankruptcy or insolvency of Second Cup, the Licence and Royalty Agreement provides that Second Cup is required to prepay the Royalty by paying MarksLP as liquidated damages the present value at that time of the Royalty calculated for the remaining term of the Licence and Royalty Agreement.

Until the Royalty is brought into good standing, or MarksLP agrees to other arrangements, and subject to applicable law (including laws governing bankruptcies and reorganizations) and rights in agreements with third parties in the case of a default, a receiver appointed by MarksLP or by the court could continue to operate the business of Second Cup and its affiliated entities over which MarksLP has a security interest.

The exercise of these remedies would be subject to the rights of third party franchisees and parties having prior ranking claims.

The foregoing is only a summary of the remedies available to MarksLP in the event of a default by Second Cup under the Licence and Royalty Agreement and General Security Agreement. Reference should be made to the Licence and Royalty Agreement and the General Security Agreement for the full text of these remedies. See “Material Contracts”.

Operating Covenants of Second Cup in the Licence and Royalty Agreement

Under the Licence and Royalty Agreement, Second Cup is obligated to, among other things:

- operate and conduct its business (and cause the Second Cup franchisees to conduct business) in at least the manner and to at least the standards that Second Cup’s business is presently conducted and operated;
- use reasonable commercial efforts to collect all fees and other amounts payable to Second Cup under franchise agreements with Second Cup franchisees in Canada;
- monitor the compliance of Second Cup franchisees in Canada with the trade-mark and character and quality standards set under Second Cup franchise or similar agreements;
- enforce the observance and performance of franchise agreements by Second Cup franchisees in Canada in a manner that is consistent with good and prudent business practices; and

- not, without the consent of GP Trust, acting as the general partner of MarksLP, which will not be unreasonably withheld or delayed, amend the terms of any Second Cup franchise agreement in Canada such that:
 - royalty revenues under a franchise agreement are calculated in a manner that is inconsistent with the present practices of Second Cup including, without limitation, by reducing the percentage of revenues that are payable by Second Cup franchisees; or
 - franchisees are obligated to carry on business in a manner that is materially inconsistent with historical Second Cup practice.

Adjustments to the Royalty Pool and Payments Made Under the Licence and Royalty Agreement

Second Cup intends to continue to expand the number of Second Cup cafés in Canada that will be included in the Royalty Pool. At the same time, management expects that certain Second Cup cafés will be closed from time to time, in accordance with historical practice. Pursuant to the Licence and Royalty Agreement, the Royalty Pool will be adjusted annually in order to account for the opening and closing of Second Cup cafés.

As described below, an increase in the number of Second Cup cafés in the Royalty Pool may result in the payment by MarksLP to Second Cup of an additional amount meant to reflect the value to MarksLP of the increase in System Sales and the corresponding increase in the Royalty. Conversely, a reduction in the number of Second Cup cafés in the Royalty Pool may result in the payment by Second Cup to MarksLP of an amount meant to reflect the reduction in System Sales and the corresponding decrease in the Royalty.

The following is only a summary of the manner in which these adjustments are to be calculated and implemented. Reference should be made to the Licence and Royalty Agreement for the full text of these adjustment provisions. See “Material Contracts”.

Adjustments to the Royalty Pool

As of December 31, 2007, 351 Second Cup cafes were included in the Royalty Pool of which, 342 were active cafes. The Royalty Pool is adjusted annually, on January 1 of each year (the “Adjustment Date”), to include Second Cup cafés that, on November 1 of the previous year, had been open for at least 60 days and which were not previously included in the Royalty Pool (“Additional Cafés”). At the same time, the Royalty Pool is adjusted to remove Closed Cafés. Following the Adjustment Date, for the purposes of calculating the Royalty, System Sales will be determined based on Second Cup cafés included in the Royalty Pool following such adjustment. See “— January 1, 2008 Adjustment to Royalty Pool” and “— January 1, 2009 Adjustment to Royalty Pool”

Adjustments if there are Additional Cafés but no Closed Cafés

If System Sales increase due to the inclusion of Additional Cafés in the Royalty Pool, the amount of the annual Royalty payable to MarksLP thereafter will be expected to increase. As a result, on an Adjustment Date, if Additional Cafés are added to the Royalty Pool and there are no Closed Cafés, MarksLP will pay to Second Cup an amount meant to reflect the value to MarksLP of that future increase in System Sales (as defined below) and the corresponding increase in the Royalty. This amount is used as a basis for calculating the Determined Amount. The Determined Amount is equal to 92.5% of the amount of the additional System Sales for the 52-week period commencing on the Adjustment Date resulting from the inclusion of the Additional Cafés to the Royalty Pool (the “Additional System Sales”) multiplied by the Royalty rate divided by the Unit Yield.

$$\text{Determined Amount} = 92.5\% \times \left[\frac{\text{Additional System Sales of Additional Cafés} \times \text{Royalty rate}}{\text{Unit Yield}} \right]$$

Adjustments and Make-Whole Payments if there are Closed Cafés

If there are Closed Cafés, the amount of the Royalty payable to MarksLP by Second Cup can be expected to decrease both in the year in which the permanent closure of the café occurred and in subsequent years. As a result, the Licence and Royalty Agreement provides for the following adjustments to be made.

First, an amount reflecting the reduction in the Royalty resulting from the decrease in System Sales will be paid by Second Cup to MarksLP (the “Make-Whole Payment”) commencing from the month immediately following the date of permanent closure of a Closed Café. Such amount will be calculated based on the System Sales generated by the Closed Café for the first 52-week period in which the Closed Café was included in the Royalty Pool multiplied by the Royalty rate. In the event that a Closed Café was not operating for a full 52-week period while in the Royalty Pool, the Make-Whole Payment amount will be calculated based on estimated System Sales for a full 52-week period forecasted by management of Second Cup on the basis of assumptions considered reasonable by the Governance Committee of GP Inc. One-twelfth of the Make-Whole Payment will be paid every month for the remainder of the year in which the permanent closure occurred, up to the next Adjustment Date (pro rated for partial months).

Subsequently, on each Adjustment Date, the Make-Whole Payment will be taken into account in calculating the adjustment to be made to the Royalty Pool on that Adjustment Date. If Additional System Sales of the Additional Cafés to be added to the Royalty Pool are sufficient to offset the lost System Sales from the Closed Cafés for the first 52-week period in which the Closed Cafés were included in the Royalty Pool, MarksLP will be required to pay the applicable Determined Amount to Second Cup, although the amount of the Determined Amount will be reduced to account for the Closed Cafés. If the System Sales generated by the Closed Cafés for the first 52-week period in which the Closed Cafés were included in the Royalty Pool exceed the Additional System Sales of Additional Cafés to be added to the Royalty Pool, the Make-Whole Payment will be carried over, and continue to be paid for subsequent years, until on an Adjustment Date, Additional System Sales of Additional Cafés are sufficient to offset the System Sales attributable to all Closed Cafés. In these circumstances, the amount of the Make-Whole Payment will be reduced to account for any expected increase in the Royalty related to the Additional System Sales of Additional Cafés to be added to the Royalty Pool as at such Adjustment Date.

The following formula reflects the manner in which payments to be made by MarksLP to Second Cup will be determined where there are both Additional Cafés and Closed Cafés as of an Adjustment Date:

$$\text{Determined Amount} = 92.5\% \times \left[\frac{(\text{Additional System Sales of Additional Cafés} - \text{System Sales of Closed Cafés}) \times \text{Royalty rate}}{\text{Unit Yield}} \right]$$

Payment of the Determined Amount

Payments by MarksLP to Second Cup of the Determined Amount may, at MarksLP’s election, be satisfied: (i) by the transfer of newly-issued Units based on the Current Market Price of such Units as at the Adjustment Date on which the first instalment (referred to below) is paid, or (ii) in cash. If MarksLP elects to pay the Determined Amount in cash, any Units that may be issued by the Fund for the purpose of financing, or refinancing, directly or indirectly, this cash payment will be subject to Second Cup’s pre-emptive right to purchase Units issued by the Fund. See “Description of the Fund — Pre-Emptive Right”.

If the Current Market Price of the Units is less than \$10.00 and MarksLP elects to pay the Determined Amount in cash, MarksLP may subscribe for Units which will be allocated to Second Cup (at a per Unit subscription price equal to the then Current Market Price of the Units) for an aggregate subscription price equal to the Determined Amount.

MarksLP will pay the Determined Amount in two instalments, each payable on an Adjustment Date. For the first instalment, Second Cup will forecast the expected Additional System Sales that will be generated for the first 52-week period that the Additional Cafés are included in the Royalty Pool (the “Forecast Additional System Sales of Additional Cafés”). MarksLP will pay, on the Adjustment Date, 80% of the estimated Determined Amount calculated using such forecast in accordance with the formulas described above. On the following Adjustment Date, the actual Determined Amount will be calculated for the previous 52-week period and will be compared to the estimated Determined Amount. If actual Additional System Sales of the Additional Cafés exceed 80% of Forecast Additional System Sales of Additional Cafés, MarksLP will be required to pay the second instalment on such Adjustment Date. In addition, MarksLP will be required to pay to Second Cup the amount of any distributions or other amounts that would have been received by Second Cup or interest that would have been earned by Second Cup had the second instalment been paid on the same date as the first instalment. If, however, actual Additional System Sales of Additional Cafés are less than 80% of Forecast Additional System Sales of Additional Cafés, Second Cup will have received, by virtue of the first instalment, an overpayment of the Determined Amount. Although it is not expected to be a frequent occurrence, if Second Cup receives an overpayment of the Determined Amount, it will refund the amount of the overpayment to MarksLP as well as distributions or other amounts received by Second Cup from the Fund or interest earned by Second Cup in respect of such overpayment.

MarksLP, the Fund and Second Cup have entered into the Subscription Agreement to ensure that MarksLP has the Units and/or cash necessary to fund its obligations in respect of the inclusion of Additional Cafés in the Royalty Pool under the Licence and Royalty Agreement.

January 1, 2008 Adjustment to Royalty Pool

On January 1, 2008, the actual sales of the 11 cafés added to the Royalty Pool on January 1, 2007 for the calendar year ended December 31, 2007 were \$4,961,000 as compared to the original estimate of \$4,555,000. As a result, a final adjustment of \$295,000 was satisfied by MarksCo purchasing and delivering 32,412 additional units of the Fund to Second Cup. In accordance with the Licence and Royalty Agreement, MarksCo also made a cash payment of \$35,000 to Second Cup, representing the cash distributions that would have otherwise been earned by Second Cup on the 32,412 additional units above had they been issued on January 1, 2007.

Also, on January 1, 2008, 15 cafés were added to the Royalty Pool. The sales of these 15 cafés added to the Royalty Pool had been estimated at \$6,750,000 for the 2008 calendar year. These were offset by \$3,513,000 in sales of 9 cafés permanently closed from the Royalty Pool during the year. As a result of this adjustment to the Royalty Pool, the Fund, through MarksLP, was required to make a payment of \$1,347,000 to Second Cup, representing 80% of the obligation based on forecasted sales. On January 1, 2008, the Fund issued 143,712 Units to MarksLP which were then delivered to Second Cup to satisfy this obligation. As a result of this adjustment, the total number of cafés in the Royalty Pool increased from 351 to 357.

January 1, 2009 Adjustment to Royalty Pool

On January 1, 2009, the actual sales of the 15 cafés added to the Royalty Pool on January 1, 2008 for the calendar year ended December 31, 2008 were \$6,433,000 as compared to the original estimate of \$6,750,000. As a result, a final adjustment of \$172,000 was satisfied by MarksLP purchasing and delivering 18,312 additional Units of the Fund to Second Cup. In accordance with the Licence and Royalty Agreement, MarksLP also made a cash payment of \$21,000 to Second Cup, representing the cash distributions that would have otherwise been earned by Second Cup on the 18,312 additional Units above had they been issued on January 1, 2008.

Effective January 1, 2009, 18 cafés with estimated total annual sales of \$7,209,000 in 2008 were vended in to the Royalty Pool. During 2008, 16 cafés having total sales of \$6,194,000 were permanently closed and removed from the Royalty Pool. This resulted in an estimated net sales increase for the Royalty Pool of \$1,015,000. As a result of this adjustment, the total number of cafés in the Royalty Pool as at January 1, 2009 was 359.

The estimated net sales increase from this adjustment would result in additional annual royalty revenues to the Fund of \$19,000. The initial payment by MarksLP to Second Cup for these additional royalty revenues is \$190,000. The initial payment is 80% of what will be owed by MarksLP to Second Cup based on the estimated system sales of the 18 cafés vended in to the Royalty Pool. MarksLP elected to satisfy this payment through a cash payment of \$190,000. A final adjustment payment will be made on January 1, 2010 based upon the actual sales of the 18 new cafés during 2009.

Second Cup has advised the Fund that two new cafes were opened subsequent to September 2, 2008, bringing the total number of cafés opened in 2008 to 12. These two cafés will be eligible for inclusion in the Royalty Pool effective January 1, 2010, together with any cafes that are opened in 2009 prior to September 2, 2009.

Deferrals

During the final quarter of 2008 an agreement was reached between MarksLP and Second Cup whereby the payment of certain royalties for 2008 was deferred. This deferral (which is not included in distributable cash) which amounted to \$573 (\$0.058 per unit) was requested by Second Cup to deal with a cash shortfall it experienced resulting from Second Cup's commitment to open new café locations made prior to the slowdown of the economy; the requirement for Second Cup to take back café locations from franchisees that were underperforming; and operational difficulties including restructuring costs encountered as a result of the deterioration of economic conditions and the reduction in consumer spending.

New Trade-Marks

Second Cup from time to time develops additional trade-marks for use in Canada. Those trade-marks that are related to the Second Cup Marks or are for use in connection with Second Cup cafés in Canada are assigned to MarksLP for no additional cost and become part of the Second Cup Marks. As a result, the Licence permits Second Cup to use any or all of such trade-marks (including for the purpose of trade names and domain names) in accordance with the terms and conditions of the Licence and Royalty Agreement. See "Management and Corporate Governance — The Second Cup Marks".

MANAGEMENT AND CORPORATE GOVERNANCE OF GP INC

The business of MarksLP is managed and supervised by GP Trust, its general partner. The sole trustee of GP Trust is GP Inc., which is managed and supervised by its board of directors. Although the Fund owns all of the MarksLP limited partnership units directly and all of the general partnership units indirectly through GP Trust, the Fund has no active day-to-day role in MarksLP's management. The Governance Agreement provides for various matters relating to the governance of GP Inc., including those described below.

Directors of GP Inc.

The board of directors of GP Inc. currently consists of seven individuals. Second Cup has nominated three directors and the Fund has nominated four directors. Each director of GP Inc. nominated by the Fund must be "independent" of Second Cup within the meaning of Multilateral Instrument 52-110 — *Audit Committees*. Second Cup's entitlement to nominate three directors of GP Inc. is subject to Second Cup and the Related Parties (as defined below) holding 10% or more of the Units or securities convertible or exchangeable into Units. As at March 9, 2009, Second Cup and the Related Parties held 1,091,808 Units, representing approximately 11% of the Fund's issued and outstanding Units.

The name, municipality of residence, position with GP Inc., principal occupation and period of service of the Fund's four nominees as directors of GP Inc. are set out below.

<u>Name and Municipality of Residence</u>	<u>Position(s) with GP Inc.</u>	<u>Principal Occupation</u>	<u>Service as Director/Officer</u>
David Bloom <i>Toronto, Ontario, Canada</i>	Director and Chairman of the Board of Directors	President, DGRB Consultants Inc.	Since December 2, 2004
Michael Rosicki <i>Oakville, Ontario, Canada</i>	Director	President, Wexford Group Inc.	Since December 2, 2004
Raymond Guyatt <i>Westmount, Québec, Canada</i>	Director	Retired Business Executive	Since December 2, 2004
Bryna Goldberg <i>Toronto, Ontario, Canada</i>	Director	Retired Business Executive	Since July 9, 2007

The name, municipality of residence, position with GP Inc., principal occupation, and period of service of each of Second Cup's nominees as directors of GP Inc. are set out below.

<u>Name and Municipality of Residence</u>	<u>Position(s) with GP Inc.</u>	<u>Principal Occupation</u>	<u>Service as Director/Officer</u>
Gabriel Tsampalieros <i>Markham, Ontario, Canada</i>	Director, President and Chief Executive Officer	Chairman and Chief Executive Officer of Second Cup	December 2, 2004 to July 9, 2007; and since February 14, 2008
Stacey Mowbray <i>Toronto, Ontario, Canada</i>	Director	President, Second Cup and Second Cup Coffee Co.	Since March 11, 2008
James Anas <i>Burlington, Ontario, Canada</i>	Director	Executive Vice Chairman of Second Cup and S.C. Coffee Co. since 2001.	Since April 2, 2007

The following is a summary biography of each of the directors of GP Inc. other than Mr. Tsampalieros, Mrs. Mowbray and Mr. Anas, whose biographies appear under “Business of Second Cup — Management”.

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, a former Chairman of the Retail Council of Canada and a former director of The National Association of Chain Drug Stores in U.S.A. Mr. Bloom is a former director of Canada Trust and Sterling Centrecorp Inc. and trustee of Sleep Country Canada Income Fund. He is a former director of Sick Kids Hospital and the Toronto International Film Festival. Mr. Bloom serves as a director of Swiss Herbal Remedies Limited. Mr. Bloom holds a Bachelors degree (BSc.) in Pharmacy from the University of Toronto.

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 Metro Inc. and Santa Maria Foods Inc. He has held senior positions with various industry and charitable associations, including past member of the Board of the Hospital for Sick Children's Foundation (SickKids Foundation), past Chairman and co-founder of Kids Help Phone, past Chairman of the Food Products Manufacturers of Canada and past President of the Ontario Grocery Industry Foundation

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.

Bryna Goldberg

Bryna Goldberg is a retired business executive. Until her retirement in 2007, Ms. Goldberg was Executive Vice President, Legal Affairs, General Counsel and Secretary of Shoppers Drug Mart Inc., where she was employed for over 20 years. She played a key role in transitioning Shoppers to a new ownership structure including through a leveraged buy-out transaction and subsequent initial public offering. Ms. Goldberg is a lawyer and a member of the Law Society of Upper Canada.

Governance Committee

The board of directors of GP Inc. has established a Governance Committee consisting of Messrs. Bloom, Guyatt and Rosicki, each of which is “independent” within the meaning of Multilateral Instrument 52-110 — *Audit Committees*. The role of the Governance Committee involves:

- overseeing the operations of GP Inc., including the payments to be made by Second Cup to MarksLP under the Licence and Royalty Agreement;
- considering and providing a recommendation on any matter involving a material conflict of interest between Second Cup, S.C. Coffee Co., MarksLP and the Fund (including any matter involving the Acquisition Agreement, the Governance Agreement, the Licence and Royalty Agreement, the Subscription Agreement, the Administration Agreement, the General Security Agreement and the Second Cup Marks) before any such matter is approved by the board of directors of GP Inc.;
- annually reviewing: (i) the operations of Second Cup, including its business plans and prospects for the ensuing year, (ii) the performance of management of Second Cup with reference to their commitments and responsibilities under the Licence and Royalty Agreement, and (iii) adjustments to the Royalty to be made pursuant to the Licence and Royalty Agreement;
- developing GP Inc.’s approach to corporate governance issues and compliance with applicable laws, regulations, rules, policies and orders with respect to such issues;
- advising the board of GP Inc. in filling vacancies on the board; and
- periodically reviewing the composition and effectiveness of the board and the trustees of the Fund and the contribution of individual directors and trustees of the Fund.

Insider Reporting

Based upon an analysis of the structure of the Fund and applicable law, the following individuals are “insiders” of the Fund and, as such, will have reporting obligations as insiders under the securities laws of the various provinces and territories of Canada, including the obligation to file “insider trading reports” under those laws:

- the trustees and senior officers of the Fund; and
- the directors and senior officers of GP Inc. and Second Cup.

Right of First Offer

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 relating to the right of first offer described below to take into account the purchase of Second Cup by S.C. Coffee Co.

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 Second Cup nor any related party (within the meaning of Ontario Securities Commission Rule 61-501 – Insider Bids, Issuer Bids and Going Private Transaction) which includes S.C. Coffee Co., its affiliates, Mr. Tsampalieros and his heirs (collectively, “Related Parties”) 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 the Related Parties. 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, 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, 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, or the relevant 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, or the relevant Related Party if the consideration payable in respect of the Change of Control Transaction were immediately distributed to, or paid to, Second Cup, or the relevant 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 Second Cup or the relevant 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 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. or any other relevant Related Party would own, directly or indirectly, more than 50% of the combined voting power of the then outstanding voting securities of the corporation and/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. and/or other relevant Related Party or by a trustee or other fiduciary holding securities solely for the benefit of S.C. Coffee Co. or other relevant Related Party or by employees of Second Cup or its affiliates, provided that in all cases, any such transferee of shares from S.C. Coffee Co. or other relevant Related Party 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.

The Second Cup Marks

MarksLP currently owns the Second Cup Marks, which are trade-marks that are registered or the subject of pending applications for registration under the *Trade-marks Act* (Canada), and other unregistered trade-marks used by Second Cup in connection with its business in Canada. The Second Cup Marks also include the methods, systems and procedures for the operation of Second Cup cafés using certain types of equipment, supplies, ingredients, recipes, merchandising and advertising, and business techniques in Canada.

Pursuant to the Licence and Royalty Agreement, Second Cup has the Licence to use the Second Cup Marks in all provinces and territories of Canada excluding the territory of Nunavut, for a period of 99 years from the date of the Licence and Royalty Agreement (November 26, 2004). Second Cup may from time to time develop additional trade-marks. If these trade-marks are related to the Second Cup Marks or are for use in connection with the Second Cup cafés in Canada, they will be assigned to MarksLP for no additional cost and will become part of the Second Cup Marks, and Second Cup will be free to use any or all of such trade-marks (including for the purpose of trade names and domain names) in accordance with the terms and conditions of the Licence and Royalty Agreement.

The Second Cup Marks do not include the rights outside of Canada to any trade-marks or trade names used by Second Cup or any affiliated entities in their business, and in particular they do not include the rights outside of Canada to the trade-marks registered or pending registration under the *Trade-marks Act* (Canada).

The following are some of the Second Cup Marks that are held by MarksLP: Second Cup, The Second Cup[®], Second Cup Coffee Co., Second Cup Café Inc., Coffee College[®], The Ultimate Coffee Experience[®], Caramel Corretto[®], Chillatte[®], Chiller[®], Fruizzi[®], Tiamo[®], First Thing, Ma Matière Première, Nouvelles Express[®], Passport[®], Profitmaker[®], Steamy Monday[®], Take A Second For Yourself[®], The Second Scoop[®], Treat-a-Friend[®], What's Brewing[®], Where The World Stops, For Just a Second[®], Chocolate Lovers' Lattes[®], Chocolate Lovers[®], Crème Brûlée Ristretto[®], Early Edition Blend[®], Encanto[®], Icepresso[®], Jumpin' Juice[®], Les Amoureux Du Chocolat[®], Mocca Mandarino[®], Paradiso[®], White Mocca[®], Amoureux de Choco*lattes[®], Icepresso Chiller[®], Veneto Blend[®] and related design marks.

BUSINESS OF SECOND CUP

General

Second Cup is Canada's largest franchisor of specialty coffee cafés and second largest retailer of specialty coffee, as measured by number of cafés. Since the opening of its first café in suburban Toronto in 1975, Second Cup's network has grown to 361 cafés across Canada as at December 27, 2008, of which 334 are franchised and 27 are company-owned. For the 52-week period ended December 27, 2008, Second Cup's system sales were \$200,977,000.

Second Cup cafés offer a wide selection of brewed specialty coffees, hot and cold espresso-based beverages, blender drinks, specialty teas and hot chocolates for in-store, take-out and drive-thru consumption. In addition to coffee-based products and other beverages, Second Cup cafés carry a variety of complementary products, including pastries, muffins, cookies, coffee accessories and coffee-related gift items, with some cafés also offering sandwiches and salads.

What is Specialty Coffee?

The term “specialty coffee”, as used in reference to coffee production, refers to coffee produced from premium quality Arabica coffee beans prepared according to exacting standards. Typically, specialty coffee is sourced from the top 10% of the world’s Arabica coffee bean production and must satisfy stringent grading and sorting standards, which results in a distinct, tangible difference in the taste profile of specialty coffee as compared to commodity ground coffee and instant coffee. The term “specialty coffee”, as used in reference to the retail market for coffee products, is increasingly being used as a general term to describe the sector within the coffee market characterized by cafés offering an upscale retail experience and premium coffee products such as espresso-based beverages, blender drinks and iced coffee beverages.

History

Second Cup opened its first café in a shopping mall in suburban Toronto in 1975. Throughout the late 1970s and 1980s, the chain experienced rapid growth. By 1989, Second Cup had approximately 130 cafés, with shopping malls and office tower locations comprising over two thirds of its café network, and sales consisting mainly of brewed coffee, whole bean coffee and coffee-related merchandise.

Throughout the 1990s and early 2000s, Second Cup focused on extending its core product offering to include espresso-based beverages, iced beverages, blender drinks, and complementary food items such as pastries, muffins and cookies. During this period, Second Cup also continued to expand by opening cafés in street-front locations and power and strip centres, as well as in non-traditional retail locations such as hospitals, universities, airports, train stations and other transportation venues. In 1993, Second Cup completed an initial public offering, which resulted in Second Cup’s common shares being listed on the TSX, and in 1996, Cara acquired approximately 36% of the then outstanding shares of Second Cup. Beginning in 2000, Second Cup embarked on a number of new initiatives to improve its competitive position, which resulted in fewer new cafés being opened and the closing of underperforming locations. In 2002, Cara acquired the remaining outstanding shares of Second Cup, and as a result, Second Cup became a wholly-owned subsidiary of Cara and Second Cup’s common shares were subsequently delisted from the Toronto Stock Exchange.

In December 2004, Second Cup sold the Second Cup Marks to the Fund and entered into the License and Royalty Agreement. Second Cup retained a 15% interest in the issued and outstanding Units of the Fund.

On November 14, 2006, Mr. Tsampalieros, the Chairman and Chief Executive Officer of Second Cup and former Chief Executive Officer of Cara, purchased all of the issued and outstanding shares of Second Cup from Cara through S.C. Coffee Co., a corporation controlled by him. The transaction excluded the Fund 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 held directly by Cara which were not transferred to the Fund in connection with the Fund’s initial public offering in December 2004. Cara continues to operate a number of Second Cup cafés as a franchisee under currently existing franchise agreements.

By December 27, 2008, Second Cup has grown to 361 cafés in Canada and had system sales of \$200,977,000 for the 52-week period ended December 27, 2008.

Competitive Conditions

The Canadian specialty coffee market is highly competitive and highly fragmented, with few barriers to entry. Management estimates that independent specialty coffee retailers constitute approximately 50% of specialty coffee cafés in Canada as measured by number of locations. Three specialty coffee retailers have a significant presence in Canada: Second Cup, Starbucks and Timothy's. Starbucks and Timothy's operate approximately 1017 and 101 locations in Canada, respectively, based on information obtained from the websites of these retailers as at February 23, 2009. The remainder of the branded specialty coffee chains in Canada consist of smaller, mainly regional, participants such as A.L. Van Houtte, Blenz, Café Dépôt, Café Suprême, Café Presse and Williams Coffee Pub.

Management is not aware of any reliable third party comparable data on the trends affecting the Canadian specialty coffee market during the year or the performance of Second Cup's competitors in the Canadian specialty coffee market during this period.

In addition to specialty coffee retailers, there are a number of "mainstream" coffee retail chains, such as Tim Horton's, Coffee Time and Country Style, that compete with Second Cup in the Canadian coffee market.

With 361 cafés as at December 27, 2008, Second Cup has the second largest number of specialty coffee retail outlets in Canada.

The Second Cup Café System

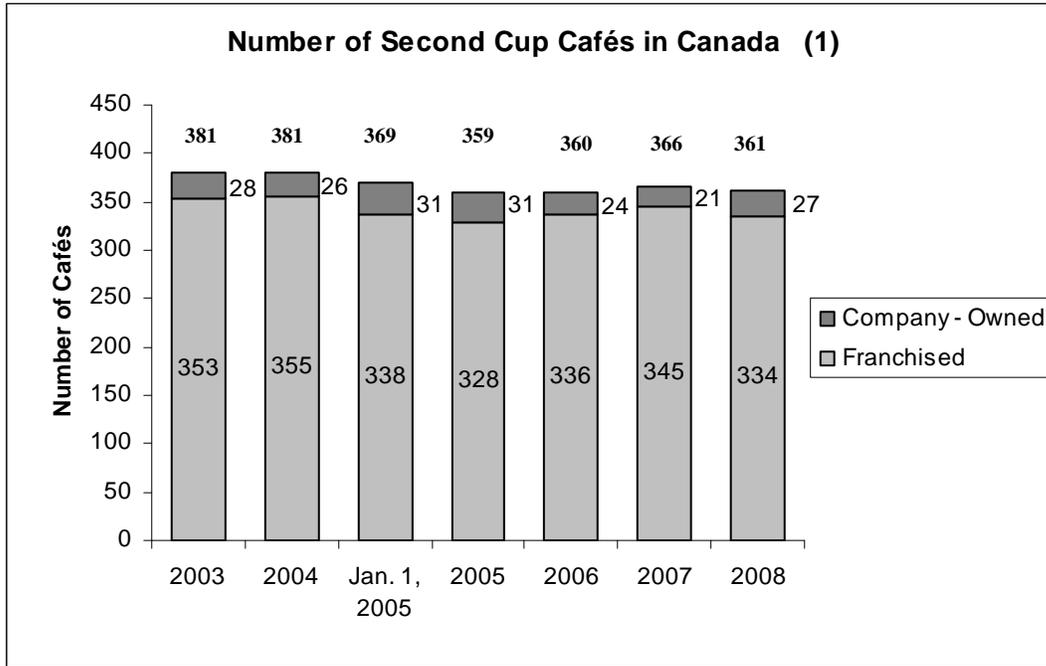
The Second Cup Concept

The Second Cup brand has a high degree of retail visibility, with locations in high-traffic areas in almost every major city in Canada. Second Cup is a franchise-driven business focused on delivering an "Oasis Experience" to its customers, which includes offering products that are "best in class" and focused on developing innovative, market leading products that make Second Cup cafés a destination of choice for Canadian coffee drinkers. Second Cup is focused on continuing the growth of the Second Cup brand through a combination of growing existing café sales and adding new cafés to the Second Cup network.

Number of Locations

Since 1975, there has been substantial growth in the number of Second Cup cafés in Canada. Following periods of steady expansion in the 1970s and 1980s, Second Cup experienced rapid growth in net new cafés from 1997 to 2000, due in part to Cara's initial investment in Second Cup in 1996. Following this investment, Cara and Second Cup entered into a strategic partnership pursuant to which Cara agreed to develop Second Cup cafés in non-traditional retail sites such as "store-in-store", hospital, airport and other venues where Cara or its subsidiaries carried on business. Furthermore, Second Cup was testing this concept in other non-traditional "store-in-store" sites through partnerships with other retailers. Between 1997 and 2000, 87 of these locations were developed (72 by Cara), resulting in a higher level of development than had occurred in previous years. During the same period, 25 of these locations were closed (15 by Cara).

Following this period of rapid expansion, the number of cafés declined marginally as management focused on enhancing the performance of existing cafés, closing non-performing locations and solidifying the competitive position of Second Cup.



Note:

- (1) All figures are as at the end of the respective fiscal period.. For 2003 and 2004, figures are for the 52-week fiscal period ended on the Saturday closest to March 31. For January 1, 2005, figures are for the 40-week period ended January 1, 2005. Second Cup recorded a shortened fiscal period consisting of 40 weeks ended January 1, 2005 as a result of the change in its fiscal year end to coincide with that of the Fund. For 2005 onwards, figures are for the 52-week fiscal period ended the last Saturday of December.

As illustrated in the chart above, the vast majority of Second Cup cafés are franchised. Although Second Cup is a franchise-driven business, company-owned cafés play an important role for Second Cup by providing it with the flexibility to test new products and initiatives, and to train new management and franchisees. Operating company-owned cafés also provides Second Cup with a platform to acquire and remediate under performing franchises and to take advantage of expansion opportunities on a timely basis. These company-owned cafés often will subsequently become franchised.

In addition to focusing on identifying locations for new cafés, Second Cup also carefully monitors the performance of its existing network of franchised cafés and closes under performing cafés on a managed basis. By closing under performing cafés and carefully selecting locations for new cafés, Second Cup seeks to strengthen its café network and increase average sales per café.

Second Cup Café Openings and Closings⁽¹⁾

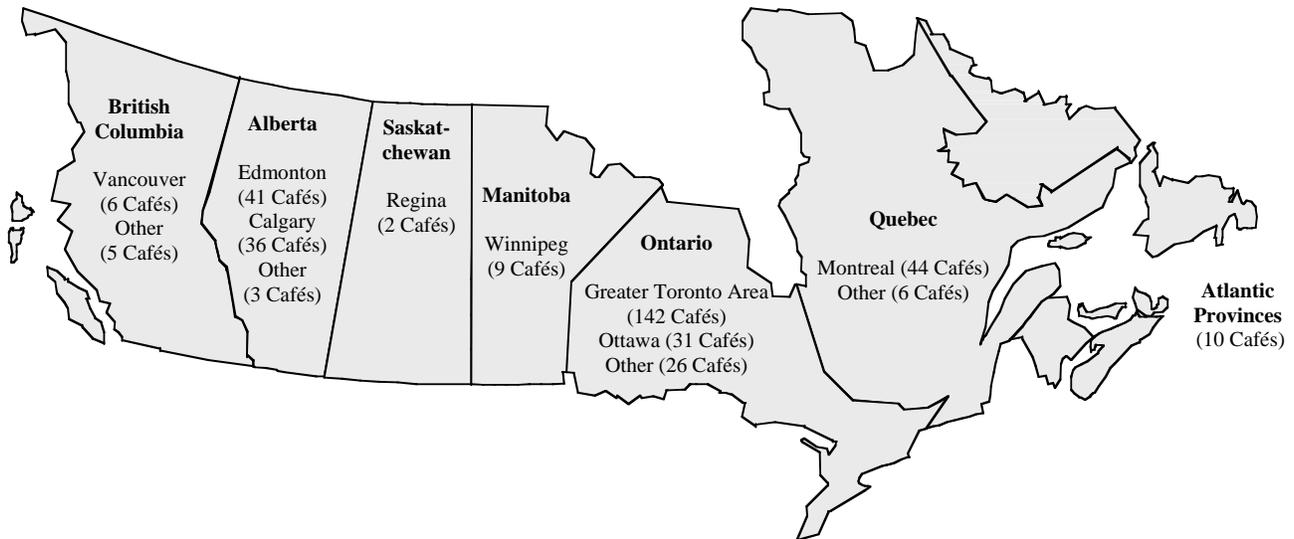
	<u>2003</u>	<u>Mar.</u> <u>2004</u>	<u>Jan.</u> <u>2005⁽²⁾</u>	<u>2005⁽³⁾</u>	<u>2006⁽³⁾</u>	<u>2007</u>	<u>2008</u>
Openings.....	10	12	7	6	16	14	12
Closings.....	17	12	19	16	15	8	17

Notes:

- (1) For 2003 and 2004, figures are for the 52-week fiscal period ended on the Saturday closest to March 31.
- (2) Figures for January, 2005 reflect café openings and closings for the 40-week period ended January 1, 2005. Second Cup recorded a shortened fiscal period consisting of 40 weeks ended January 1, 2005 as a result of the change in its fiscal year to coincide with that of the Fund.
- (3) Figures for 2005 onwards, figures are for the 52-week fiscal period ended the last Saturday of December.

Geographic Presence

Second Cup cafés are geographically dispersed across Canada and are primarily concentrated in large urban centres such as Toronto, Calgary, Montreal, Edmonton, Ottawa and Vancouver. The following map illustrates the geographic distribution of Second Cup cafés in Canada.



S.C. Coffee Co. also operates a number of cafés in the Middle East through master franchise agreements with partners based in Kuwait, Turkey and the United Arab Emirates. These cafés are not operated by Second Cup and do not form part of the Royalty Pool.

Café Types

Second Cup cafés are situated in a wide range of high-traffic, high-visibility locations, consisting of street-fronts, shopping malls, office towers, power and strip centres and non-traditional retail sites such as hospitals, universities, “store-in-store” sites, airports, train stations and other transportation venues. Second Cup café sizes range from 60 square foot cappuccino bars to 2,800 square foot street-front locations with self-contained customer seating areas and outdoor patios.

The following table illustrates the relative mix of location types in the Second Cup café network as at December 31, 2008:

	Number of Cafés	% of Total
Street-Fronts	104	29%
Power and Strip Centres	85	23%
Shopping Malls.....	65	18%
Non-Traditional	70	19%
Office Towers	37	11%
Total.....	<u>361</u>	<u>100%</u>

- *Street-Fronts* — As at December 27, 2008 there were 104 Second Cup cafés operating in street-front locations, representing 29% of all Second Cup cafés in Canada. Street-front cafés average 1,500 square feet and generally contain seating for approximately 15 or more guests, with many also offering external patio seating.
- *Power and Strip Centres* — With the growth of power and strip centres containing “big box” retailers and factory outlet stores, Second Cup has opened an increasing number of cafés in this type of venue. Second Cup currently has 85 cafés operating in power and strip centres, representing 23% of all Second Cup cafés in Canada. Power and strip centre cafés average 1,700 square feet and typically have self-contained seating and external patio areas, with some having drive-thru access as well.
- *Shopping Malls* — There are currently 65 Second Cup cafés operating in shopping malls, representing 18% of all Second Cup cafés in Canada. These cafés average 600 square feet, but can range from 60 square foot cappuccino bars to 1,600 square foot sites.
- *Non-Traditional* — Second Cup has developed a flexible café format that is suitable for non-traditional retail locations, such as hospitals, universities, “store-in-store” sites, airports, train stations and other transportation venues. Second Cup currently operates 70 non-traditional cafés, representing 19% of all Second Cup cafés in Canada, and consisting of 15 cafés located in hospitals, 18 cafés located in educational venues, 14 cafés located in transportation venues and 23 cafés located in “store-in-store” sites, mainly in combination with Harvey’s branded restaurants within Home Depot stores.
- *Office Towers* — Second Cup currently has 37 cafés operating in office towers, representing 11% of all Second Cup cafés in Canada. Office tower cafés average 850 square feet, but can range from 150 square foot cappuccino bars to 1,600 square foot sites. Office tower locations tend to serve a captive customer base of individuals working in the office tower itself.

New Locations

Prior to entering a particular market area, Second Cup conducts a thorough market assessment to determine the optimal number and placement of cafés. Second Cup's location selection process involves a variety of analytical techniques to evaluate factors that impact upon the viability of a proposed location, such as visibility, accessibility and traffic, as well as population density, household income, local competition and the proximity to major activity centres. New lease commitments entered into by Second Cup are carefully screened by management using a projected return on investment analysis. Second Cup believes that careful diligence in evaluating proposed new café locations has contributed to its success and helped minimize the number of under performing cafés in the Second Cup network.

Leases

Almost all Second Cup cafés are operated in leased premises. Second Cup enters into the head lease for each café location and, in turn, enters into a sublease with each of its franchisees. Second Cup believes that entering into such arrangements allows it to maintain greater control over, and flexibility with respect to, the development process and the ongoing goodwill generated at its cafés. The leases that have been entered into by Second Cup are renewable over a staggered period, with an average of approximately 36 leases coming up for renewal annually over the next 10 years. The staggered nature of the lease renewal periods provides Second Cup with the flexibility to address under performing cafés, and ensures the periodic refreshment of the café network as franchisees are required to modernize locations upon the renewal of the franchise agreement.

Products

Second Cup's coffee portfolio includes over 25 types of coffee, including a number of estate coffees, single-origin coffees and a variety of blends exclusive to Second Cup, such as Paradiso[®], Espresso Forte and Second Cup's Holiday Blend. Second Cup has developed a custom five-point roast scale to distinguish each coffee by its degree of roast. Ranging from one to five (with five being the darkest roast), the use of the roast scale permits customers to select the degree of roast that corresponds to their taste preference. Second Cup also offers a wide variety of espresso-based beverages and blender drinks such as espressos, cappuccinos, lattes and iced coffees, and is continually developing variations of these products. Examples of innovative espresso-based beverages and blender drinks developed by Second Cup include the Moccaccino[™], Caramel Corretto[®], Chillatte[®], Frrrozen Hot Chocolate[™] and Icepresso Chiller[™].

In addition to coffee-based products and other beverages, Second Cup cafés carry a variety of complementary products, including pastries, muffins, cookies, coffee accessories and coffee-related gift items, with most cafés also offering sandwiches and some salads. Second Cup introduced breakfast cookies, snack bars, yogurt parfaits, grilled sandwiches, hot breakfast sandwiches and bagels in order to capitalize on the consumer need for convenience and "one stop shopping" on what it has identified as a trend in customer preference towards snacking occasions as a substitute for traditional meals. Second Cup has also put more focus on developing its cafés as a destination for high quality, seasonal merchandise such as that offered during the holiday season.

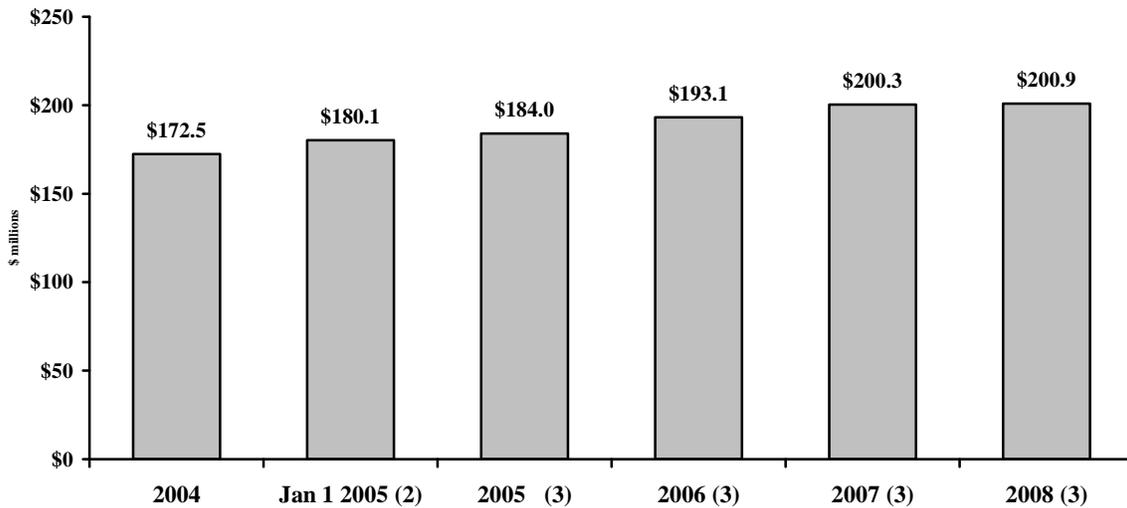
During the fourth quarter of 2005, Second Cup introduced a reloadable payment card (the “Second Cup Café Card”) across its major Canadian markets.

During 2008, Second Cup introduced a new fair-trade and organic certified blend of coffee entitled Cuzco. As well, Second Cup launched a retail whole bean program in café in sealed valve bags merchandised in free standing racks.

Sales

Since 1995, Second Cup’s system sales have more than tripled, from \$71,400.00 for the 52-week period ended June 24, 1995 to \$200,977,000 for the 52-week period ended December 27, 2008. The increase in system sales has been achieved through a combination of growth in the number of cafés, as well as same café sales growth.

System Wide Sales⁽¹⁾



Notes:

- (1) For 2003 and 2004, results are for the 52-week fiscal period ended on the Saturday closest to March 31.
- (2) For January 1, 2005, results shown are for the 52-week period ended January 1, 2005. Second Cup recorded a shortened fiscal period consisting of 40 weeks ended January 1, 2005 as a result of the change in its fiscal year-end to coincide with that of the Fund. Sales for the 40-week period ended January 1, 2005 were \$140,848,000.
- (3) 2005 onwards, figures are for the 52-week fiscal period ended the last Saturday of December.

Same Café Sales Growth and Average Sales per Café

As indicated in the table below, since 2003, annual same café sales growth has averaged approximately 2.7%. Second Cup has achieved such growth by increasing brand awareness and expanding product offerings.

Same Café Sales Growth⁽¹⁾

<u>40 weeks ended January 1,</u>						
<u>2003</u>	<u>2004⁽²⁾</u>	<u>2005⁽³⁾</u>	<u>2005⁽⁴⁾</u>	<u>2006⁽⁴⁾</u>	<u>2007⁽⁴⁾</u>	<u>2008⁽⁴⁾</u>
-0.3%	-0.7%	5.8%	4.6%	6.2%	3.1%	0.2%

Notes:

- (1) For 2003 and 2004, figures are for the 52-week fiscal period ended on the Saturday closest to March 31.
- (2) Second Cup results were significantly impacted by the power outage that occurred in Ontario in August 2003 and the outbreak of SARS in the Greater Toronto Area in April 2003 through June 2003. The financial results for these periods are reflected in fiscal 2004.
- (3) As a result of a change in its fiscal year-end subsequent to the creation of the Fund, Second Cup changed its year-end from the Saturday closest to March 31 to the Saturday closest to December 31. Same Café Growth of 5.8% represents growth for the 40-week period ended January 1, 2005.
- (4) 2005 onwards, figures are for the 52-week fiscal period ended the last Saturday of December.

As a result of achieving positive same café sales growth and focusing on replacing under performing cafés, Second Cup has steadily increased average sales per café from approximately \$420,000 in 1997 to approximately \$565,000 for the 52-week period ended December 27, 2008.

Average Sales per Café⁽¹⁾ (thousands)

<u>January 1,</u>						
<u>2003</u>	<u>2004⁽²⁾</u>	<u>2005⁽³⁾</u>	<u>2005⁽⁴⁾</u>	<u>2006⁽⁴⁾</u>	<u>2007⁽⁴⁾</u>	<u>2008⁽⁴⁾</u>
\$462	\$464	\$489	\$512	\$549	\$565	\$565

Notes:

- (1) For 2003 and 2004, results are for the 52-week fiscal period ended on the Saturday closest to March 31.
- (2) Second Cup results were significantly impacted by the power outage that occurred in Ontario in August 2003 and the outbreak of SARS in the Greater Toronto Area in April 2003 through June 2003. The financial results for these periods are reflected in fiscal 2004.
- (3) As a result of a change in its fiscal year-end subsequent to the creation of the Fund, Second Cup changed its year-end from the Saturday closest to March 31 to the Saturday closest to December 31. This number represents average sales for cafés reporting at least 50 weeks of sales in the 52-week period ended January 1, 2005.
- (4) For 2005 onwards, figures are for the 52-week fiscal period ended the last Saturday of December. This number represents average sales figures for cafés reporting at least 50 weeks of sales in the respective 52-week period.

Seasonality

The first quarter represents the lowest average system sales quarter for the year due to the seasonality of the business. The final quarter, which includes the holiday sales periods of November and December in the retail industry, generally constitutes the highest average system sales quarter of the fiscal year.

Advertising and Marketing

Second Cup's marketing and advertising initiatives are directed toward enhancing the Second Cup brand as well as promoting new products. Second Cup strives to create highly relevant and appealing campaigns that are consistent with the delivery of an "Oasis Experience" provided in its cafés.

Second Cup's marketing program is funded through contributions made by company-owned and franchised cafés to a national co-operative fund, which is administered by Second Cup. All Second Cup cafés are required to remit a fixed percentage of their Gross Revenue (typically 3.0%, depending on the type of café) to this fund. These contributions are used to pay for the development and execution of marketing plans, product research and development, training, in-café improvement initiatives and other programs that benefit the Second Cup system as a whole. Examples of such initiatives include print advertising (magazine and newspaper), outdoor advertising (billboard) and internet marketing. The fund is also applied towards other programs such as Café Card administration.

In addition to contributing to the national co-operative fund, as part of the standard franchise agreement, a franchisee is required to make expenditures on local advertising and promotion of the café in an amount equal to the greater of 2% of the franchisee's annual Gross Revenue and the amount required to be expended pursuant to the provisions of the relevant lease relating to the premises.

Purchasing and Distribution

In order to differentiate its specialty coffee products on the basis of quality, Second Cup has established exacting standards for the sourcing, roasting, packaging, distribution and blending of Second Cup coffee.

Sourcing

Second Cup uses only Arabica coffee beans, which it seeks to buy from the best growers around the globe. Second Cup's green coffee beans are sourced from a diverse set of suppliers in Central America (Costa Rica and Panama), South America (Colombia, Peru and Brazil), Africa (Kenya and Ethiopia) and Indonesia (Sumatra and Java). Management estimates only 1% to 2% of the world's Arabica coffee beans grown each year meet Second Cup's stringent standards for procurement.

Second Cup has spent years developing and nurturing long-term relationships with farmers, co-operatives and processors in order to secure its supply of high quality coffee. These relationships permit Second Cup to offer many coffees on an exclusive basis. One example is La Minita, an estate coffee from Costa Rica regarded by many in the specialty coffee industry as one of the world's finest. Second Cup continuously aims to strengthen its coffee sourcing programs by visiting coffee growing regions on a regular basis, solidifying relationships with suppliers, sharing best practices with growers and finding additional sources of the highest quality coffee.

Second Cup believes that it has developed relationships with a sufficient number of growers to have a secure source of premium coffee beans. However, Second Cup does not enter into long-term or written agreements with its growers. Second Cup also believes that it has established a sufficient number of alternative sources of high quality coffee beans that could be accessed if any coffee currently purchased from existing suppliers became unavailable or economically unviable.

As with all commodities, coffee is subject to fluctuations in price. Second Cup utilizes the services of a major North American coffee & tea company that carries out the purchasing of Second Cup's coffee beans pursuant to a custom coffee processing and distribution agreement described below. Through its agreement with this company, Second Cup typically locks in a portion of its future coffee costs rather than leaving itself exposed to changes in spot prices. By locking in supply costs, Second Cup and its franchisees can better predict costs and availability of key ingredients.

Roasting, Packaging and Distribution

As part of its commitment to deliver roaster-fresh, quality products to each café, Second Cup combines the purchase of high quality coffee beans with high standards for roasting, packaging and distribution. Second Cup has a custom coffee processing and packaging agreement (the "Coffee Processing Agreement") with one of the largest private label coffee and tea manufacturers in North America under which Second Cup has control over the inventory, roasting, and packaging of its coffee products. The Coffee Processing Agreement enables Second Cup to maintain control of its costs and quality standards while leveraging the manufacturing skills of a third party. Second Cup also has a distribution agreement with a national distribution company which provides Second Cup with access to a national system of warehousing and distribution that affords each café continuous availability of freshly roasted coffee and other products. Furthermore, by virtue of these agreements, Second Cup does not have to invest in production facilities, equipment or working capital and can remain focused on the retail aspect of the business.

Quality Control

Second Cup believes that it is essential to maintain quality control standards at every step in the purchasing and distribution process in order to meet customer expectations.

Second Cup's quality control procedures begin upon delivery of green coffee beans, when each shipment is inspected and sampled for compliance with specifications prior to being shipped to Second Cup's dedicated roasting facility. Once inspected, Second Cup coffees are roasted using a "batch roasting" method. This method calls for roasting comparatively small amounts of beans at any one time to maximize the taste profile of each roast. Batch roasting allows Second Cup to ensure superior coffee quality because of the ability to determine the exact temperature and length of time for its various roasts. In addition, by using a dedicated roasting facility, Second Cup is able to maintain a consistently high standard of coffee beans free of contamination from beans of lower quality used by other coffee producers.

Second Cup also adheres to a strict packaging policy. As is standard in the specialty coffee industry, coffee is packaged in special one-way valve bags, which allow gases emitted by the freshly roasted coffee to escape while preventing air or moisture from entering the bag and causing the coffee to become stale. This contrasts with the majority of non-specialty coffee, which is packaged in tins or brick packs in which the coffee cannot be packaged until after gases cease emission and the staling process commences.

Second Cup has also established quality control standards for the blending of its coffee. For in-café preparation, coffee must be used within four hours of being ground and must be sold according to Second Cup's exacting standards for freshness.

Franchise Operations

Second Cup is the largest specialty coffee café franchisor in Canada. It views its franchise system as the principal means to successfully enhance and expand the Second Cup brand and café network. As at December 27, 2008, Second Cup had 334 franchisee developed cafés in operation, owned by a total of approximately 298 different Second Cup franchisees.

Second Cup's rigorous and systematic franchisee screening and selection process has been developed to ensure that only franchisees with appropriate skill levels, professional experience, financial capital, passion for the business and drive to succeed are selected to become Second Cup franchisees. Franchisees go through a pre-screening process that consists of financial and background checks as well as a series of interviews with senior management prior to receiving approval to become a Second Cup franchisee.

Second Cup franchisees typically invest between \$240,000 and \$400,000 to open a new Second Cup café. They own and operate the Second Cup cafés as independent businesses, licensed under a franchise agreement to use the Second Cup Marks. Second Cup franchisees are required to devote their full time and attention to the business and to personally play a leadership role in the café's operations.

Second Cup has a proven ability to select, develop, manage and motivate franchisees to drive long-term growth both within existing cafés and through new café growth. Over the past three decades, Second Cup has developed an operating system that provides each franchisee with the training, tools and guidance to enable each franchisee to maximize its business potential. Key components of this system include effective site selection, café design and build out, equipment selection and maintenance programs, "best in class" products and services from suppliers, and innovative product development and category management.

At Second Cup, franchisees who consistently meet high operational standards are given the opportunity to become franchisees of additional units and are known as "multi-unit" operators. Multi-unit franchising has helped accelerate new café growth and has served as a motivating incentive for single-café franchisees.

Second Cup Franchise Agreements

The relationship between Second Cup and each of its franchisees is governed by a franchise agreement. Although the terms of the franchise agreements entered into with Second Cup franchisees may differ for certain franchisees (e.g., Cara and certain non-traditional franchisees, such as hospitals and universities), they are substantially similar and are summarized below.

Upon execution of a franchise agreement, a Second Cup franchisee must pay certain fees, including an initial non-refundable franchise fee, which is currently \$40,000. In addition to the initial franchise fee, the franchisee must pay all expenses incurred in order to fully construct or complete all improvements to the premises to ensure that it is in accordance with Second Cup's standards..

Under the standard Second Cup franchise agreement, a franchisee pays an ongoing royalty of 9% of the café's Gross Revenue. While there are certain cafés which pay a lower royalty rate, the vast majority of these cafés are located in institutions such as hospitals and educational facilities, or are cafés operated by Cara, which typically require less franchisor support. As a result, the overall effective average royalty rate for all Second Cup franchisees is approximately 8.6%. Royalties are payable in instalments, on or before the 10th day immediately following the end of a four-week period determined in accordance with Second Cup's accounting system.

“Gross Revenue” is defined generally in the standard Second Cup franchise agreement to mean 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. Without limiting the generality of the foregoing, Gross Revenue includes:

- All sales made pursuant to telephone, electronic communication or other similarly placed orders;
- The amount of all sales assumed to have been lost by the interruption of the operation of a Second Cup café and which is the basis upon which an insurer has or will pay business interruption insurance;
- All sales made in any part of the shopping mall, building, complex or development in which the Second Cup café is located and/or of which it is a part.

The following is not included in calculating Gross Revenue:

- The amount of any tax imposed by the provincial government of the province within Canada in which the Second Cup café is located, directly on retail sales and collected from customers in their presence at the time of the sale, provided that the amount of any such tax is in fact paid by the operator of the Second Cup café to the provincial government;
- The amount of any sales tax imposed by the federal government of Canada, directly on retail sales and collected from customers in their presence at the time of sale, provided the amount of the sales tax is in fact paid by the operator of the Second Cup café to the federal government of Canada.

In calculating Gross Revenue, the following is deducted:

- The amount of any cash refunded to a customer on account of the return of any products, provided that the amount refunded in respect of such products was originally included in calculating Gross Revenue;
- An exchange of products made between the operator of the Second Cup café and a customer, provided that the amount paid for the products by the customer was originally included in calculating Gross Revenue;
- An amount equal to the value of any discount given to a customer on account of the purchase of any products through the use of a coupon or other similar promotions approved by Second Cup, provided the sale upon which the discount is given was recorded at full value in calculating Gross Revenue.

In calculating Gross Revenue, no allowance whatsoever is made for bad debts. Each sale of products made upon instalment or credit is treated as a sale at the full price at the time such products are ordered, irrespective of the time when the operator of the Second Cup café delivers the products or receives payment for such products.

As part of the standard franchise agreement, a franchisee is also required to make expenditures on local advertising and promotion of the café in an amount equal to the greater of 2% of the franchisee’s annual Gross Revenue and the amount required to be expended pursuant to the provisions of the relevant lease relating to the

premises. In addition to local advertising and promotion, the majority of franchisees are required to contribute 3.0% of their annual Gross Revenue to Second Cup's national co-operative fund. This fee is payable to Second Cup at the same time as the royalty fee described above. See "— Advertising and Marketing" above.

Second Cup typically enters into the head lease for a café location and, in turn, enters into a sublease with the franchisee concurrently with the entering into of the franchise agreement. Pursuant to the sublease, the franchisee agrees to observe and perform all of the terms and conditions contained in the head lease. The franchisee is generally responsible for paying all rent and other amounts to be paid by Second Cup under the head lease in addition to all amounts payable under the franchise agreement, which are deemed to be additional rent owing under the head lease and sublease, entitling Second Cup to the remedies provided for the non-payment of rent. Any default by the franchisee under the sublease is deemed to be a default under the franchise agreement, allowing Second Cup to terminate the franchise agreement. Similarly, any default by the franchisee under the franchise agreement is deemed to be a default under the sublease, allowing Second Cup to terminate the sublease.

Aside from the head lease, Second Cup is not obliged to provide any financial covenants or guarantees in connection with a franchisee's financial arrangements, including with respect to equipment leases and supply purchases. Further, each franchisee is required to maintain risk insurance in respect of the leased premises and equipment (to their full replacement value), comprehensive general liability insurance, business interruption insurance, insurance required pursuant to the lease of the premises and such other coverage as Second Cup may require from time to time.

Unless terminated earlier by Second Cup in accordance with its terms, the term of each Second Cup franchise agreement commences on execution of the agreement and terminates at the close of business on the day which is one day prior to the earlier of: (i) the date upon which the specific term of the lease governing the occupancy of the premises at the time of entering into of the franchise agreement expires and (ii) the date on which the lease for the premises is terminated. Upon completion of this term, which is typically 10 years, but without execution of a new franchise agreement, a franchisee may, with the consent of Second Cup, continue to occupy the premises and carry on business as a franchisee of Second Cup on a calendar month-to-month basis upon the same terms and conditions set out in the original franchise agreement. The Second Cup franchise agreement does not confer on the franchisee any right of renewal. If the café has been well managed and other criteria for success are present, a new term may be granted. A franchise agreement will not be renewed if Second Cup management believes that, as a result of shifts in demographics or other criteria key to a successful café, the economic probability for success is low.

The Second Cup franchise agreement permits transfers of a franchisee's interest in a Second Cup café, subject to Second Cup's consent. In the case of a transfer, a franchisee is required to pay to Second Cup 10% of the purchase price to be paid by the purchaser. Prior to the completion of the transfer, the purchaser is subject to the same screening process as other new candidates and is required to successfully complete any training that may be required by Second Cup.

Franchise Reporting

In accordance with their franchise agreements, franchisees are required to provide a Gross Revenue report as well as a cash report on a weekly basis. Within 10 days of the end of each four-week period, franchisees are required to submit a statement of Gross Revenue which sets out daily Gross Revenue and total Gross Revenue for such period. Franchisees are also required to furnish profit and loss statements and various other reports, including completed labour schedules, production reports, purchase records and inventory forms.

In addition to self-reporting by franchisees, Second Cup's territory managers are required to "score" Second Cup cafés three times per year against an exhaustive list of operational standards to ensure quality and consistency in the chain.

Franchise Support Systems

Second Cup's franchise system is managed by its Global Chief Operating Officer, who is supported by two regional directors and 12 territory managers, as well as a number of other employees in customer service, training and other operational functions. Second Cup seeks to provide a variety of support services to its franchisees to assist them in becoming successful operators, including the following:

- *Franchisee Selection and Approval* — Second Cup continuously improves upon its systematic approach to the selection of franchisees. Potential franchisees, whether they are acquiring cafés from Second Cup or from existing Second Cup franchisees, are required to go through a series of checks, interviews and hands-on performance evaluations to ensure that the quality of Second Cup's franchisee base is continuously improving.
- *Real Estate and Development* — Second Cup's real estate and development teams take a lead role in identifying and securing prime development locations for new cafés. This includes market and site analysis and site-specific financial projections, allowing senior management the opportunity to make informed decisions on potential sites prior to franchisee selection. In addition, the team negotiates with landlords on all new and renewal lease agreements. Second Cup provides full management services (including design, equipment procurement and construction management services) to franchisees for both the construction of new cafés, as well as the remodelling and upgrading of existing cafés, to ensure that the cafés conform to current design standards.
- *Second Cup School of Business* — Second Cup strongly believes that coffee knowledge and training represent points of meaningful differentiation in the specialty coffee market. Following the decision to join Second Cup's franchise family, franchisees enrol in Second Cup's School of Business training program. Over a six-week period, franchisees are given detailed instruction on the management of a Second Cup café, the fundamentals of coffee and the coffee retailing business. The program includes both classroom sessions and in-café instruction.
- *Training and Development* — In addition to the School of Business, training sessions are conducted periodically throughout the year. Second Cup also provides ongoing guidance for franchisees through regular visits from territory managers, the holding of periodic seminars, workshops and meetings, and by providing an on-line training program to assist franchisees in properly training their staff. Additionally, in order to promote a deeply rooted understanding of the coffee industry, each operator is required to make an educational trip to Costa Rica upon entering into the franchise agreement, to experience first hand the growing, harvesting and processing of high quality coffee.
- *Café Opening Support* — Second Cup provides a minimum of 12 to 14 days of full time, in-café support for new café openings. A territory manager provides three days of advance planning and training services to the franchisee and then remains at the café for a full week following the opening of the café. Furthermore, two one-day follow-up sessions are scheduled 30 and 90 days after the opening of the café to ensure that operating standards are being met.
- *Conventions, Special Events and Franchisee Advisory Council* — Second Cup hosts a convention at which franchisees, management and key suppliers interact and participate in educational sessions,

workshops and social activities. In addition, regional meetings are held periodically during the year. Furthermore, Second Cup has established a Franchisee Advisory Council that provides management with franchisee feedback and input into key decision processes. The council is comprised of 12 members elected by the franchisees and generally meets three times a year to discuss strategy and business objectives with management.

- *National Marketing and Program Development* — Second Cup is responsible for collecting all contributions from franchisees to the national co-operative fund, which are then used to advertise the Second Cup brand, promote new and existing products and develop chain-wide programs on behalf of franchisees.
- *Product Sourcing* — To maintain the quality and consistency of ingredients and products, as well as to ensure that franchisees obtain favourable pricing, Second Cup establishes product specifications and negotiates supply arrangements with authorized suppliers.
- *Finance and Technology* — Second Cup provides appropriate customized tools and training for franchisees to manage the financial performance of their cafés and ensure appropriate financial reporting to Second Cup on an ongoing basis. Additional information technology assistance is also provided in the form of standardized point of sale platforms and web-based information systems focused on operational knowledge.

Employees

As at December 27, 2008, 59 individuals were employed by Second Cup at its head office, as well as an estimated 275 employees in company-owned cafés. Second Cup’s employees are not unionized, and Second Cup has never experienced a strike or work stoppage. Second Cup believes that its relations with its employees are very positive.

Management

The continued success of Second Cup will, in part, be determined by its ability to attract and retain top quality management personnel. As of March 9, 2009 the names and municipalities of residence of the persons who are the executive officers of Second Cup are as follows:

<u>Name</u>	<u>Position with Second Cup</u>
Gabriel Tsampalieros..... <i>Markham, Ontario</i>	Chairman and Chief Executive Officer
Stacey Mowbray <i>Toronto, Ontario</i>	President
Robert Masson <i>Richmond Hill, Ontario</i>	Chief Financial Officer and Secretary
Steven Tsambalieros..... <i>Toronto, Ontario</i>	Global Chief Operating Officer

Ian M. Baskerville,..... Vice-President, Legal Affairs
Milton, Ontario

Ryan Brown Vice-President, Marketing
Stouffville, Ontario

Wayne C. Vanderhorst Vice-President, Franchise Development
Grimsby, Ontario

James S. Anas Executive Vice-Chairman
Burlington, Ontario

The following is a summary biography of each of the members of the senior management team of Second Cup:

Gabriel Tsampalieros — Chairman and Chief Executive Officer

Mr. Tsampalieros has been involved in all aspects of the foodservice industry for over 25 years. He became a director of Second Cup in May 1996 and its Chairman and Chief Executive Officer in 2002. Mr. Tsampalieros became President and Chief Executive Officer of GP Inc. in February of 2008. From 1997 to 2006, Mr. Tsampalieros was President, Chief Executive Officer and a Director of Cara. From 1995 to 1997, he was President and a Director of Cara. From 1991 to 1995, Mr. Tsampalieros was Chairman, President, Chief Executive Officer and the sole Director of S.C. Coffee Co. which he co-founded in 1981. Mr. Tsampalieros has received a number of awards and recognitions from the industry including the Gold Medal Award (2001) and a Lifetime Achievement Award (2006), both from the Ontario Hostelry Association for service and leadership to the industry. From 2001 to 2004, he served on the Board of Governors of the University of Guelph and is the current Co-Chair of the University of Ottawa's two hundred million dollar "Campaign for Canada's University". Mr. Tsampalieros is a member of the Canadian Bar Association and holds a Bachelor of Laws Degree (University of Ottawa, 1973) and a Doctorate of Laws Honoris Causa from the University of Guelph (2007) and a Doctorate of Laws Honoris Causa from the University of Ottawa (2007). Mr. Tsampalieros indirectly controls S.C. Coffee Co., which owns 100% of the issued and outstanding shares of Second Cup.

Stacey Mowbray — President

Prior to joining Second Cup, Ms. Mowbray held positions in Molson Canada as Chief Marketing Officer, Cara Operations as President of the Milestone's chain and as SVP Branding and Marketing, Pepsi Canada as Vice President of Marketing and the Weston group where she started her career in sales and marketing over 20 years ago. Ms. Mowbray has a Masters Business Degree from York University and a Bachelor of Business Administration from Wilfrid Laurier University. She has been a director of Second Cup since early 2007 and has been a board member of several industry associations over her career.

Robert Masson — Chief Financial Officer and Secretary

Mr. Masson has held various finance and accounting related positions over the last 14 years and is a designated Chartered Accountant with the Institute of Chartered Accountants of Ontario. Mr. Masson holds a Bachelor of Commerce degree from the University of Kwa-Zulu Natal in South Africa. From 1995 to 1998 Mr. Masson was employed as an auditor with Ernst & Young. From 1999 to 2006, Mr. Masson held positions with various companies including Deloitte & Touche and IBM Canada. From 2006 to January 2009 Mr. Masson was VP

Finance with Manchu Wok Canada Inc. In February 2009, Mr. Masson was appointed Chief Financial Officer of Second Cup and the Fund.

Steven Tsambalieros — Chief Operations Officer

Mr. Tsambalieros joined Second Cup as Global Chief Operating Officer in July 2008. Prior to joining Second Cup, he was President and Chief Executive Officer of Chrisco Canada from 2007 until July 2008, President and Chief Operating Officer of Swiss Chalet Restaurants from 1998 to 2007, Chief Operating Officer for Cara Airline Terminal Restaurants from 1996 to 1998 and multi-unit franchise operator of Harvey's and Swiss Chalet restaurants from 1983 to 1996.

Ian Baskerville — Vice-President, Legal Affairs

Mr. Baskerville has been Vice President, Legal Affairs since November 2006. Prior to joining Second Cup, Mr. Baskerville was Legal Counsel for Cara Operations Limited from 2003 to November 2006. From 2000 to 2003, Mr. Baskerville specialized in mergers and acquisitions as a lawyer at Cassels Brock & Blackwell LLP. Mr. Baskerville obtained a Bachelor of Arts degree from the University of Victoria and a Bachelor of Laws degree from the University of Western Ontario. Mr. Baskerville is a member of the Law Society of Upper Canada.

Ryan Brown — Vice-President, Marketing

Mr. Brown joined Second Cup as Vice President, Marketing on June 2, 2008. Prior to joining Second Cup, Mr. Brown was the Vice President of Marketing at Black Photo Corporation (Black's Photography) from September 2005 to May 2008; Sr. Director of Marketing with Northern Group Retail Ltd (in addition to other advancing managerial positions) from January 2002 to August 2005 and Sr. Marketing Analyst with The Loyalty Group (Consumer Air Miles Program) from November 1999 to January 2002.

Wayne C. Vanderhorst – Vice-President, Franchise Development

Mr. Vanderhorst joined Second Cup in September 2007 as Vice President, Franchise Development. Prior to joining Second Cup, Mr. Vanderhorst was employed with Mr. Lube Canada LP as Vice President, Real Estate & Development from August 2005 to September 2007 and was previously with Dairy Queen Canada Inc. for over 16 years in numerous positions including Director of Real Estate & Leasing.

James S. Anas — Executive Vice-Chairman

Mr. Anas became a director of Second Cup in January 2007 and has held the position of Vice-Chairman and Corporate Secretary since that time. Mr. Anas has held the position of Executive Vice-Chairman of S.C. Coffee Co. since January 2008 following his tenure as President and Chief Executive Officer from 2001 to 2007. Previously, Mr. Anas held the position of President and Chief Executive Officer and a director of the national franchisor and formerly TSX listed Jumbo Entertainment Inc. from 1993 to 2001. Mr. Anas is currently on the Board of Directors of Guardian Capital Group Limited, a TSX listed financial services company.

As of March 9, 2009, the senior management team of Second Cup held 1,093,958 Units, representing approximately 11 % of the Fund's issued and outstanding Units.

Government Regulation

Second Cup and its cafés are subject to the laws and regulations that typically apply to a Canadian foodservice operator. For instance, company-owned and franchised Second Cup cafés are subject to regulation by a number of health, sanitation, safety, fire, building and other agencies or governmental authorities in the provinces or municipalities in which cafés are located. Second Cup must also comply with the laws and regulations adopted in the Provinces of Ontario, Alberta and Prince Edward Island that require certain disclosure to be made with respect to the offer and sale of franchises. These laws require Second Cup to furnish prospective franchisees located in Ontario, Alberta and Prince Edward Island, as applicable, with a disclosure document containing information prescribed by these laws. In addition, Second Cup and its franchisees are subject to provincial labour and employment laws that govern their relationship with employees, such as minimum wage requirements, overtime and working conditions.

Relationship with S.C. Coffee Co.

In November 2006, Mr. Tsampalieros, the Executive Chairman of Second Cup and the former Chief Executive Officer of Cara, purchased all of the issued and outstanding shares of Second Cup from Cara through S.C. Coffee Co., a corporation controlled by him. The transaction excluded the Fund 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 held directly by Cara which were not transferred to the Fund in connection with the Fund's initial public offering in December 2004. Cara will continue to operate a number of Second Cup cafés as a franchisee under currently existing franchise agreements.

RISK FACTORS

An investment in the Units involves a number of risks. In addition to the other information contained in this Annual Information Form, investors and prospective investors should give careful consideration to the following factors.

Risks Related to the Business of Second Cup

The Canadian specialty coffee industry is characterized by intense competition and limited diversification.

The Fund's performance is dependent upon the Royalty received by MarksLP 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 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 and in particular a national quick services food chain has introduced premium coffee to its menu items. In the whole and ground bean segment of the specialty coffee industry, Second Cup franchisees will compete against specialty coffee chains as well as supermarkets, many of which have substantially greater financial and other resources than Second Cup franchisees will 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.

General economic conditions and a reduction in discretionary revenue/spending could affect the business.

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. Factors such as change in general economic conditions, recessionary or inflationary trends, job security and unemployment, equity market levels, consumer credit availability and overall consumer confidence levels may affect the business. 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 MarksLP. 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 and weather 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 to generate System Sales will depend 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 received by MarksLP.

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. Adverse credit markets, such as these currently being experienced, may affect the ability of franchises to obtain new credit or refinance existing credit on economically reasonable terms. 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 System Sales and results of operations of the Second Cup cafés could 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 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 payable to MarksLP by Second Cup will depend on System Sales, which will in turn depend 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 the Make-Whole Payment, there is no assurance that Second Cup will be able to open sufficient 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 the Make-Whole Payment.

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 pay the Royalty 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 substantiate Gross Revenue reported by its franchisees through, among other things, analytical and financial reviews performed by management, on site visits, and analysis of raw material purchases by the cafés. 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 is 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 and this in turn could affect the Royalty paid to MarksLP.

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 will depend on its ability to capitalize on the Second Cup brand through the use of the Second Cup Marks licensed from MarksLP. If MarksLP 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.

MarksLP owns the Second Cup Marks in Canada. It does 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 will be 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 MarksLP's ability to make distributions and interest payments to the Fund.

The cash distributions made to Unitholders are not guaranteed and will be dependent on the ability of MarksLP to pay its interest obligations under the MarksLP Note and to make distributions to the Fund. Payments by MarksLP will be after provisions for administrative expenses and other obligations and liabilities (including taxes, if any) and other amounts. See "Governance of MarksLP — Distribution Policy".

MarksLP is dependent on Second Cup to pay the Royalty to it.

The primary source of revenue of MarksLP is 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 MarksLP.

MarksLP depends on the operations and assets of Second Cup to pay the Royalty and any Make-Whole Payment to it. In addition, the growth of the café network is dependant upon investments made by Second Cup to select new locations, enter into new leases and recruit, train and supervise franchisees. The performance of the Fund is therefore 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 MarksLP.

Securities such as the Units are hybrids in that they share certain attributes common to both equity securities and debt instruments. The Units do not represent a direct investment in MarksLP and should not be viewed by investors as units in MarksLP. As holders of Units, Unitholders 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. The Fund's primary assets are the MarksLP Note and the MarksLP limited partnership units. The price per Unit will be a function of anticipated distributable cash.

Changes to the taxation of income trusts.

On October 31, 2006, the Federal Government announced proposed changes to income taxes, which were then introduced as part of the 2007 federal budget and received royal assent on June 22, 2007. These changes significantly alter the income tax treatment of most publicly traded income trusts and the distributions from these entities to their unitholders. Under these new tax laws (referred to as the "SIFT Rules"), certain income earned by these entities, known as specified investment flow through entities (each a "SIFT"), will be taxed in a manner similar to income earned by a corporation and distributions or allocations made by these entities to unitholders will be taxed similar to dividends from taxable Canadian corporations. The deemed dividends will be eligible for the new enhanced dividend tax credit if paid or allocated to a resident of Canada.

These new tax laws apply beginning with the 2007 taxation year of a trust unless the trust was publicly traded prior to November 1, 2006 and the trust has not exceeded “Normal Growth Guidelines”. The taxation of SIFTs that have not exceeded the Normal Growth Guidelines will not begin until 2011.

On December 15, 2006, the Minister of Finance (Canada) provided further guidance as to what is meant by “normal growth” in the context of the SIFT Rules. The guidance stated that there should be no change to the 2011 date in respect of any SIFT whose equity capital grows as a result of issuances of equity (including trust units and debt that is convertible into trust units), in any of the intervening periods described below, by an amount that does not exceed the greater of \$50 million and an objective “safe harbour”, measured by reference to a SIFT’s market capitalization as of the end of trading on October 31, 2006. Market capitalization will be measured as issued and outstanding publicly-traded units. For the period from November 1, 2006 to the end of 2007, a SIFT’s safe harbour is 40 percent of the Market Capitalization on October 31, 2006. A SIFT’s safe harbour for each of the 2008 through 2010 calendar years will be 20 percent of that benchmark. There can be no assurance that future additions to the capital or assets of the Fund will not, alone or in combination with each other, constitute undue expansion beyond the Normal Growth Guidelines, resulting in the Fund being subject to the SIFT Rules in the year of the undue expansion.

These new tax laws are not expected to have an immediate impact on the Fund’s tax treatment, or distribution policy or the tax treatment of distributions to Unitholders. There can be no assurances that the Fund will be able to undertake any measures to minimize such impact.

The security interest granted by Second Cup to MarksLP may not attach to leases relating to certain Second Cup cafés.

No agreements or consents in respect of the security interest granted by Second Cup to MarksLP will be obtained from landlords of Second Cup. As a result, due to the nature of the security interest provided by Second Cup and the fact that no agreements or consents are being sought, the security interest 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 granted by Second Cup to MarksLP 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, and MarksLP 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 MarksLP.

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

The 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 Fund’s trustees 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, and MarksLP is of the view, that all expenses to be claimed by the Fund or MarksLP 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 the Canada Revenue Agency will agree with the expenses claimed.

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

Further, interest on the MarksLP Note accrues at the Fund level for income tax purposes whether or not actually paid. The 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 notes are due but not paid in whole or in part such that there is insufficient cash for distributions, the 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.

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 MarksLP Note or MarksLP 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 MarksLP Note or MarksLP units. In addition, the MarksLP Note or MarksLP units are not freely tradable and are not currently listed on any stock exchange. Securities of MarksLP 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 has outstanding indebtedness.

The Fund will have third-party debt service obligations under the Fund Term Loan and the Fund Operating Loan. See “General Development of the Business — Fund Term Loan and Fund Operating Loan”. 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 flow from operations will be dedicated to the payment of the principal and interest on its indebtedness, thereby reducing funds available for distribution to the Fund; and (ii) certain of the Fund’s borrowings will be at variable rates of interest, which exposes 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 depend on the payment of the Royalty by Second Cup. The Fund Term Loan is due January 2, 2011. The Fund Term Loan and the Fund Operating Loan bear interest at prime rate plus 2.5% or bankers’ acceptances plus 3.5%. The Fund has in place an interest rate swap arrangement fixing the interest rate on Fund Term Loan at an estimated effective rate of 6.41%.

The Fund Term Loan and Fund Operating Loan contain numerous restrictive covenants that limit the discretion of the Fund with respect to certain business matters. In certain circumstances, these restrictive covenants may restrict the cash available for distribution to Unitholders.

Current and future borrowings by Second Cup could adversely affect Second Cup’s ability to pay the Royalty and the Make-Whole Payments.

MarksLP has contingent liabilities.

As part of the restructuring of the business of Second Cup prior to the closing of the initial public offering, all of the assets and liabilities relating to Second Cup’s Canadian business, including contractual obligations of Second Cup, but excluding the Second Cup Marks, have been assigned and transferred to Second Cup.

Cara and Second Cup jointly and severally provided in the Acquisition Agreement an absolute, dollar-for-dollar indemnity in respect of any liabilities existing in respect of the assets and liabilities transferred to Second Cup, including the contractual obligations assigned, such that MarksLP will have full recourse to Cara and Second Cup in the event of any liabilities in connection with those assets. However, there is no guarantee that Cara or Second Cup will be financially capable of meeting their obligations pursuant to the indemnity and MarksLP may find itself without recourse to Cara or Second Cup with respect to any liabilities that may arise in respect of the transferred assets.

DESCRIPTION OF THE FUND

Declaration of Trust

The Fund is an open-ended trust established under the laws of the Province of Ontario pursuant to the Declaration of Trust. The Fund currently qualifies as a mutual fund trust for the purposes of the Tax Act. The following is a summary of the material attributes and characteristics of the Units and certain provisions of the Declaration of Trust, which does not purport to be complete. Reference is made to the Declaration of Trust for a complete description of the Units and the full text of its provisions. See “Material Contracts”.

Activities of the Fund

The Declaration of Trust provides that the Fund is restricted to:

- (a) investing in or acquiring or disposing of securities, including those issued by MarksLP and its affiliated entities;
- (b) temporarily holding cash in interest-bearing accounts, short-term government debt or investment grade corporate debt for the purposes of paying the Fund's expenses, paying amounts payable by the Fund in connection with the redemption of any Units and making distributions to Unitholders;
- (c) issuing Units (or rights, warrants, convertible or exchangeable securities, subscription receipts or options in respect thereof) pursuant to the Declaration of Trust;
- (d) issuing debt securities or borrowing funds (including by way of letters of credit, bank guarantees and bankers' acceptances);
- (e) guaranteeing (including as guarantor, surety or co-obligor) the payment or performance of any indebtedness, liability or other obligation of MarksLP or its affiliated entities including with respect to the Fund Term Loan and Fund Operating Loan and granting security interests in or otherwise encumbering, pledging (provided that doing so would not affect the redemption rights of Unitholders), mortgaging or charging any or all of the Fund's assets for those obligations, and where considered appropriate, postponing or subordinating its rights under indebtedness or other obligations;
- (f) issuing or redeeming rights to acquire Units pursuant to any Unitholder rights plan adopted by the Fund;
- (g) redeeming or repurchasing securities of the Fund;
- (h) entering into and performing its obligations under the Administration Agreement, the Governance Agreement, the Subscription Agreement and the Underwriting Agreement; and
- (i) 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 Declaration of Trust or as may otherwise be approved by the trustees of the Fund from time to time,

provided that the Fund will not undertake any activity, take any action, or make any investment which would result in the Fund not being considered a "mutual fund trust" for purposes of the Tax Act or which would result in the Units being "foreign property" for the purposes of the Tax Act.

As at the date of this Annual Information Form, the Fund does not intend to hold securities of entities other than MarksLP, GP Inc. and GP Trust, other than cash equivalents referred to in (b) above.

Description of Units

The beneficial interests in the Fund are designated as “Units”, which are entitled to the rights and subject to the limitations, restrictions and conditions set out in the Declaration of Trust, the terms of which are summarized below.

An unlimited number of Units may be created and issued pursuant to the Declaration of Trust. Each Unit is transferable and represents 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 the Fund’s net assets in the event of the Fund’s termination or winding-up.

All Units have equal rights and privileges and are not subject to future calls or assessments. Except as set out under “Redemption Right” below, the Units have no conversion, retraction, redemption or pre-emptive rights.

On December 16, 2004, the *Trust Beneficiaries’ Liabilities Act, 2004* (Ontario) came into force. This statute provides that holders of units of a trust are not, as beneficiaries, liable for any act, default, obligation or liability of the trust if, when the act or default occurs or the liability arises, (i) the trust is a reporting issuer under the Securities Act, and (ii) the trust is governed by the laws of Ontario. The Fund is a reporting issuer under the Securities Act and is governed by the laws of Ontario by virtue of the provisions of its declaration of trust.

No certificates may be issued for fractional Units and fractional Units will not entitle holders to vote in respect of those fractional Units. The Units are not “deposits” within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of such act or any other legislation. Furthermore, the Fund is not a trust company, and accordingly, the Fund is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.

Issuance of Units

The Declaration of Trust provides that the Units or rights to acquire Units may be allotted and issued at the times, to the persons, for the consideration and on the terms and conditions that the trustees of the Fund determine. Units may be issued in satisfaction of any non-cash distribution by the Fund to Unitholders on a *pro rata* basis (subject to possible escrow and resale arrangements for non-Canadian residents). The Declaration of Trust also provides that, immediately after any *pro rata* distribution of Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Units will be consolidated such that each Canadian resident Unitholder will hold after the consolidation the same number of Units as the Unitholder held before the non-cash distribution. In this case, each Unit certificate representing a number of Units prior to the non-cash distribution will be deemed to represent the same number of Units after the non-cash distribution and the consolidation. Non-Canadian resident Unitholders will also have their Units consolidated but may be subject to withholding tax.

Pre-Emptive Right

The Governance Agreement provides Second Cup with a pre-emptive right pursuant to which the Fund will not issue, or agree to issue, any Units, or any securities which are convertible, exercisable or exchangeable for or into Units, to any person unless an offer is made to Second Cup to issue to it that number of Units or securities, at the same price per Unit or security as the trustees propose to issue the other Units or securities, necessary to maintain the percentage of the outstanding voting interest in the Fund held by Second Cup and any of its affiliates at the date of the

offer. Any Units not taken up by Second Cup may be issued to any person within 48 hours (excluding Saturdays, Sundays or holidays) of the date of such offer at not less than the price offered to Second Cup. Second Cup waived its pre-emptive right in connection with the Fund's initial public offering.

Trustees

The Fund may have a minimum of three trustees and a maximum of 10 trustees. The Declaration of Trust prohibits a non-resident of Canada (as that term is defined in the Tax Act) from acting as a trustee. The trustees of the Fund are to supervise the Fund's activities and manage the Fund's affairs.

The Fund currently has three trustees, each of whom also serves as a director of GP Inc.. See "Management and Corporate Governance of GP Inc. — *Directors*" for the principal occupations and biographies of David Bloom, Michael Rosicki and Raymond Guyatt, the trustees of the Fund. Trustees are to be appointed at each annual meeting of Unitholders to hold office for a term expiring at the close of the next annual meeting. A majority of trustees of the Fund are required at all times to be "independent" within the meaning of Multilateral Instrument 52-110 — *Audit Committees*. Messrs. Bloom, Rosicki and Guyatt are considered by the Fund to be "independent" within the meaning of such instrument.

Any one or more of the trustees may resign upon prior written notice and may be removed by a resolution passed by a majority of the Unitholders. Any vacancy created by such removal or resignation must be filled at the same meeting, failing which it may be filled by the remaining trustees of the Fund.

A quorum of trustees, being a majority of trustees then holding office, may fill a vacancy in the board of trustees, except a vacancy resulting from an increase in the maximum number of trustees beyond the limit described below or from a failure of the Unitholders to appoint the minimum number of trustees at a meeting of the Unitholders called for such purpose. In the absence of a quorum of trustees or if the vacancy has arisen from a failure of the Unitholders to appoint the minimum number of trustees at a meeting of the Unitholders called for such purpose, the trustees then holding office will be required to call forthwith a special meeting of the Unitholders to fill the vacancy. If the trustees fail to call such meeting or if there are not any trustees then in office, any Unitholder may call such a special meeting. If a meeting of Unitholders fails to appoint the minimum number of trustees by reason of the disqualification or death of any nominee, the trustees appointed at the meeting may exercise all of the powers of the trustees if the appointed number of trustees constitutes a quorum.

The trustees of the Fund may, between annual meetings of Unitholders, appoint one or more additional trustees to serve until the next annual meeting of Unitholders, but the number of additional trustees will not at any time exceed one third of the number of trustees who held office at the expiration of the immediately preceding annual meeting of Unitholders.

The Declaration of Trust provides that, subject to the terms and conditions thereof, the trustees may, in respect of the assets of the Fund, exercise any and all rights, powers and privileges that could be exercised by a legal and beneficial owner of those assets. The role of the trustees includes, among other things:

- acting for the Fund, voting on the Fund's behalf and representing the Fund as a unitholder and noteholder of MarksLP, and as a shareholder of GP Inc., including voting for the election of directors of GP Inc.;
- maintaining records and providing reports to Unitholders;

- supervising the activities of the Fund, including the investments of the Fund; and
- effecting payments of distributions from the Fund to Unitholders.

The trustees will also supervise the application of the Fund's written corporate disclosure and insider trading policies. These policies will, among other things:

- articulate the legal obligations of the Fund, its affiliates and their respective trustees, directors, officers and employees with respect to confidential information;
- identify spokespersons of the Fund who are authorized to communicate with third parties such as analysts, the media and investors;
- provide guidelines on the disclosure of forward-looking information;
- require advance review of any disclosure of financial information with a view to ensuring that selective disclosure of material information does not occur; and
- establish "black-out" periods immediately prior to and following the disclosure of quarterly and annual financial results during which the Fund, its affiliates and their respective trustees, directors, officers and certain other persons may not purchase or sell Units in the market.

The Declaration of Trust provides that the trustees of the Fund will act honestly and in good faith with a view to the best interests of the Fund and in connection therewith will exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The duties and standard of care of the trustees are intended to be similar to, and not any greater than, those imposed on a director of a corporation governed by the *Business Corporations Act* (Ontario). The Declaration of Trust provides that the trustees will be entitled to indemnification from the Fund 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 Fund. In the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, a trustee will be entitled to indemnification from the Fund provided that he or she had reasonable grounds for believing that his or her conduct was lawful.

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 1,275,808 Units of the Fund, representing 12.9% of the issued and outstanding Units as of March 9, 2009.

Audit Committee

As required by applicable securities laws, the Fund has established an audit committee to monitor the Fund's financial reporting, accounting systems and internal controls, and to liaise with the Fund's external auditors. The audit committee is required to consist of at least three trustees, each of whom must be "independent" within the meaning of Multilateral Instrument 52-110 — *Audit Committees*, subject to the provisions of such instrument. The Chair of the audit committee receives compensation of \$5,000 per year for such role.

Charter of the Audit Committee

The charter of the audit committee is attached to this Annual Information Form as Schedule A.

Composition of the Audit Committee

Presently, the audit committee consists of Messrs. Bloom, Guyatt and Rosicki and is chaired by Mr. Guyatt. All members of the audit committee are independent and financially literate, as such terms are defined under Multilateral Instrument 52-110 – *Audit Committees*.

Relevant Education and Experience of the Audit Committee Members

The following is a brief summary of the education and experience of each member of the audit committee, including any education or experience that is relevant to the performance of his responsibilities as an audit committee member:

1. 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, a former Chairman of the Retail Council of Canada and a former director of The National Association of Chain Drug Stores in U.S.A. Mr. Bloom is a former director of Canada Trust and Sterling Centrecorp Inc. and trustee of Sleep Country Canada Income Fund. He is a former director of Sick Kids Hospital and the Toronto International Film Festival. Mr. Bloom serves as a director of Swiss Herbal Remedies Limited. Mr. Bloom holds a Bachelors degree (BSc.) in Pharmacy from the University of Toronto.
2. 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 Metro Inc. and Santa Maria Foods Inc. He has held senior positions with various industry and charitable associations, including past member of the Board of the Hospital for Sick Children's Foundation (SickKids Foundation), past Chairman and co-founder of Kids Help Phone, past Chairman of the Food Products Manufacturers of Canada and past President of the Ontario Grocery Industry Foundation.
3. 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.

Pre-approval Policies and Procedures

There have been no recommendations of the audit committee to nominate or compensate an external auditor which have not been adopted by the board of trustees of the Fund. In accordance with the Fund's audit committee charter, all non-audit services to be provided to the Fund or any of its affiliates by the external auditors or any of their affiliates are subject to pre-approval by the audit committee. The committee may approve policies and procedures for the pre-approval of non-audit services to be rendered by the external auditors, which policies and procedures (i) shall include reasonable detail with respect to the services covered, (ii) shall require that the committee be informed of each non-audit service and (iii) shall not include delegation of the committee's responsibilities to management of MarksLP.

Audit Fees

PricewaterhouseCoopers LLP has served as the Fund's auditing firm since the Fund's inception in 2004. Fees paid or payable for the years ended December 27, 2008, December 29, 2007, and December 30, 2006 to PricewaterhouseCoopers LLP are \$98,000, \$192,000, and \$225,900, respectively. These fees are detailed below:

	Year ended December 31, 2008	Year ended December 31, 2007	Year ended December 31, 2006
Audit fees	\$42,000	\$42,000	\$40,500
Audit-related fees	\$9,150	\$8,000	\$3,500
Tax fees	\$26,000	\$30,000	\$2,900
All other fees	-	\$112,000	\$179,000
	<u>\$77,150</u>	<u>\$192,000</u>	<u>\$225,900</u>

The nature of each category of fees is described below.

Audit and audit related fees: Audit fees and audit related fees were paid for professional services rendered for the audit of the Fund's annual financial statements, reading of the Fund's quarterly reporting, and for services that are normally provided in connection with the statutory and regulatory filings or engagements.

Tax Fees: Tax fees were paid for professional services rendered for the preparing of the Funds annual income tax returns and advice associated therewith.

All other fees: Other fees were paid for professional services rendered with respect to assistance with compliance with new accounting standards effective in fiscals 2006, 2007 and fiscal 2008.

Cash Distributions

The amount of cash to be distributed per month per Unit to the Unitholders of the Fund will be equal to a *pro rata* share of interest and (if applicable) principal repayments on the MarksLP Note and distributions from MarksLP to the Fund, less amounts which are paid, payable, incurred or provided for in such period in connection with:

- the Fund's administrative expenses and other obligations and liabilities;
- amounts which may be paid by the Fund in connection with any cash redemptions of Units;
- satisfaction of the Fund's debt service obligations, if any; and
- such reasonable reserves as may be established by the trustees of the Fund in their sole discretion, which are currently expected to be nominal.

The trustees may authorize increased or decreased distributions in excess of or below the aforementioned distributions from time to time or suspend distributions entirely, as they see fit, in their sole discretion.

The Fund intends to make distributions each month of amounts determined by the trustees in their sole discretion to be available for distribution by the Fund for such month. If declared, distributions in respect of each month are expected to be paid on the last day of the immediately following month to Unitholders of record as of record

dates to be specified (except in respect of the month of December, for which the record date will be the last day of December). Substantially all distributions will be considered income of the Unitholder for Canadian tax purposes.

The following table sets forth the month of payment, record date, payment date and distribution per Unit paid by the Fund on the Units for each month of the 2006, 2007 and 2008 fiscal years:

	<u>Period</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Distribution Per Unit</u>
2006	January 2006	February 24, 2006	February 28, 2006	\$0.0833
	February 2006	March 29, 2006	March 31, 2006	\$0.0833
	March 2006	April 26, 2006	April 28, 2006	\$0.0867
	April 2006	May 25, 2006	May 31, 2006	\$0.0867
	May 2006	June 28, 2006	June 30, 2006	\$0.0867
	June 2006	July 28, 2006	July 31, 2006	\$0.0867
	July 2006	August 25, 2006	August 31, 2006	\$0.0867
	August 2006	September 27, 2006	September 29, 2006	\$0.0867
	September 2006	October 27, 2006	October 31, 2006	\$0.0867
	October 2006	November 27, 2006	November 30, 2006	\$0.0867
	November 2006	December 28, 2006	December 29, 2006	\$0.0867
	December 2006	December 29, 2006	January 31, 2007	\$0.0867
2007	January 2007	February 26, 2007	February 28, 2007	\$0.0867
	February 2007	March 28, 2007	March 30, 2007	\$0.0910
	March 2007	April 27, 2007	April 30, 2007	\$0.0910
	April 2007	May 29, 2007	May 31, 2007	\$0.0910
	May 2007	June 27, 2007	June 29, 2007	\$0.0910
	June 2007	July 27, 2007	July 31, 2007	\$0.0910
	July 2007	August 29, 2007	August 31, 2007	\$0.0910
	August 2007	September 26, 2007	September 28, 2007	\$0.0910
	September 2007	October 29, 2007	October 31, 2007	\$0.0910
	October 2007	November 28, 2007	November 30, 2007	\$0.0910
	November 2007	December 27, 2007	December 31, 2007	\$0.0910
	December 2007	December 31, 2007	January 31, 2008	\$0.0910
2008	January 2008	February 27, 2008	February 29, 2008	\$0.0910
	February 2008	March 28, 2008	March 31, 2008	\$0.0940
	March 2008	April 29, 2008	April 30, 2008	\$0.0940
	April 2008	May 28, 2008	May 30, 2008	\$0.0940
	May 2008	June 27, 2008	June 30, 2008	\$0.0940
	June 2008	July 29, 2008	July 31, 2008	\$0.0940
	July 2008	August 27, 2008	August 29, 2008	\$0.0940
	August 2008	September 26, 2008	September 30, 2008	\$0.0940
	September 2008	October 29, 2008	October 31, 2008	\$0.0940
	October 2008	November 26, 2008	November 28, 2008	\$0.0940
	November 2008	December 29, 2008	December 31, 2008	\$0.0940
	December 2008	December 31, 2008	January 30, 2009	\$0.0940

In addition to monthly distributions, it is provided in the Declaration of Trust that the Fund will make a final year-end distribution each year payable in cash or Units to Unitholders of the Fund of record on December 31, in the amount by which the Fund's income (including net taxable capital gains, if any, but excluding the tax paid or made payable on which may be offset by capital losses carried forward from prior years or is recoverable by the Fund) for the purposes of the Tax Act (plus the non-taxable portion of capital gains, if any) for the year would otherwise exceed distributions already paid or payable to Unitholders of the Fund in that year. The Unitholders will have a legal right to enforce such payment on December 31. Such year-end distribution is expected to be paid to such Unitholders of the Fund on or before the immediately following January 31. For the year-ended December 31, 2008, no such year-end distribution was required due to significant tax deductions available to the Fund resulting from expenses incurred in connection with the Fund's initial public offering.

To the extent that cash of the Fund is used to redeem Units or is otherwise unavailable to satisfy distributions, the Fund will satisfy distributions to Unitholders in the form of additional Units. Such additional Units are expected to be issued pursuant to available exemptions under applicable securities laws, discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing.

Unitholders who are non-residents of Canada (as that term is defined in the Tax Act) may be subject to withholding taxes payable in respect of distributions by the Fund, whether such distributions are in the form of cash or additional Units. Non-residents should consult their own tax advisors regarding the tax consequences of investing in the Units. Additional Units otherwise issuable to non-residents of Canada may in certain cases also be escrowed and resold on their behalf.

Redemption Right

Units are redeemable at any time on demand by their holders. As the Units will only be issued in book-entry form, a Unitholder who wishes to exercise the redemption right will be required to obtain a redemption notice form from the Unitholder's investment dealer, and cause the dealer to deliver the completed redemption notice form to CDS. Upon the Fund's receipt of the redemption notice, all rights to and under the Units tendered for redemption will be surrendered and the holder thereof will be entitled to receive a price per unit (the "Redemption Price") equal to the lesser of:

- 90% of the Market Price (as defined below) of the Units on the principal marketplace on which they are traded during the 10 trading day period immediately preceding the date on which the applicable Units were surrendered for redemption (the "Unit Redemption Date"); and
- 100% of the Closing Market Price (as defined below) of the Units on the principal marketplace on which they are traded on the Unit Redemption Date.

For the purposes of these calculations, the "Market Price" will be the amount equal to the weighted average of all reported trading prices of the Units on the applicable marketplace for each of the trading days on which there was a trade during the specified trading day period; provided that if there was trading in the Units on the applicable marketplace for fewer than five of the trading days during the specified trading day period, the "Market Price" will be the weighted average of the following prices established for each of the trading days during the specified trading period: (a) the average of the last bid and asking prices of the Units for each trading day on which there was no trading and (b) the weighted average reported trading prices of the Units for each trading day that there was trading.

For the purposes of these calculations, the “Closing Market Price” will be: (a) an amount equal to the closing price of the Units on the applicable marketplace if there was a trade on the specified date and the applicable marketplace provides a closing price; (b) an amount equal to the average of the highest and lowest prices of Units on the applicable marketplace if there was trading on the specified date and the applicable marketplace provides only the highest and lowest trading prices of Units on a particular day; or (c) the average of the last bid and last asking prices on the applicable marketplace if there was no trading on the specified date.

The aggregate Redemption Price payable by the Fund in respect of any Units surrendered for redemption during any calendar month will, except in the circumstances described below, be satisfied by way of a cash payment by the Fund. This cash payment will be made no later than the last day of the month following the month in which the Units were tendered for redemption. Unitholders will not be entitled to receive cash upon the redemption of their Units if:

- the total amount payable by the Fund in respect of such Units and all other Units tendered for redemption in the same calendar month exceeds \$50,000 (the “Monthly Limit”), provided that the trustees may, in their sole discretion, waive this limitation in respect of all Units tendered for redemption in any calendar month;
- at the time such Units are tendered for redemption, the outstanding Units are not listed or quoted for trading on the Toronto Stock Exchange or another stock exchange or organized market which the trustees consider to be, in their sole discretion, one which provides representative fair market value prices for the Units; or
- the normal trading of Units is suspended or halted on any stock exchange or organized market on which the Units are listed or quoted for trading on the Unit Redemption Date or for more than five trading days during the 10-day trading period commencing immediately after the Unit Redemption Date.

If a Unitholder is not entitled to receive cash upon the redemption of Units as a result of the last two limitations above, the redemption price will be equal to the fair market value of the Units as determined by the trustees in their sole discretion, and the redemption price for each Unit tendered for redemption will, subject to obtaining all applicable regulatory approvals, be paid and satisfied by way of a distribution *in specie* by the Fund of securities of any subsidiary of the Fund. The aggregate fair market value of the securities of any subsidiary of the Fund being distributed shall be equal to the product of the redemption price per Unit payable by the Fund and the number of Units tendered.

If a Unitholder is not entitled to receive cash upon the redemption of Units as a result of the first limitation described above, the Unitholder will receive a cash payment equal to such Unitholder’s *pro rata* share of the Monthly Limit based on the aggregate number of Units tendered for redemption in the applicable calendar month and, subject to obtaining all applicable regulatory approvals, the balance in securities of any subsidiary of the Fund determined in accordance with the procedures described above.

It is anticipated that the redemption right described above will not be the primary mechanism for Unitholders to dispose of their Units. Securities of any subsidiary of the Fund which may be distributed *in specie* to Unitholders in connection with a redemption will not be listed on any stock exchange, no market is expected to develop for those notes and they may be subject to an indefinite “hold period” or other resale restrictions under applicable securities laws. Securities of any subsidiary of the Fund so distributed may be qualified investments for Deferred Income Plans and registered education savings plans, depending upon the circumstances at the time.

The Fund will be allowed, from time to time, to purchase Units for cancellation in accordance with applicable securities laws and the rules prescribed under applicable stock exchanges or regulatory policies.

Meetings of Unitholders

Each Unit entitles the holder thereof to one vote at all meetings of the Unitholders. Meetings of Unitholders will be called and held annually for (i) the election of trustees; (ii) the appointment of auditors of the Fund for the ensuing year, (iii) generally, any other matter that requires a resolution of Unitholders and (iv) transacting such other business as the trustees may determine or as may be properly brought before the meeting. The Declaration of Trust provides that the Unitholders will be entitled to pass resolutions that will bind the Fund only with respect to (and that such actions may not occur without the passing of such resolutions):

- the election or removal of trustees of the Fund;
- the appointment or removal of the auditors of the Fund;
- the appointment of an inspector to investigate the performance by the trustees of their responsibilities and duties;
- the approval of amendments to the Declaration of Trust (except as described under “— Amendments to the Declaration of Trust” below);
- the sale, lease or exchange of all or substantially all of the Fund’s assets, except in conjunction with an internal reorganization or an *in specie* redemption of Units by the Fund;
- any amalgamation, arrangement, other merger or capital reorganization of the Fund with any other entity, except in conjunction with an internal reorganization;
- the exercise of certain voting rights attached to the securities of any subsidiary of the Fund held directly or indirectly by the Fund;
- the termination, winding-up or dissolution of the Fund prior to the end of its term; and
- such other business as the trustees may determine or as may be properly brought before a meeting.

A resolution appointing or removing the trustees or the auditors of the Fund must be passed by a simple majority of the votes cast by the Unitholders. All other matters must be approved by a Unitholders’ Special Resolution.

A meeting of Unitholders may be convened at any time and for any purpose by the trustees and must be convened if requisitioned by the holders of not less than 10% of the Units then outstanding by a written requisition. A requisition must state in reasonable detail the business proposed to be transacted at the meeting.

Unitholders may attend and vote at all meetings of Unitholders of the Fund either in person or by proxy and a proxy holder need not be a Unitholder. Two persons present in person or represented by proxy and representing in the aggregate at least 10% of the votes attached to all outstanding Units will constitute a quorum for the transaction of business at all such meetings. The Declaration of Trust contains provisions as to the notice required and other procedures with respect to the calling and holding of meetings of Unitholders. If no quorum is present, the meeting may (unless it was a requisitioned meeting) be adjourned to a date that is not less than seven days later by notice given by news release and at the adjourned meeting all those Unitholders of the Fund present will constitute a quorum.

Limitation on Non-Resident Ownership

In order for the Fund to maintain its status as a mutual fund trust under the Tax Act, the Fund must not be established or maintained primarily for the benefit of non-residents of Canada within the meaning of the Tax Act and pursuant to certain proposed amendments to the Tax Act, not more than 50% of the fair market value of the Units may be held by non-residents of Canada and/or partnerships (other than Canadian partnerships as defined in the Tax Act). Accordingly, the Declaration of Trust provides that at no time may non-residents of Canada and/or partnerships other than Canadian partnerships be the beneficial owners of more than 40% of the Units. The trustees may require declarations as to the jurisdictions in which beneficial owners of Units are resident or as to their status as Canadian partnerships.

If the trustees become aware that the beneficial owners of 40% of the Units then outstanding are or may be non-residents and/or partnerships other than Canadian partnerships or that such a situation is imminent, the trustees may direct the transfer agent and registrar to make a public announcement thereof and will not accept a subscription for Units from or issue or register a transfer of Units to any person unless the person provides a declaration that he or she is not a non-resident or a partnership other than a Canadian partnership. If, notwithstanding the foregoing, the trustees determine that more than 40% of the Units are held by non-residents and/or partnerships other than Canadian partnerships, they may direct the transfer agent of the Units to send a notice to such holders of Units, chosen in inverse order to the order of acquisition or registration or in such manner as the trustee may consider equitable and practicable, requiring them to sell their Units or a portion thereof within a specified period determined by the trustees. If the Unitholders receiving such notice have not sold the specified number of Units or provided the trustees with satisfactory evidence that they are not non-residents or a partnership other than a Canadian partnership within such period, the trustees may direct the transfer agent to sell such Units on behalf of such Unitholders, and in the interim, the voting and distribution rights attached to such Units will be suspended. Upon such sale, the affected holders will cease to be holders of the Units and their rights will be limited to receiving the net proceeds of such sale.

On September 16, 2004, the Minister of Finance (Canada) released draft amendments to the Tax Act relating to the circumstances under which the ownership of units of a trust by non-resident persons and partnerships other than Canadian partnerships would cause the trust to lose its status as a mutual fund trust. 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. The draft amendments do not currently provide any means of rectifying a loss of mutual fund trust status such that if, at any time, the Fund were to lose its mutual fund trust status as a result of the application of the draft amendments, the Fund would permanently cease to be a mutual fund trust. 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. Depending on the final form of the draft amendments as enacted, it may be necessary to amend the Declaration of Trust to take into account these new restrictions. This amendment may be made without Unitholder approval.

Amendments to the Declaration of Trust

The Declaration of Trust may be amended or altered from time to time by a Unitholders' Special Resolution. The trustees of the Fund may, without the approval of the Unitholders, make certain amendments to the Declaration of Trust, including amendments:

- for the purpose of ensuring continuing compliance with applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over the trustees or over the assets of the Fund or its

subsidiary entities, or any stock exchange or other organized market on which the Units are listed or quoted for trading;

- which, in the opinion of the trustees, provide additional benefits or protection for Unitholders of the Fund;
- to remove any conflicts or inconsistencies in the Declaration of Trust or to make minor corrections which, in the opinion of the trustees, are necessary or desirable and not prejudicial to the Unitholders of the Fund;
- which, in the opinion of the trustees, are necessary or desirable as a result of changes in Canadian taxation laws or policies of any governmental authority having jurisdiction over the trustees or the Fund; and
- for the purpose of ensuring that the Fund continues to qualify as a mutual fund trust and the Units do not constitute “foreign property”, in each case, under the Tax Act.

Term of the Fund

The Fund has been established for an indefinite term. However, Unitholders may, by a Unitholders’ Special Resolution, require the trustees to commence to wind up the affairs of the Fund.

The Declaration of Trust provides that, upon being required to commence to wind up the affairs of the Fund, the trustees will give notice thereof to Unitholders, which notice will designate the time or times at which Unitholders must surrender their Units for cancellation and the date at which the register of Units will be closed. After the date the register is closed, the trustees will proceed to wind up the affairs of the Fund as soon as may be reasonably practicable and, for such purpose, will, subject to any direction to the contrary in respect of a termination authorized by a resolution of the Unitholders, sell and convert into money all of the assets comprising the Fund, including if applicable the MarksLP Note and MarksLP partnership units, and all of the other assets of the Fund in one transaction or in a series of transactions at public or private sales and do all other acts appropriate to liquidate the Fund. After paying, retiring, discharging or making provision for the payment, retirement or discharge of all of the Fund’s known liabilities and obligations and providing for indemnity against any other outstanding liabilities and obligations, the trustees will distribute the remaining part of the proceeds of the sale of the assets comprising the Fund, together with any cash forming part of the assets of the Fund, among the Unitholders in accordance with their *pro rata* interests, against delivery of Units. If the trustees are unable to sell all or any of the assets which comprise part of the Fund by the date set for termination, they may distribute such assets *in specie* directly to the Unitholders in accordance with their *pro rata* interests, subject to obtaining all required regulatory approvals.

Take-over Bids

The Declaration of Trust contains provisions to the effect that, if a take-over bid is made for all of the issued and outstanding Units, and not less than 90% of the Units on a fully-diluted basis (including any Units issuable upon the exchange of any securities exchangeable into Units but not including any Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Units held by Unitholders and holders of securities exchangeable for Units who did not accept the take-over bid on the terms offered by the offeror.

Exercise of Certain Voting Rights Attached to Certain Securities

The Declaration of Trust provides that the Fund will not vote any securities held by it or permit any subsidiary of the Fund to vote any securities held by it, to authorize, among other things:

- any sale, lease or other disposition of all or substantially all of the direct or indirect assets of any subsidiary of the Fund except in conjunction with an internal reorganization or a permitted charge, pledge or lien or pursuant to any guarantee of any subsidiary of the Fund;
- any amalgamation, arrangement or other merger of any subsidiary of the Fund with any other entity except in conjunction with an internal reorganization or in conjunction with the acquisition by any subsidiary of the Fund of the securities or assets of another entity;
- any material amendment to the constituting documents of any subsidiary of the Fund to change the authorized share capital in a way which would reasonably be expected to be prejudicial to the Fund,

without the authorization of the Unitholders by a Unitholders' Special Resolution.

Information and Reports

The Fund will furnish to Unitholders, in accordance with and subject to applicable securities laws, such consolidated financial statements (including quarterly and annual consolidated financial statements) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Unitholders' tax returns under the Tax Act and equivalent provincial legislation.

Prior to each meeting of the Unitholders of the Fund, the trustees will provide the Unitholders with notice of the meeting and all such information as is required by applicable law and the Declaration of Trust to be provided to such holders.

The Fund has undertaken to applicable securities regulatory authorities that, for as long as the Fund is a reporting issuer, (i) in complying with its reporting issuer obligations, MarksLP will be treated as a subsidiary of Second Cup, (ii) it will provide Unitholders with separate financial statements for Second Cup and (iii) it will annually certify that it has complied with such undertaking, and file the certificate on SEDAR concurrently with the filing of its annual financial statements.

Second Cup has undertaken to provide the Fund with Second Cup's unaudited financial statements within 40 days of the end of each quarterly accounting period of Second Cup, other than the fourth quarterly accounting period, and audited annual consolidated financial statements within 85 days of the end of each fiscal year of Second Cup. These financial statements are required to be prepared in accordance with GAAP and will also include a statement of System Sales for the relevant period.

The quarterly and annual financial statements of Second Cup which the Fund receives from Second Cup will be required to be filed on www.sedar.com as a supplement to the quarterly and annual financial statements of the Fund.

Second Cup will be required to deliver to the Fund all financial statements and material change reports to be filed by Second Cup pursuant to undertakings to applicable securities regulatory authorities and, from time to time, such additional information regarding the financial position or business of Second Cup as the Fund may reasonably

request in order to comply with any continuous disclosure or other disclosure requirements which now, or in the future, may apply to the Fund under applicable securities legislation or other legislation or in order to include in any disclosure document which the Fund is required, or chooses, to deliver to Unitholders or is required to file or deliver to securities regulatory authorities or applicable stock exchanges or marketplaces.

In addition, Second Cup and MarksLP have undertaken to applicable securities regulatory authorities that, for as long as the Fund is a reporting issuer, Second Cup and MarksLP, respectively, will require each person who would be an “insider” of Second Cup and MarksLP, respectively, if they were reporting issuers, to file insider reports about trades in units of the Fund (including securities exchangeable into units of the Fund) and comply with statutory prohibitions against insider trading in accordance with applicable Canadian securities legislation.

Book-Entry Only System

Registration of interests in and transfers of the Units will be made only through a book-based system (the “Book-Entry Only System”) administered by CDS. At Closing, the Fund delivered to CDS certificates evidencing the aggregate number of Units subscribed for under the initial public offering. Pursuant to the Book-Entry Only System, Units must be purchased, transferred and surrendered for redemption through a CDS Participant. All rights of beneficial Unitholders must be exercised through, and all payments or other property to which such Unitholder is entitled will be made or delivered by, CDS or the CDS Participant through which the Unitholder holds such Units. Upon purchase of any Units, the Unitholders will receive only a customer confirmation from the registered dealer which is a CDS Participant and from or through which the Units are purchased.

References in this Annual Information Form to a “Unitholder” means, unless the context otherwise requires, the owner of the beneficial interest in such Units.

The ability of a beneficial owner of Units to pledge those Units or otherwise take action with respect to the Unitholder’s interest in those Units (other than through a CDS Participant) may be limited due to the lack of a physical certificate.

The Fund has the option to terminate registration of the Units through the Book-Entry Only System, in which case certificates for the Units in fully registered form would be issued to beneficial owners of Units or their nominees.

The Fund, the trustees of the Fund and the transfer agent and registrar for the Units will not have any liability for (a) records maintained by CDS relating to the beneficial interests in the Units or the book-entry accounts maintained by CDS; (b) maintaining, supervising or reviewing any records relating to those beneficial interests; or (c) any advice or representation made or given by CDS and made or given with respect to the rules and regulations of CDS, or any action taken or not taken by CDS or the CDS participants.

Fund Administration

Except as expressly prohibited by law, the trustees may grant or delegate certain of their authority to effect the actual administration of their duties under the Declaration of Trust. The trustees may grant broad discretion to a third party to administer and manage the Fund’s day-to-day operations and to make executive decisions which conform to the general policies and principles set forth in the Declaration of Trust or otherwise established by the trustees from time to time.

Effective April 11, 2007, the Fund and GP Inc. entered into the Administration Agreement whereby GP Inc. agreed to provide or arranged for the provision of services required in the Fund's administration, including those necessary to: (i) effect the Fund's compliance with continuous disclosure obligations under applicable securities legislation, including the preparation of financial statements; (ii) provide investor relations services; (iii) provide or cause to be provided to Unitholders all information to which Unitholders are entitled under the Declaration of Trust, including relevant information with respect to income taxes; (iv) call and hold 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 redemptions of Units; (vii) effect compliance with limitations on non-resident ownership; and (viii) provide general accounting, bookkeeping and administrative services. The Administration Agreement may be terminated by the Fund upon payment to GP Inc. of all costs and expenses incurred by GP Inc. in terminating contracts entered into by it with third parties (provided such contracts were approved by the Fund), with the Fund's approval for the performance by GP Inc. of its duties under the Administration Agreement. GP Inc. will pay all expenses incurred by it and attributable to the exercise of its duties in the administration of the Fund.

GOVERNANCE OF MARKSLP

Capital of MarksLP

The capital of MarksLP consists of the aggregate of all sums of money or other property contributed by the partners of MarksLP and which is not returned to them. The interests of the partners are divided into and represented by an unlimited number of general partnership units designated as "GP Units" and an unlimited number of limited partnership units designated as "LP Units". Each MarksLP units will represent an interest in MarksLP having the preferences, rights, restrictions, conditions and limitations as provided in the Limited Partnership Agreement as follows: (a) the holders of MarksLP units will have the right to receive allocations as provided for in the Limited Partnership Agreement; (b) the holders of MarksLP units will have the right to share in returns of capital and to share in cash and any other distributions to partners of MarksLP and to receive the remaining property of MarksLP on dissolution or winding up as provided for in the Limited Partnership Agreement; and (c) the holders of MarksLP units will have the right to receive notice of and to attend any meetings of partners of MarksLP and will be entitled to vote as set out in the Limited Partnership Agreement.

The initial capital contributions to MarksLP by the Fund and GP Trust were the amounts of \$9,999.00 and \$1.00, respectively, and therefore resulted in the issuance of 9,999 LP Units for the Fund and 1 GP Unit to GP Trust. In connection with the January 1, 2009 adjustment to the Royalty Pool MarksLP subscribed for 18,312 Units of the Fund, which were allocated to Second Cup for aggregate consideration of \$172,133 (the "Proceeds"). The Fund used the Proceeds to subscribe for 172,133 LP Units of the Partnership. In order to prevent the dilution of its interest in MarksLP, at that time GP Trust also subscribed for 17 GP Units.

Distribution Policy

It is a policy of the board of directors of GP Inc., in its capacity as the sole trustee of GP Trust, in its capacity as the general partner of MarksLP to distribute all of MarksLP's available cash, subject to applicable law after:

- satisfaction of its debt service obligations, including principal and interest and other expense obligations;

- provisions for its administrative expenses and other obligations and liabilities (including taxes, if any);
- provisions for any additional amounts which may become payable to Second Cup pursuant to the Licence and Royalty Agreement in the event that Additional Cafés are added to the Royalty Pool;
- making any principal repayments in respect of the MarksLP Note considered advisable by the board of directors of GP Inc., with the consent of the Fund; and
- such reasonable working capital reserves as may be considered appropriate by its board of directors.

MarksLP Note

The following is a summary of the material attributes and characteristics of the MarksLP Note that was issued in connection with the Reorganization, and in particular the assignment of the Second Cup Marks to MarksLP by MarksCo. The MarksLP Note is a subordinated unsecured promissory note in the principal amount of \$9,170,000 made on April 2, 2007 by MarksLP to MarksCo, and which was assigned by MarksCo to the Fund on April 2, 2007. The MarksLP Note bears interest at the rate of 12% per annum. Interest is payable in arrears on or before the fourteenth day of each month of each year, commencing on May 14, 2007. The maturity date of the MarksLP Note is April 2, 2017. As at December 31, 2008, the balance on this note was \$NIL.

MARKET FOR SECURITIES

Trading Price and Volume

The outstanding Units of the Fund are listed and posted for trading on the TSX under the symbol “SCU.UN”. The following table shows the price range and average daily volume traded on the TSX for each month of 2008.

Month	Trading Price Range	Average Trading Volume
January 2008	\$8.34-\$9.40	27,624
February 2008	\$8.03-\$9.00	13,039
March 2008	\$7.60-\$8.49	21,509
April 2008	\$8.03-\$8.43	8,728
May 2008	\$8.15-\$8.47	8,801
June 2008	\$7.92-\$8.40	7,855
July 2008	\$7.40-\$8.25	8,983
August 2008	\$7.40-\$8.14	9,769
September 2008	\$6.20-\$7.74	22,656
October 2008	\$4.25-\$6.51	39,716
November 2008	\$4.00-\$5.30	41,069
December 2008	\$4.05-\$5.00	15,129

LEGAL PROCEEDINGS

Neither the Fund nor Second Cup are involved in any litigation or proceedings which, if determined adversely, would be material to the Fund, and no such proceedings are known to the Fund to be contemplated. See “Risk Factors” and note 16 to the consolidated financial statements of Second Cup for the year ended December 27, 2008.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

In November, 2006, Mr. Tsampalieros purchased all of the issued and outstanding shares of Second Cup from Cara through S.C. Coffee Co. See “Relationship with S.C. Coffee Co.”.

Second Cup and MarksLP are parties to the Licence and Royalty Agreement pursuant to which Second Cup pays the Royalty to MarksLP and is entitled to payments of the Determined Amount from MarksLP. See “Licence and Royalty Agreement”. In addition, Second Cup has granted security for its obligations under the Licence and Royalty Agreement and is entitled to the rights under the Governance Agreement.

TRANSFER AGENT AND REGISTRAR

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

MATERIAL CONTRACTS

The material contracts relating to the Fund are as follows:

- (a) the Acquisition Agreement referred to under “General Development of the Business — Establishment of the Fund”;
- (b) the Licence and Royalty Agreement referred to under “Licence and Royalty Agreement”, as amended from time to time;
- (c) the Governance Agreement referred to under “Management and Corporate Governance of GP Inc.”;
- (d) the Declaration of Trust referred to under “Description of the Fund”;
- (e) the loan agreement in respect of each of the Fund Term Loan and the Fund Operating Loan;
- (f) the General Security Agreement referred to under “Licence and Royalty Agreement”;
- (g) the MarksLP Note referred to under “Capital of MarksLP”;
- (h) the Administration Agreement referred to under “Description of the Fund”; and

- (i) the Limited Partnership Agreement referred to under “Governance of MarksLP”.

Copies of the foregoing documents may be examined during normal business hours at the Fund’s offices at 6303 Airport Road, Mississauga, Ontario L4V 1R8.

EXPERTS

The Fund’s auditors are PricewaterhouseCoopers LLP, Chartered Accountants, who have prepared an independent auditors’ report dated March 9, 2009 in respect of the Fund’s consolidated financial statements with accompanying notes as at and for the years ended December 31, 2008, 2007 and 2006. PricewaterhouseCoopers LLP has advised that they are independent with respect to the Corporation within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

ADDITIONAL INFORMATION

Additional information relating to the Fund may be obtained on request from the administrative office of the Fund at 6303 Airport Road, Mississauga, Ontario, L4V 1R8 or may be found at the Fund’s website at www.secondcupincomefund.com or on SEDAR at www.sedar.com. Additional information, including with respect to trustees’ remuneration and indebtedness and principal holders of the units of the Fund will be contained in the Fund’s information circular for its 2008 annual meeting of Unitholders.

Additional financial information is provided in the consolidated financial statements and notes to the consolidated financial statements of the Fund and Management’s Discussion and Analysis for 2007.

Schedule A – Charter of the Audit Committee

The term “**Fund**” herein shall refer to Second Cup Royalty Income Fund and the term “**Board**” shall refer to the Board of Trustees of the Fund. “**Second Cup Royalty Group**” means, collectively, the Fund, Second Cup Trade-Marks Limited Partnership (“**MarksLP**”), Second Cup GP Inc. (“**GP Inc.**”) and Second Cup GP Trust. The term “**Management**” herein shall refer to senior management of GP Inc.

PURPOSE

The Audit Committee (the “**Committee**”) is a standing committee appointed by the Board to assist the Board in fulfilling its oversight responsibilities with respect to financial reporting including responsibility to:

- oversee the work of the Fund’s external auditors engaged for the purpose of preparing or issuing an auditor’s report or performing other audit, review or attest services for the Fund;¹
- oversee the integrity of the Fund’s financial statements and financial reporting process, including the audit process and the Fund’s internal accounting controls and procedures and compliance with related legal and regulatory requirements;
- oversee the qualifications and independence of the external auditors;
- oversee the work of the Fund’s financial management and external auditors in these areas;² and
- provide an open avenue of communication between the external auditors, the Board and Management.³

In addition, the Committee will review and/or approve any other matter specifically delegated to the Committee by the Board.

The function of the Committee is oversight. It is not the duty or responsibility of the Committee or its members (i) to plan or conduct audits, (ii) to determine that the Fund’s financial statements are complete and accurate and are in accordance with generally accepted accounting principles or (iii) to conduct other types of auditing or accounting reviews or similar procedures or investigations. The Committee and its Chair are members of the Board, appointed to the Committee to provide broad oversight of the financial, risk and control related activities of the Fund and are specifically not accountable or responsible for the day to day operation or performance of such activities.

GP Inc., as administrator of the Fund, is responsible for the preparation, presentation and integrity of the Fund’s financial statements. Management is also responsible for maintaining appropriate accounting and financial reporting principles and policies and systems of risk assessment and internal controls and procedures designed to provide reasonable assurance that assets are safeguarded and transactions are properly authorized, recorded and reported and to assure the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with accounting standards and applicable laws and regulations. The external auditors are responsible for planning and carrying out an audit of the Fund’s annual financial statements in accordance with generally

¹ Multilateral Instrument 52-110 (“MI 52-110”) s.2.3(3)

² MI 52-110 s.2.3(3)

³ MI 52-110 s.4.1(c)

accepted auditing standards to provide reasonable assurance that, among other things, such financial statements are in accordance with generally accepted accounting principles.

AUDIT RESPONSIBILITIES OF THE COMMITTEE

Selection and Oversight of the External Auditors

1. The external auditors are ultimately accountable to the Committee and the Board as the representatives of the unitholders of the Fund and shall report directly to the Committee and the Committee shall so instruct the external auditors.⁴ The Committee shall evaluate the performance of the external auditors and make recommendations to the Board on the reappointment or appointment of the external auditors of the Fund to be proposed in the Fund's proxy circular for Unitholder approval and shall have authority to terminate the external auditors.⁵ If a change in external auditors is proposed, the Committee shall review the reasons for the change and any other significant issues related to the change, including the response of the incumbent auditors, and enquire on the qualifications of the proposed auditors before making its recommendation to the Board.⁶ The Board is responsible for selecting the external auditor to be proposed in the Fund's proxy circular for Unitholder approval and appointment.
2. The Committee shall review and recommend to the Board for approval the terms of engagement and the compensation to be paid by the Fund to the external auditors with respect to the conduct of the annual audit.⁷
3. The Committee shall review the independence of the external auditors and shall make recommendations to the Board on appropriate actions to be taken which the Committee deems necessary to protect and enhance the independence of the external auditors. In connection with such review, the Committee shall:
 - (a) actively engage in a dialogue with the external auditors about all relationships or services that may impact the objectivity and independence of the external auditors;⁸
 - (b) require that the external auditors submit to it on a periodic basis, and at least annually, a formal written statement delineating all relationships between the Fund and Second Cup Royalty Group, on the one hand, and the external auditors and their affiliates on the other hand;⁹
 - (c) require that (i) both the lead audit partner and the partner responsible for performing a second review respecting the audit be rotated at least every five years and be subject to a five year time out and (ii) all other partners on the audit engagement team who provide more than 10 hours of audit, review or attest services with respect to the Fund's consolidated financial statements or who serve as the lead partner in connection with any audit or review related to financial statements of a

⁴ MI 52-110 s.2.2

⁵ MI 52-110 s.2.3(2)(a)

⁶ National Instrument 51-102 s.4.11

⁷ MI 52-110 s.2.3(2)(b)

⁸ Independence Standards Board Independence Standard No. 1

⁹ CICA Handbook Section 5751.12, .25 - .29 and .32

subsidiary whose assets or revenues constitute at least 20% of the consolidated assets or revenues of the Fund be rotated at least every seven years and be subject to a two year time out;¹⁰

- (d) consider whether there should be a regular rotation of the external audit firm itself; and
 - (e) consider the auditor independence standards promulgated by applicable auditing regulatory and professional bodies.
4. The Committee shall prohibit the external auditor and its subsidiaries from providing certain non-audit services to the Fund. All non-audit services to be provided to the Fund or any of its affiliates by the external auditors or any of their affiliates shall be subject to pre-approval by the Committee.¹¹ The Committee may approve policies and procedures for the pre-approval of non-audit services to be rendered by the external auditors, which policies and procedures (i) shall include reasonable detail with respect to the services covered, (ii) shall require that the Committee be informed of each non-audit service and (iii) shall not include delegation of the Committee's responsibilities to management of GP Inc.¹²
5. The Committee shall establish and monitor clear policies for the hiring by Second Cup Royalty Group of partners, employees and former partners and employees of the external auditors.¹³
6. The Committee shall require the external auditors to provide to the Committee, and the Committee shall review and discuss with the external auditors, all reports which the external auditors are required to provide to the Committee or the Board under rules, policies or practices of professional or regulatory bodies applicable to the external auditors, and any other reports which the Committee may require. Such reports shall include:
- (a) a description of the external auditors' internal quality-control procedures, any material issues raised by the most recent internal quality-control review, or peer review, of the external auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the external auditors, and any steps taken to deal with any such issues;¹⁴ and
 - (b) a report describing (i) all critical accounting policies and practices used in the preparation of the Fund's financial statements, (ii) all alternative treatments of financial information within generally accepted accounting principles related to material items that have been discussed with Management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditors (iii) other material written communication between the external auditors and Management, such as any management letter or schedule of unadjusted differences; and (iv) disagreements between Management and/or the internal auditors and the external auditors regarding financial reporting.

¹⁰ CICA Proposed Independence Standards s.204.4(20)

¹¹ MI 52-110 ss.2.3(4), 2.4 and 2.5

¹² MI 52-110, s.2.6

¹³ Independence Standards Board Independence Standard No. 3; MI 52-110 s.2.3(8)

¹⁴ CICA Handbook Section 5751.31

7. The Committee is responsible for resolving disagreements between Management and the external auditors regarding financial reporting.¹⁵

Oversight of Internal Audit Function

8. The Committee shall determine the appropriate internal audit function for the Fund and oversee its processes, reports and the terms of compensation for any individuals engaged in such function, if any.

Oversight and Monitoring of Audits

9. The Committee shall review with the external auditors and Management the audit function generally, the objectives, staffing, locations, co-ordination, reliance upon Management, any internal audit and general audit approach and scope of proposed audits of the financial statements of the Fund, the overall audit plans, the responsibilities of Management and the external auditors, the audit procedures to be used and the timing and estimated budgets of the audits.¹⁶
10. The Committee shall discuss with the external auditors any difficulties or disputes that arise with Management or any internal auditors during the course of the audit and the adequacy of Management's responses in correcting audit-related deficiencies.¹⁷
11. The Committee shall review with Management the results of any internal and all external audits.
12. The Committee shall take such other reasonable steps as it may deem necessary to satisfy itself that the audit was conducted in a manner consistent with all applicable legal requirements and auditing standards of applicable professional or regulatory bodies.

Oversight and Review of Accounting Principles and Practices¹⁸

13. The Committee shall, as it deems necessary, oversee, review and discuss with Management, the external auditors and any internal auditors:
 - (a) the quality, appropriateness and acceptability of the Fund's accounting principles and practices used in its financial reporting, changes in the Fund's accounting principles or practices and the application of particular accounting principles and disclosure practices by Management to new transactions or events;
 - (b) all significant financial reporting issues and judgments made in connection with the preparation of the Fund's financial statements, including the effects of alternative methods within generally accepted accounting principles on the financial statements and any "second opinions" sought by Management from an independent auditor with respect to the accounting treatment of a particular item;

¹⁵ MI 52-110 s.2.3(3)

¹⁶ CICA Handbook Section 5751.14; MI 52-110 s.2.3(3)

¹⁷ CICA Handbook Section 5751.23

¹⁸ CICA Handbook Section 5751.17, .20, .21 and .22

- (c) disagreements between Management and the external auditors or any internal auditors regarding the application of any accounting principles or practices;
 - (d) any material change to the Fund's auditing and accounting principles and practices as recommended by Management, the external auditors or any internal auditors or which may result from proposed changes to applicable generally accepted accounting principles;
 - (e) the effect of regulatory and accounting initiatives on the Fund's financial statements and other financial disclosures;
 - (f) any reserves, accruals, provisions, estimates or management programs and policies, including factors that affect asset and liability carrying values and the timing of revenue and expense recognition, that may have a material effect upon the financial statements of the Fund;
 - (g) the use of special purpose entities and the business purpose and economic effect of off-balance sheet transactions, arrangements, obligations, guarantees and other relationships of Second Cup Royalty Group and their impact on the reported financial results of the Fund;
 - (h) any legal matter, claim or contingency that could have a significant impact on the financial statements, the Fund's compliance policies and any material reports, inquiries or other correspondence received from regulators or governmental agencies and the manner in which any such legal matter, claim or contingency has been disclosed in the Fund's financial statements;
 - (i) the treatment for financial reporting purposes of any significant transactions which are not a normal part of the Fund's operations;
 - (j) the use of any "pro forma" or "adjusted" information not in accordance with generally accepted accounting principles;¹⁹ and
 - (k) Management's determination of goodwill impairment, if any, as required by applicable accounting standards.
14. The Committee will review and resolve disagreements between Management and the external auditors regarding financial reporting²⁰ or the application of any accounting principles or practices.

Oversight and Monitoring of Internal Controls

15. The Committee shall, as it deems necessary, exercise oversight of, review and discuss with Management and the external auditors:
- (a) the adequacy and effectiveness of the Fund's internal accounting and financial controls based on recommendations of Management and the external auditors for the improvement of accounting practices and internal controls;²¹

¹⁹ CSA Notice 52-306

²⁰ MI 52-110 s.2.3(3)

²¹ CICA Handbook Section 5751.16

- (b) any material weaknesses in the internal control environment, including with respect to computerized information system controls and security; and
- (c) Management's compliance with the Fund's processes, procedures and internal controls.

Communications with Others

16. The Committee shall establish and monitor procedures for the receipt and treatment of complaints received by the Fund regarding accounting, internal accounting controls or audit matters and the anonymous submission of concerns regarding questionable accounting or auditing matters and review periodically with Management, and senior finance officers of Second Cup Royalty Group responsible for any internal audit function, these procedures and any significant complaints received.²²

Oversight and Monitoring of the Fund's Financial Disclosures

17. The Committee shall:
- (a) review with the external auditors and Management and recommend to the Board for approval the audited financial statements and the notes and Management's Discussion and Analysis accompanying such financial statements, the Fund's annual report, the financial information of the Fund contained in any prospectus or information circular or other disclosure documents or regulatory filings of the Fund;²³ and
 - (b) review with the external auditors and Management and approve each set of interim financial statements and the notes and Management's Discussion and Analysis accompanying such financial statements and any other disclosure documents or regulatory filings of the Fund containing or accompanying financial information of the Fund.²⁴

Such reviews shall be conducted prior to the release of any summary of the financial results or the filing of such reports with applicable regulators.

18. The Committee shall review all financial statements and material change reports prepared for the Fund or other members of the Second Cup Royalty Group. The Committee shall oversee the inclusion of Second Cup's quarterly and annual consolidated financial statements as a supplement to the Funds financial statements filed on SEDAR.
19. The Committee shall review such additional information regarding the business of MarksLP as the Fund may reasonably request to comply with any continuous disclosure or other disclosure requirements.
20. Prior to their distribution and filing, the Committee shall review and discuss earnings press releases, as well as financial information provided to analysts and ratings agencies. The Chair of the Committee may perform this review function, on behalf of the Committee, as is required. Such discussions may, in the discretion of the Committee, be done generally (i.e., by discussing the types of information to be disclosed

²² MI 52-110 s.2.3(7)

²³ National Instrument 51-102 ss.4.5(1) and 5.5(1); MI 52-110 ss.2.3(5) and 5.1; OSC Rule 52-501

²⁴ National Instrument 51-102 ss. 4.5(2), (3) and 5.5(2) and (3); MI 52-110 s.2.3(5); OSC Rule 52-501

and the type of presentation to be made) and the Committee need not discuss in advance each instance in which the Fund discloses financial information if it has reviewed and approved the Fund's policies and procedures with respect to such matters.²⁵

21. The Committee shall meet with Management to review and assess the process and systems in place for the review of public disclosure documents that contain audited and unaudited financial information and their effectiveness.²⁶
22. As part of the process by which the Committee shall satisfy itself as to the reliability of public disclosure documents that contain audited and unaudited financial information, the Committee shall require each of (i) the President or Chief Executive Officer and (ii) the Chief Financial Officer of the applicable member of the Second Cup Royalty Group to provide a certificate addressed to the Committee certifying in respect of each annual and quarterly report the matters such officers are required to certify in connection with the filing of such reports under applicable securities laws.²⁷ The Committee shall oversee the inclusion of such a certificate in respect of each annual and quarterly financial statement that MarksLP provides to the Fund as a supplement to the Fund's financial statement filings.
23. The Committee shall review the disclosure with respect to its pre-approval of audit and non-audit services provided by the external auditors.

Oversight of Finance Matters

24. The Committee shall meet periodically with Management to review and discuss the Fund's major financial risk exposures and the policy steps Management has taken to monitor and control such exposures.
25. The Committee shall meet periodically with the Secretary of GP Inc. to review issues arising out of compliance activities, as well as assess contingent legal and regulatory risks.
26. The Committee shall receive and review the financial statements, material charge reports and other financial information of members of Second Cup Royalty Group and any auditor recommendations concerning such entities as they relate to the ownership, licensing, maintenance and control of the Second Cup Marks.

Committee Reporting

27. As required by applicable laws or regulations or stock exchange requirements, the Committee shall review and approve the information required to be reported to unitholders and others in its Annual Information Form, and for such purposes, each member of the Committee shall provide information respecting that member's education and experience that relate to his or her responsibilities as a Committee member.²⁸

²⁵ National Instrument 51-102 s.11.4 and MI 52-110 s.2.3(5); National Policy 51-201 s. 6.4

²⁶ MI 52-110 s.2.3(6)

²⁷ Multilateral Instrument 52-109, Parts 2 and 3

²⁸ MI 52-110 s.5.1; Form 52-110F and Companion Policy 52-110CP s. 4.2

Insider Trading

28. The Committee shall prepare and revise as necessary a policy on insider trading respecting the Fund's securities. Such policy shall impose trading black-outs, policies and procedures respecting trades in the Fund's securities.
29. The Committee shall periodically review Management's systems and practices for ensuring that all trustees, directors, officers and other reporting insiders of the Fund who are required to do so file insider reports in connection with any trade of securities of the Fund or any derivative transaction which results in the effective disposition of the individual's economic interest in a security of the Fund within the shortest period of time in which such reports are required to be filed.

Additional Responsibilities

30. Each new member of the Committee shall receive such training as may be approved by the Chair of the Committee. Training should cover the requirements and obligations of audit committees, issues of accounting principles, auditing standards, risk management and ethical compliance. Each Committee member should attend refresher training as may be deemed appropriate from time to time.
31. The Committee shall review and/or approve any other matter specifically delegated to the Committee by the Board and undertake on behalf of the Board such other activities as may be necessary or desirable to assist the Board in fulfilling its oversight responsibilities with respect to financial reporting.

THE CHARTER

The Committee shall review and reassess the adequacy of this Charter at least annually and otherwise as it deems appropriate and recommend changes to the Board. The performance of the Committee shall be evaluated with reference to this Charter annually.²⁹

The Committee shall ensure that this Charter or a summary of it which has been approved by the Committee is disclosed in accordance with all applicable securities laws or regulatory requirements in the annual proxy circular or annual report of the Fund.

²⁹ National Policy 58-201 s.3.18(a)