

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



THE SECOND CUP LTD.
NOTICE OF ANNUAL AND SPECIAL MEETING
OF SHAREHOLDERS
AND
MANAGEMENT INFORMATION
CIRCULAR

Meeting to be held at 10:00 a.m.
FRIDAY, MAY 9, 2014

at
St. Andrew's Club & Conference Centre
150 King Street West, 27th Floor
Toronto, Ontario
M5H 1J9

The Second Cup Ltd.
6303 Airport Road
Mississauga, Ontario
L4V 1R8

NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN to holders of **THE SECOND CUP LTD.** (the “**Corporation**”) shares (the “**Shareholders**”) that an annual and special meeting of Shareholders will be held at St. Andrew’s Club & Conference Centre, 150 King Street West, 27th Floor, Toronto, Ontario, M5H 1J9 on Friday, May 9, 2014 at 10:00 a.m. (Toronto time) for the following purposes:

1. to receive the audited financial statements of the Corporation for the year ended December 28, 2013;
2. to elect directors of the Corporation (the “**Directors**”);
3. to appoint auditors for the Corporation and to authorize the Directors of the Corporation to fix the remuneration of the auditors;
4. to consider and, if thought advisable, to pass, with or without variation, an ordinary resolution (the “**Option Plan Resolution**”), to ratify, confirm and approve the adoption of the stock option plan of the Corporation approved by the Directors on March 21, 2014; and
5. to transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

All Shareholders, other than CDS Clearing and Depository Services Inc. (“**CDS**”), must provide voting instructions in the manner described in the enclosed voting instruction form and in the accompanying management information circular. **Your shares will not be voted without your instructions.**

CDS, which through its nominee is the sole registered Shareholder of the Corporation, must deposit completed proxies with Computershare Trust Company of Canada, Attention: Proxy Department, 9th floor, 100 University Avenue, Toronto, Ontario, M5J 2Y1 before 5:00 p.m. (Toronto time) on May 7th, 2014 or not later than 5:00 p.m. (Toronto time) on the second last business day prior to any adjournment or postponement of the meeting. However, all Shareholders other than CDS must communicate their voting instructions well in advance of this deadline in order to allow their instructions to be processed before the deadline.

The Directors of the Corporation have fixed March 28, 2014 as the record date for the meeting.

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

DATED at Mississauga, Ontario this 21st day of March, 2014.

THE SECOND CUP LTD.

Michael Bregman
Chair of the Board of Directors

TABLE OF CONTENTS

	Page
THE MEETING	1
Date, Time and Place of the Meeting	1
Record Date and Quorum	1
Solicitation of Proxies	1
Appointment and Revocation of Proxies	1
Voting of Proxies	2
VOTING OF SHARES — INFORMATION FOR BENEFICIAL SHAREHOLDERS	2
VOTING SECURITIES AND PRINCIPAL HOLDERS OF VOTING SECURITIES	3
ANNUAL AND SPECIAL MEETING BUSINESS	3
Financial Statements	3
Election of Directors	3
Director Share Ownership	4
Attendance Record of Directors	5
Appointment of Auditors	6
Approval of Stock Option Plan	6
COMPENSATION OF DIRECTORS	8
Director Compensation Table	8
Summary of Board Compensation	9
Directors’ Deferred Share Unit Plan	9
EXECUTIVE AND OTHER COMPENSATION	10
Compensation Discussion and Analysis	11
Base Salary	12
Short Term Incentive Plan/Annual Bonus	12
Long Term Incentive Plan	12
Perquisites and Other Personal Benefits	13
Performance Graph	13
NEO Summary Compensation Table	13
Employment Agreements, Severance and Other Termination Benefits	16
INDEBTEDNESS OF DIRECTORS	17
DIRECTORS’ AND OFFICERS’ LIABILITY INSURANCE	17
CORPORATE GOVERNANCE	17
Board of Directors	17
Position Descriptions	18
Orientation and Continuing Education	19
Ethical Business Conduct	19
Nomination of Directors	19
Compensation of Directors	19
Assessments	20
Audit Committee	20

AUDITORS, TRANSFER AGENT AND REGISTRAR.....	20
INTEREST OF CERTAIN PERSONS OR COMPANIES IN MATTERS TO BE ACTED UPON	21
INTEREST OF EXPERTS	21
ADDITIONAL INFORMATION.....	21
OTHER BUSINESS	21
APPROVAL OF CIRCULAR.....	21
APPENDIX A CHARTER FOR THE BOARD OF DIRECTORS	
APPENDIX B OPTION PLAN RESOLUTION	
APPENDIX C STOCK OPTION PLAN	

THE SECOND CUP LTD.

MANAGEMENT INFORMATION CIRCULAR

(Containing information as at March 21, 2014 unless otherwise noted)

THE MEETING

This Management Information Circular (this “**Circular**”) is being sent to you as a holder of common shares (the “**Shares**”) of The Second Cup Ltd. (the “**Corporation**”) in connection with the annual and special meeting of shareholders of the Corporation (“**Shareholders**”) to be held on May 9, 2014 (the “**Meeting**”).

Date, Time and Place of the Meeting

The Meeting is to be held at St. Andrew’s Club & Conference Centre, 150 King Street West, 27th Floor, Toronto, Ontario, M5H 1J9, at 10:00 a.m. (Toronto time) on May 9, 2014.

Record Date and Quorum

The directors of the Corporation (“**Directors**”) have fixed March 28, 2014, as the record date (the “**Record Date**”) for the Meeting. A quorum for the Meeting consists of two or more individuals present in person either holding personally or representing by proxy not less in aggregate than 10% of the votes attached to all outstanding Shares.

Solicitation of Proxies

This Circular is furnished in connection with the solicitation of proxies by management of the Corporation, for use at the Meeting and at any adjournments thereof, for the purposes set forth in the accompanying Notice of Meeting. The Corporation may pay investment dealers or other service providers for their reasonable expenses for sending this Circular and other Meeting materials to Shareholders and obtaining voting instructions and/or proxies. It is expected that the solicitation of proxies for the Meeting will be primarily by mail, but proxies may also be solicited by telephone or personally by regular employees of the Corporation at nominal cost. The cost of solicitation will be borne by the Corporation.

The Corporation is using notice-and-access to send the Notice of Meeting, this Circular, the audited financial statements of the Corporation for the year ended December 28, 2013 and the corresponding management discussion and analysis (collectively the “**Proxy-Related Materials**”) to registered and non-registered holders of Shares. Under the notice-and-access method, registered and non-registered holders of Shares will be sent a notice package (the “**Notice Package**”) explaining, among other things, how to access the Proxy-Related Materials and containing a form of proxy or voting instruction form, as applicable.

The Proxy-Related Materials are available electronically for download by Shareholders under the Corporation’s profile on SEDAR at www.sedar.com or on the Corporation’s website at www.secondcup.com. A paper copy of the Proxy-Related Materials may be requested by phone at 1-877-212-1818. For all requests received prior to 4:00 p.m. (Toronto time) on May 8, 2014, a paper copy of the Proxy-Related Materials will be sent by first class mail, courier or similar delivery method within three (3) business days of receipt of the request. For all requests received after May 8, 2014, a paper copy of the Proxy-Related Materials will be sent by prepaid mail, courier or similar delivery method within ten (10) calendar days of receipt of the request. The Corporation is not sending Proxy-Relating materials directly to Non-Registered Holders of Shares who have not objected to intermediaries disclosing their beneficial ownership information.

Appointment and Revocation of Proxies

An instrument appointing a proxy must be in writing and either substantially in a form approved by the Directors acting reasonably or as may be satisfactory to the chair of the Meeting. Forms of proxy must be executed on behalf of the registered Shareholder by a person duly authorized in writing. The individuals named in the enclosed form of proxy are officers of the Corporation. **A registered Shareholder may appoint some other**

person, who need not be a Shareholder, to represent him or her at the Meeting. In order to do so, the registered Shareholder must insert such other person's name in the blank space provided in the form of proxy and strike out the names of the nominees referred to, or complete another proper form of proxy and, in either case, deposit the completed proxy at the office of the transfer agent indicated on the enclosed envelope not later than 5:00 p.m. (Toronto time) on the second last business day (which excludes Saturdays, Sundays and statutory holidays in Toronto) before the date of the Meeting (or any adjournment or postponement thereof).

A proxy given pursuant to this solicitation may be revoked by instrument in writing, including another proxy bearing a later date, executed by the registered Shareholder or by its attorney authorized in writing, and by depositing such instrument at the office of the transfer agent indicated on the enclosed envelope not later than 5:00 p.m. (Toronto time) on the last business day (which excludes Saturdays, Sundays and statutory holidays in Toronto) before the date of the Meeting (or any adjournment or postponement thereof), or in any other manner permitted by law. However, the revocation of a proxy does not affect any matter on which a vote has been taken prior to the revocation.

Voting of Proxies

Shares represented by a properly executed proxy will be voted or withheld from voting on any ballot that may be conducted at the Meeting or at any adjournment or postponement of the Meeting in accordance with the instructions of the registered Shareholder indicated on the proxy, and if the registered Shareholder specifies a choice with respect to a matter to be acted on, those Shares will be voted accordingly. In the absence of instructions, those Shares will be voted "FOR" each of the matters referred to in the form of proxy. The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice of Meeting, or other matters which may properly come before the Meeting. At the time of the printing of this Circular, the Directors know of no such amendments, variations or other matters to come before the Meeting. Should such matters arise, the persons named in the enclosed form of proxy will vote in accordance with their judgment on such matters or business.

VOTING OF SHARES — INFORMATION FOR BENEFICIAL SHAREHOLDERS

Shareholders who are not registered Shareholders (referred to in this Circular as "**Beneficial Shareholders**") should note that only proxies deposited by registered Shareholders on the Record Date (being those whose names appear on the records of the Corporation as the registered holders of Shares on March 28, 2014) can be recognized and acted upon at the Meeting. Currently, all issued and outstanding Shares are held in "book-entry only" form under a system administered by CDS Clearing and Depository Services Inc. ("**CDS**"), and all Shares are currently registered under the name of CDS & Co., as nominee of CDS. Accordingly, all Shareholders other than CDS must provide voting instructions in the manner described in the voting instruction form provided by their Intermediary (as defined below) and in this Circular. Beneficial Shareholders cannot vote at the Meeting by completing and depositing a form of proxy as a registered Shareholder.

Typically, Beneficial Shareholders will receive a voting instruction form or other similar document with this Circular from their broker or other intermediary holding Shares on their behalf ("Intermediary"). This form allows you to provide voting instructions with respect to your Shares. The voting instruction form is similar to the form of proxy provided to a registered Shareholder. However, its purpose is limited to instructing a registered Shareholder (in this case, CDS) how to vote on your behalf. Intermediaries will typically make arrangements that will allow you to provide voting instructions by completing and returning a voting instruction form by mail or facsimile, calling a toll-free telephone number (1-800-474-7493 or 1-800-474-7501 (French)) or by using the internet at www.proxyvote.com. You should carefully follow the directions provided to you in order to ensure that your Shares are voted at the Meeting. Your Shares will not be voted without your instructions.

Please note that Beneficial Shareholders seeking to attend the Meeting (or to appoint another person to vote or attend on their behalf) will not be recognized at the Meeting for the purpose of voting Shares unless the Beneficial Shareholder provides instructions to appoint himself or herself (or such other person) as a proxyholder. In order to do this, the individual should follow the instructions on the voting instruction form regarding the manner in which voting instructions are to be provided and, in doing so, specify that individual's own name (or such person's name) as the person to be appointed as proxyholder for the purposes of voting his or her Shares. For instance, if

“David Jones” is a Beneficial Shareholder and he wishes to be appointed as a proxyholder, in the voting instruction form he receives with this Circular, he should insert the name “David Jones” in the space provided and follow the other procedures specified on the form for appointing a proxyholder other than one of the individuals specified on the form.

All Beneficial Shareholders should communicate their voting instructions in accordance with directions received from the Intermediary holding Shares on their behalf well in advance of the deadline for the receipt of proxies of 5:00 p.m. (Toronto time) on Wednesday, May 7, 2014 in order to allow their instructions to be processed before the deadline.

VOTING SECURITIES AND PRINCIPAL HOLDERS OF VOTING SECURITIES

As at the date hereof, the Corporation has 9,903,045 Shares issued and outstanding, each of which entitles the holder to one vote per Share. Each holder of Shares of record at the close of business on the Record Date will be entitled to one vote for each Share held on all matters proposed to come before the Meeting.

As at the date hereof, to the knowledge of the Directors, Mr. Paul D. Phelan is the only person who beneficially owns, directly or indirectly, or controls or directs voting securities of the Corporation carrying 10% or more of the voting rights attached to any class of voting securities of the Corporation. Based on information publicly filed with applicable securities regulatory authorities, as of the date hereof, Mr. Phelan owns or exercises control over 2,770,200 Shares, representing approximately 28% of the issued and outstanding Shares.

ANNUAL AND SPECIAL MEETING BUSINESS

Financial Statements

The audited financial statements of the Corporation, for the year ended December 28, 2013 are included in the 2013 annual report of the Corporation, which has been posted on SEDAR at www.sedar.com and on the Corporation’s website at www.seconcup.com and is available upon request.

Election of Directors

In accordance with the Corporation’s articles of arrangement, the Corporation must have a minimum of three Directors and a maximum of ten Directors. Currently, the number of Directors is six.

At the Meeting, Shareholders will be asked to elect as Directors the six individuals named below (the “**Nominees**”). The Directors adopted a policy to permit Shareholders to vote on individual Directors at general meetings of Shareholders such as the Meeting. All six of the Nominees are current Directors. Each Director will hold office until the close of the next annual meeting of the Shareholders or until such Director resigns, is removed, or ceases to be qualified to act as a Director.

On March 22, 2013, the Board of Directors adopted a majority voting policy (the “**Majority Voting Policy**”). The Majority Voting Policy provides that in an uncontested election of Directors, any nominee who receives a greater number of votes “withheld” than votes “for” will promptly following the relevant shareholder meeting tender a resignation to the Board of Directors, such resignation to take effect on acceptance by the Board of Directors. The Governance, Human Resources and Compensation Committee (the “**Governance Committee**”) will consider the offer of resignation and recommend to the Board of Directors whether or not to accept it. The Board will make its decision and announce it in a press release within 90 days following such meeting, including the reasons for rejecting the resignation, if applicable. A Director who tenders a resignation pursuant to this policy will not participate in any meeting of the Board or the Governance Committee at which the resignation is considered.

On March 22, 2013, the Board of Directors adopted an advance notice policy (the “**Advance Notice Policy**”) for the purpose of providing Shareholders, Directors and management of the Corporation with a transparent, structured and fair process for nominating Directors of the Corporation in connection with any annual or special meeting of Shareholders. A copy of the Advance Notice Policy is attached as Appendix B to the Corporation’s Management Information Circular in respect of the meeting of Shareholders held on May 3, 2013, which is on SEDAR at www.sedar.com.

The table below provides the names of the Nominees, the municipality in which he or she is ordinarily resident, all offices of the Corporation now held by him or her, his or her principal occupation, the period of time for which he or she has been a Director of the Corporation and the number of Shares beneficially owned by him or her, directly or indirectly, or which he or she controls or directs, as at the date hereof. Each Nominee has established his or her eligibility and willingness to serve as a Director. If, prior to the Meeting, any of the listed Nominees should become unavailable to serve as a Director, the persons designated in the form of proxy will have the right to use their discretion in voting for a properly qualified substitute.

The management representatives designated in the enclosed form of proxy intend to vote FOR the election of each of the Nominees whose names are set forth below.

Director Share Ownership

In accordance with share ownership guidelines adopted effective as of January 1, 2011, each Director is required to own such number of Shares and/or Deferred Share Units of the Corporation that has an aggregate purchase price or deemed issue price, as applicable, equal to or greater than three (3) times the amount of the such Director's previous year's annual retainer calculated at the date of the Corporation's fiscal year end. Each Director is strongly encouraged to meet the required ownership level within five (5) years from the later of January 1, 2011 or the date such individual became a Director. The Chairman of the Board of Directors may grant an exception to these ownership guidelines in rare instances where they would place a severe hardship on a Director or the Director is prohibited from purchasing Shares or holding DSUs.

The following table shows the Share ownership and Deferred Share Unit holdings of the Directors as at December 28, 2013.

<u>Name, Position being nominated for and Municipality of Residence</u>	<u>Present Office</u>	<u>Principal Occupation (Preceding 5 Years)</u>	<u>DSUs or Shares Beneficially Owned, Controlled or Directed⁽¹⁾</u>
ALIX BOX Director, Oakville, Ontario, Canada Non-Independent	Director since February 24, 2014	President and Chief Executive Officer of the Corporation from February 2014 to present. Member of senior leadership team at Holt Renfrew & Co. Ltd., most recently as Senior Vice President, Retail Channel, and previously as Senior Vice President, Sales and Marketing and Senior Vice President, Sales and Operations, from 2007 to February 2014.	-
MICHAEL BREGMAN^{(2) (3)} Chair of the Board of Directors, Toronto, Ontario, Canada Independent	Director since December 20, 2013	Principal and Chief Executive Officer of Tailwind Capital Inc., a Toronto-based investment management firm, from 2003 to present. Director of Clairvest Group Inc., Ideaca Ltd. and MapleMusic.	500,000 Shares
STEPHEN KELLEY⁽²⁾ Director, Kitchener, Ontario, Canada Independent	Director since December 20, 2013 ⁽⁴⁾	Chief Executive Officer of Stocom Research Trading & Investments Ltd., an investment firm, from 2004 to present. Director of Wind Athletes Canada.	-

<u>Name, Position being nominated for and Municipality of Residence</u>	<u>Present Office</u>	<u>Principal Occupation (Preceding 5 Years)</u>	<u>DSUs or Shares Beneficially Owned, Controlled or Directed⁽¹⁾</u>
ALTON McEWEN⁽³⁾ Director, Bellevue, Washington, USA Independent	Director since December 20, 2013	President and Chief Executive Officer of Distant Lands Coffee, a leading vertically integrated coffee company involved in farming, milling, and roasting coffee for leading food service and grocery retail companies in the United States and internationally, from 2011 to present. Director of Ten Peaks Coffee Company Inc., Distant Lands Coffee, Swiss Water Decaffeinated Coffee Company, Inc. and Canadian Coffee Association.	1,200 Shares
RAEL MERSON⁽²⁾ Director, Toronto, Ontario, Canada Independent	Director since December 20, 2013	President of Mixed Use Capital, a real estate development company that is developing commercial real estate in California, from 2009 to present.	-
ALAN SIMPSON⁽³⁾ Director, Toronto, Ontario, Canada Independent	Director since December 20, 2013	President of Grand Slams Investments Inc., an investment firm, from 2013 to present. Chief Executive Officer of Town Shoes Limited, which operated retail stores under the names Town Shoes and The Shoe Company, from 2000 to 2013.	-

Notes:

- (1) Information furnished by the Nominees. See “Compensation of Directors – Directors’ Deferred Share Unit Plan” below for more information with respect to the DSUs.
- (2) Member of the Audit Committee.
- (3) Member of the Governance Committee.
- (4) Mr. Kelley resigned from the Board of Directors on December 18, 2013 and was re-appointed to the Board on December 20, 2013. Prior to his resignation, Mr. Kelley had been a Director of the Corporation since October 8, 2012.

Attendance Record of Directors

The following table shows the attendance of each of the Nominees (if applicable) at meetings of the Board of Directors of the Corporation and committee meetings held during the 2013 fiscal year.

Summary of Attendance of Directors

<u>Director</u>	<u>Director Meetings Attended</u>	<u>Committee Meetings Attended</u>
Alix Box⁽¹⁾	-	-
Michael Bregman⁽²⁾	2/2	-
Stephen Kelley⁽³⁾	12/12	3/3
Alton McEwen⁽²⁾	2/2	-
Rael Merson⁽²⁾	2/2	-
Alan Simpson⁽²⁾	2/2	-

Notes:

- (1) Ms. Box was appointed a Director on February 24, 2014.
- (2) Messrs. Bregman, McEwen, Merson and Simpson were each appointed as a Director on December 20, 2013.

- (3) Mr. Kelley resigned from the Board on December 18, 2013 and was re-appointed to the Board on December 20, 2013. Prior to his resignation, Mr. Kelley had been a Director of the Corporation since October 8, 2012.

Appointment of Auditors

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

PricewaterhouseCoopers LLP has acted as the Corporation's (or its predecessor's) auditors since the establishment of the Corporation on October 22, 2004.

The management representatives designated in the enclosed form of proxy intend to vote FOR the reappointment of PricewaterhouseCoopers LLP as auditors of the Corporation to hold office until the next annual meeting of Shareholders and the granting of authority to the Directors to fix the remuneration of the auditors.

Approval of Stock Option Plan

At the Meeting, Shareholders will be asked to consider, and, if thought advisable, approve the Option Plan Resolution to ratify, confirm and approve the adoption of the stock option plan of the Corporation (the "**Stock Option Plan**") approved by the Directors on March 21, 2014. A copy of the Option Plan Resolution is set out in Appendix B of this Circular.

Background

The Stock Option Plan is designed to promote the long-term interests of the Corporation and its Shareholders by fostering a proprietary interest in the Corporation among the directors and employees (including officers) of the Corporation. The Stock Option Plan will also be used by the Corporation to attract and retain qualified directors and employees (including officers). The Board of Directors believes that equity ownership by management in the Corporation will be an integral component of its compensation scheme going forward, making option grants under the Stock Option Plan an important element of the Corporation's overall executive compensation strategy.

The Board of Directors adopted the Stock Option Plan on March 21, 2014, subject to Shareholder approval. The Stock Option Plan will be effective as of May 9, 2014.

Key Terms of the Stock Option Plan

The following summary of the key terms of the Stock Option Plan is qualified in its entirety by the full text of the Stock Option Plan set out in Appendix C of this Circular.

The total number of Shares issuable under the Stock Option Plan shall be no greater than 10% of the total issued and outstanding Shares of the Corporation as May 9, 2014, being 990,304 Shares.

As of March 21, 2014, no options have been granted under the Stock Option Plan. The Board of Directors, or a committee and/or member thereof, may grant options to any eligible person upon the terms, conditions and limitations set forth in the Stock Option Plan and such other terms, conditions and limitations permitted by and not inconsistent with the Stock Option Plan as the Board of Directors, or a committee and/or member thereof, may determine and set forth in an agreement between the Corporation and the option holder under which options are granted (the "**Grant Agreement**"). No assignment or other transfer of options is permitted under the Stock Option Plan.

In accordance with the terms of Ms. Box's employment agreement, following approval of the Stock Option Plan at the Meeting, in lieu of Ms. Box's participation in the LTIP (see "Executive and Other Compensation – Long

Term Incentive Plan”) the Corporation intends to grant Ms. Box an option to acquire 400,000 Shares at an exercise price equal to the Fair Market Value (as defined in the Stock Option Plan) of the underlying Shares on the date of grant, with 80,000 such options vesting on January 1, 2015 and each January 1 thereafter for the next four years. Such options shall expire ten (10) years after the date of grant.

Eligibility

All directors or employees (including officers) of the Corporation or any of its affiliates, as designated by the Board of Directors, are eligible to receive options under the Stock Option Plan. The maximum number of Shares which may be issued to insiders under the Stock Option Plan, or when combined with any other security based compensation arrangements, within any one-year period, may not exceed 10% of the Shares issued and outstanding. The maximum number of Shares issuable to insiders under the Stock Option Plan, or when combined with any other security based compensation arrangements, at any time, may not exceed 10% of the Shares issued and outstanding.

Term, Vesting and Exercise Price of Options

The exercise period shall be determined by the Board of Directors, or a committee and/or member thereof, in its sole and absolute discretion at the time the option is granted, and unless otherwise provided in the option holder’s Grant Agreement and subject to earlier expiry in accordance with the terms of the Stock Option Plan, each option shall expire ten (10) years after the date of grant. The exercise price of the options shall be fixed at the date of grant, but in no event shall the exercise price be less than the Fair Market Value of the Shares on the date of grant. “**Fair Market Value**” means, on any particular day, the volume weighted average closing price of a Share on the Stock Exchange (as defined in the Stock Option Plan) for the five (5) preceding days on which the Shares were traded. Options shall vest in accordance with the Grant Agreement entered into in respect of the options. However, where a Grant Agreement does not specify the vesting date of an option, the option shall vest in equal annual amounts on each of the first, second, third, fourth and fifth anniversaries of the date of grant.

Termination of Options

Upon an option holder’s termination without cause, retirement, resignation, or failure to be re-elected as a Director of the Corporation or an affiliate, (i) the expiry date of any unvested options held by such option holder will be the option holder’s Termination Date, and (ii) the expiry date of any vested options held by such option holder will be the date that is ninety (90) days after the option holder’s Termination Date. “**Termination Date**” means the date on which an option holder ceases to be eligible to participate in the Stock Option Plan as a result of termination of employment with the Corporation or an affiliate for any reason. For the purposes of the Stock Option Plan, an option holder’s employment with the Corporation or an affiliate shall be considered to have terminated effective on the last day of such option holder’s actual and active employment with the Corporation or affiliate.

Upon an option holder’s death, (i) the expiry date of any unvested options held by such option holder will be the option holder’s Termination Date, and (ii) the expiry date of any vested options held by such option holder will be the date that is one hundred and eighty (180) days after the option holder’s Termination Date.

Upon an option holder’s termination for cause, the expiry date of all options held by such option holder (whether vested or unvested) is the option holder’s Termination Date.

In the event of a Change of Control Event (as defined in the Stock Option Plan), the Board of Directors, or a committee and/or member thereof, may make such provision for the protection of the rights of the option holders as the Board of Directors, or a committee and/or member thereof, in its discretion considers appropriate in the circumstances, including, without limitation, changing the vesting date or dates for any option, changing the date on which any option expires, providing for substitute rights in the continuing entity, and permitting the conditional exercise of options in connection with a potential Change of Control Event. Notwithstanding the foregoing, in the event of the occurrence of transaction or series of transactions that, if completed, would result in (i) a Change of Control Event and (ii) the Shares no longer being listed on the Stock Exchange (as defined in the Stock Option Plan) (a “**Proposed Transaction**”), all vested and unvested options shall become exercisable prior to, and conditional upon the completion of, such Proposed Transaction.

Amendments to the Stock Option Plan

The Board of Directors may, in its sole discretion, suspend or terminate the Stock Option Plan at any time or from time to time amend or revise the terms of the Stock Option Plan or any Grant Agreement, subject to any required regulatory approval, provided that such suspension, termination, amendment, or revision will not adversely alter or impair any option previously granted except where the option holder consents, or where required by law.

The Board of Directors may from time to time, in its discretion and without the approval of Shareholders, amend the Stock Option Plan or any Grant Agreement, which may include, but is not limited to, (i) any amendment of a “housekeeping nature”; (ii) a change to the vesting provisions of the Stock Option Plan and any option; (iii) a change to the provisions governing assignability and the effect of termination of an option holder’s employment, contract or office, or cessation of an option holder’s directorship; (iv) the addition of a form of financial assistance and any amendment to a financial assistance provision which is adopted; or (v) an amendment to the Stock Option Plan or an option as necessary to comply with applicable law or achieve a particular tax treatment, or to comply with the requirements of a stock exchange or any other regulatory body having authority over the Corporation, the Stock Option Plan, the option holders or the Shareholders.

Subject to compliance with applicable stock exchange rules, Shareholder approval is required for the following amendments to the Stock Option Plan (i) any increase in the maximum number of Shares that may be issuable from treasury pursuant to options granted under the Stock Option Plan, including an increase to the maximum number of Shares or a change from a fixed maximum percentage of Shares to a fixed maximum number, other than an adjustment pursuant to a change in capitalization; (ii) any reduction in the exercise price after an option has been granted or any cancellation of an option and the substitution of that option with a new option with a reduced exercise price, except in the case of an adjustment pursuant to a change in capitalization; (iii) any extension of the expiry date of an option, except in case of an extension due to a black-out period; (iv) any amendment which increases or removes the maximum number of Shares that may be issued to (a) insiders and their associates; or (b) any one insider and his/her associates under the Stock Option Plan or any other proposed or established equity program of the Corporation in a one-year period, except in the case of an adjustment pursuant to a change in capitalization; and (v) any amendments to the amendment provisions of the Stock Option Plan.

Approval

At the Meeting, Shareholders will be asked to consider, and, if thought advisable, approve the Option Plan Resolution. A copy of the Option Plan Resolution is set out in Appendix B of this Circular.

Approval of the Option Plan Resolution will require that it be passed by a majority of the votes cast by Shareholders thereon in person and by proxy.

The management representatives designated in the enclosed form of proxy intend to vote FOR the approval of the Option Plan Resolution disclosed in the Circular unless specifically instructed otherwise on the proxy.

COMPENSATION OF DIRECTORS

Director Compensation Table

The following indicates compensation provided to the Directors for the year ended December 28, 2013.

Name	Fees earned (\$)	Share-based awards (\$)	Option based awards (\$)	Non-equity incentive plan compensation (\$)	Pension value (\$)	All other compensation (\$)	Total (\$)
James S. Anas, Director of the Corporation ⁽¹⁾⁽²⁾	31,500	30,000	-	-	-	-	61,500

Name	Fees earned (\$)	Share-based awards (\$)	Option based awards (\$)	Non-equity incentive plan compensation (\$)	Pension value (\$)	All other compensation (\$)	Total (\$)
Michael Bregman, Director of the Corporation ⁽³⁾	7,397	-	-	-	-	-	7,397
Bryna Goldberg, Director of the Corporation ⁽¹⁾⁽²⁾	29,000	27,500	-	-	-	-	56,500
Bryan Held, Director of the Corporation ⁽¹⁾⁽²⁾	1,500	50,000	-	-	-	-	51,500
Stephen Kelley, Director of the Corporation ⁽³⁾	50,000	-	-	-	-	-	50,000
Alton McEwen, Director of the Corporation ⁽³⁾	1,479	-	-	-	-	-	1,479
Rael Merson, Director of the Corporation ⁽³⁾	1,479	-	-	-	-	-	1,479
Michael T. Rosicki, Director of the Corporation ⁽¹⁾⁽²⁾	52,500	50,000	-	-	-	-	102,500
Peter Saunders, Director of the Corporation ⁽²⁾	51,500	-	-	-	-	-	51,500
Alan Simpson, Director of the Corporation ⁽³⁾	1,233	-	-	-	-	-	1,233

Notes:

- (1) Mr. Anas, Ms. Goldberg and Mr. Rosicki each received 50% of his/her respective Directors' Fees, and Mr. Held received 100% of his Directors' Fees, in each case excluding special meeting fees, in Deferred Share Units of the Corporation under the Directors' Deferred Share Unit Plan. The Deferred Share Units were awarded using a price of \$5.11 per Deferred Share Unit, being the weighted average trading value of the Corporation's Shares on the five days prior to January 2, 2013, being the first trading day of fiscal year 2013.
- (2) Messrs. Anas, Held, Rosicki and Saunders and Ms. Goldberg each ceased to be a Director on December 20, 2013.
- (3) Messrs. Bregman, Kelley, McEwen, Merson and Simpson were each appointed as a Director on December 20, 2013. Prior to his resignation on December 18, 2013, Mr. Kelley had been a Director of the Corporation since October 8, 2012.

Summary of Board Compensation

The current annual compensation for each Director of the Corporation, other than officers, consists of a cash retainer of \$50,000, plus \$1,000 for attending each special meeting of the Board of Directors of the Corporation ("**Board of Directors**") in person and \$500 to attend special meetings of the Board of Directors by teleconference. No remuneration is received by any person for his or her role in acting as an officer of the Corporation. Each Director is reimbursed for their out-of-pocket expenses for attending meetings of the Board of Directors and meetings of the committees thereof. The chair of the Board of Directors receives additional compensation of \$250,000 per year. The chairs of the Audit Committee and the Governance Committee each receive additional compensation of \$10,000 per year.

Directors' Deferred Share Unit Plan

Effective January 1, 2011, the Board of Directors adopted a directors' deferred share unit plan (the "**DSU Plan**"). The purpose of the DSU Plan is to attract, retain and motivate Directors and to advance the interests of the Corporation by better aligning Director and Shareholder interests through grants of deferred share units (each, a "**Deferred Share Unit**" or "**DSU**").

Unless he or she elects not to participate in the DSU Plan, each Director will automatically participate in the DSU Plan (in such capacity, a "**Participant**") and will receive an award of Deferred Share Units (an "**Award**") for each fiscal year in which he or she is a Director. The Award for each fiscal year will be that number of Deferred Share Units equal to the Participant's director fees divided by the Share price on the date the Award is made. When

dividends are declared by the Corporation, Participants will be credited with additional Deferred Share Units, the number of which is determined by dividing: (i) the product obtained by multiplying the amount of each dividend declared and paid by the Corporation on the Shares on a per share basis, by (ii) the Share price on the dividend payment date. Under the DSU Plan, ‘director fees’ include the basic annual fee earned by a director of the Board and any additional annual fee earned by a Director by virtue of being the chair of the Board of Directors or the chair of a committee of the Board of Directors, but does not include meeting fees or any other fees earned by a Director. Share price is generally calculated as the volume-weighted average price of the Shares on the TSX on the five most recent preceding days on which they were traded.

A Director may elect not to participate in the DSU Plan for a fiscal year by notifying the Chief Financial Officer of such election. A Director may also elect to participate as to 50%, wherein he or she would receive an Award of that number of Deferred Share Units equal to 50% of his or her director fees divided by the Share price on the date of the Award. Where a Director elects not to participate in the DSU Plan or elects to participate as to 50%, the Director will receive cash in an amount equal to the Director’s director fees (or 50% of the director fees, as applicable), payable in arrears in bi-weekly or quarterly instalments over the course of the fiscal year; provided however, that a Director is never entitled to receive instalments that become payable following the date a Director ceases to be a member of the Board of Directors (the “**Termination Date**”).

Deferred Share Units awarded vest on the last day of the fiscal year for which they are awarded. In the event that a Participant’s Termination Date falls before the last day of such fiscal year, one-twelfth of the Deferred Share Units awarded for such fiscal year will vest for each completed month in that fiscal year prior to the Termination Date, and all remaining Deferred Share Units will be forfeited on his or her Termination Date and have no further value. All of a Participant’s vested Deferred Share Units will be settled on the first business day which falls 30 days after a Participant’s Termination Date, unless he or she elects to defer settlement to a date that is no later than December 15 of the calendar year following the Participant’s Termination Date. Upon settlement, the Corporation will pay a Participant in cash an amount equal to the Share price on the Termination Date, multiplied by the number of vested Deferred Share Units in the Participant’s account. Following receipt of such payment, the Deferred Share Units so settled expire and have no further value. No assets of the Corporation or any of its affiliates will be held in any way as collateral security for the fulfillment of the obligations of the Corporation or any of its affiliates under the DSU Plan.

In 2013, an aggregate of 30,820 DSUs were awarded to the Directors using a price of \$5.11 per unit in respect of \$157,500 of directors’ fees, in the aggregate.

EXECUTIVE AND OTHER COMPENSATION

The Governance Committee performs the function of a compensation committee for the Corporation and has the responsibility of, among other things, reviewing and making recommendations to the Board of Directors concerning the compensation of the Chief Executive Officer of the Corporation (“**Chief Executive Officer**” and/or “**CEO**”), Chief Financial Officer of the Corporation (“**Chief Financial Officer**” and/or “**CFO**”) and the Corporation’s three most highly compensated executive officers, other than the Chief Executive Officer and Chief Financial Officer, whose total compensation exceeds \$150,000 (collectively the “**Named Executive Officers**” or “**NEOs**”). The Governance Committee for fiscal year 2013 consisted of Bryna Goldberg (chair), Michael T. Rosicki and Peter Saunders prior to each of their resignations from the Board of Directors on December 20, 2013. Following the resignations on December 20, 2013, the Governance Committee for the remainder of fiscal year 2013 consisted of Alton McEwen (chair), Michael Bregman and Alan Simpson. All members of the Governance Committee are considered “independent” in accordance with the definition set out in National Instrument 58-101 – Disclosure of Corporate Governance Practices (“**NI 58-101**”).

Having served as executives, holding positions such as Chairman, Chief Executive Officer, and President, Messrs. McEwen, Bregman and Simpson have adequate skills and experience related to making decisions on the suitability of the Corporation’s compensation policies and practices. Mr. McEwen, the current Chair of the Governance Committee, has served in a similar capacity for another publicly-listed company for a number of years, and as part of this role, has had access to relevant information regarding compensation governance and applicable market practices, including access to compensation consultants and other experts from time to time, to give the

Governance Committee the tools required to make decisions relating to the suitability of the Corporation's compensation policies and practices.

The Governance Committee is also entitled under its mandate to engage independent advisers if applicable, as discussed below.

The responsibilities of the Governance Committee include:

- the establishment of key human resources and compensation policies, including all incentive and equity based compensation plans;
- the performance evaluation of the Chief Executive Officer and the Chief Financial Officer, and determination of the compensation for the Chief Executive Officer, the Chief Financial Officer and other senior executives of the Corporation; and
- compensation of Directors.

The Governance Committee meets at least three times per year, or more frequently as required. The Chair of the Governance Committee reports to the Board of Directors on the Committee's operations at regularly scheduled Board meetings. The Governance Committee also reviews and approves the executive compensation disclosure to be included in the management proxy circular of the Corporation.

The Governance Committee is granted unrestricted access to information about the Corporation that is necessary or desirable to fulfill its duties and all Directors, officers and employees are directed to cooperate as requested by its members. The Governance Committee has the authority to retain, at the Corporation's expense, independent compensation consultants or other advisors to assist the Governance Committee in fulfilling its duties and responsibilities.

For the year ended December 28, 2013, the NEOs are Stacey Mowbray (CEO), Steve Boyack (CFO), Robert Masson (CFO), Catherine Whelan Molloy, Wayne Vanderhorst, and Thomas Zacharias.

Compensation Discussion and Analysis

The Governance Committee's executive compensation policy is guided by the following principles:

- to attract, motivate and retain executives with the necessary experience, education and skill sets to achieve the Corporation's goals;
- to align the interests of the executives with the interests of the Shareholders; and
- to provide incentives to meet and exceed performance based goals.

The key components of NEO compensation for the 2013 fiscal year consisted of base salary, short term incentive plan / annual bonus and long term incentive plan. Other elements of NEO compensation include perquisites and a voluntary group registered retirement savings program.

The Board considers implications of the risks associated with the Corporation's compensation policies and practices as part of its oversight and stewardship of the affairs of the Corporation. The Board's role in this respect includes reviewing each of the components of an executive's compensation to ensure there is an overall balance between long-term and short-term incentives commensurate with the Corporation's corporate strategy and goals.

While the Corporation has not adopted a formal prohibition, the NEOs and the Directors are, as a matter of policy, not permitted to purchase financial instruments designed to hedge or offset a decrease in the market value of the Shares, including Shares underlying share-based compensation or otherwise held directly or indirectly by an NEO or a Director.

Base Salary

Base salaries for NEOs are determined based on a comparison of competitive positions, taking into account, where possible, the industry, location and size (revenue and number of employees) of comparable companies and by evaluating the responsibilities of each executive's position; including their respective knowledge and experience with an overarching goal of maintaining internal equity within a competitive marketplace. Base salaries represent a fixed component of NEO compensation and vary by job responsibility. The base salary component of NEO compensation is designed to provide NEOs with a stable, predictable and competitive component of compensation, which facilitates the retention of key employees. NEO salaries are reviewed on an annual basis by the Governance Committee and are revised and/or approved for the forthcoming year. The Governance Committee consults with the Chief Executive Officer regarding the salaries of the other NEOs. The Governance Committee then considers such matters and recommends to the Board of Directors a level of salary appropriate to each NEO.

Short Term Incentive Plan/Annual Bonus

In order to link executive compensation with the Corporation's goals, the NEOs participate in a short term incentive plan ("**STIP**") under which cash awards are made, based primarily on certain corporate performance targets for the current fiscal year. Under the STIP, the NEOs are eligible for a cash award upon the achievement of certain specific minimum financial metrics, which include the attainment of the Corporation's budget and fiscal objectives, including certain EBITDA and same café sales targets. EBITDA is comprised of earnings before interest, taxes, depreciation and amortization ("**EBITDA**"). STIP awards are targeted at a maximum of 75% of base salary for the Chief Executive Officer and a maximum of 62.5% of base salary for the other NEOs.

Long Term Incentive Plan

The Corporation established a long term incentive plan ("**LTIP**") in 2010, in order to allow certain NEOs to participate in the growth and development of the Corporation by providing such NEOs with the opportunity to acquire an increased economic interest in the Corporation. The LTIP aligns the interest of NEOs with the economic interests of the Shareholders, as NEOs will be rewarded on the basis of the Share trading price performance and dividends paid by the Corporation. The LTIP is administered by the Governance Committee, which reviews the LTIP and makes recommendations to the Board of Directors. Under the terms of the LTIP, notional shares ("**Notional Shares**") may be granted to officers and employees of the Corporation and such Notional Shares granted vest as to one third on each of the first, second and third occurrence of December 15th following the date of the grant of such Notional Shares (the "**Vesting Period**") and shall expire on December 31st of the third calendar year following the date of grant. The LTIP is awarded based upon the achievement of certain specific minimum financial metrics, which include the attainment of the Corporation's budget and fiscal objectives, including certain EBITDA and same café sales targets. The LTIP award has generally been targeted at a maximum of 50% of base salary for the Chief Executive Officer and a maximum of 10% of base salary for the other NEOs. On vesting, the holder of vested Notional Shares shall receive in respect of each Notional Share an amount of cash equal to the weighted average trading price of the Shares on the TSX for the twenty trading days immediately prior to the applicable settlement date.

In addition, during the Vesting Period, on the date that the Corporation pays dividends, each holder of Notional Shares shall be credited with an additional number of notional shares ("**Bonus Notional Shares**") equal to the number of Notional Shares held by a participant in relation to a particular grant, multiplied by the cash dividend per Share, divided by the weighted average trading price of the Shares on the TSX for the twenty trading days immediately prior to the particular dividend date. The Bonus Notional Shares, in respect of a particular grant of Notional Shares, shall vest in the same proportion as the Notional Shares of that grant. Upon vesting the Bonus Notional Shares will be paid out in cash in the same manner as the Notional Shares.

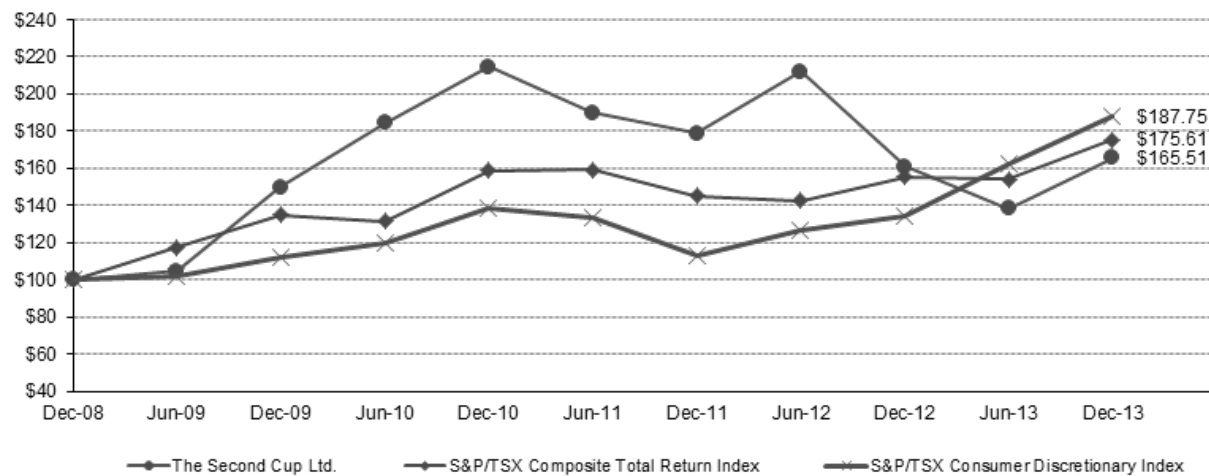
If at the Meeting, Shareholders approve the Stock Option Plan, the Corporation intends to grant options to Ms. Box, the President and Chief Executive Officer of the Corporation, pursuant to the Stock Option Plan in lieu of Ms. Box's participation in the LTIP. See "Annual and Special Meeting Business – Approval of Stock Option Plan".

Perquisites and Other Personal Benefits

To enable the Corporation to attract and retain superior executives, the Corporation also provides NEOs with perquisites and other personal benefits that the Corporation believes are reasonable, competitive in the market and consistent with its overall compensation program. The NEOs are generally provided a car allowance, parking, health care and life insurance. The Governance Committee periodically reviews the levels of perquisites and other personal benefits provided to NEOs.

Performance Graph

The following graph compares the total cumulative Shareholder return for \$100 invested in Shares (assuming reinvestment of dividends) with the cumulative total return of each of the S&P/TSX Composite Total Return Index and the S&P/TSX Consumer Discretionary Index for the period from inception to December 28, 2013.



As evidenced by the performance graph, a Shareholder's total return for the period covered by the performance chart is below the total return of the S&P/TSX Consumer Discretionary Index during the same period. The interests of the NEOs are aligned to those of the Shareholders through the Corporation's LTIP and the granting of Notional Shares which are linked to the value of the Corporation's Shares. This portion of at risk compensation for each of these individuals will increase/decrease in conjunction with the market movements of the Corporation's Shares. The LTIP comprises a small component of NEO total compensation.

When the Governance Committee and the Board of Directors determine overall compensation, they consider a number of factors and performance elements. Although Shareholder return is one performance measure that is reviewed, it is not the only consideration. Compensation levels (excluding severance payments) for the NEOs over the period covered by the performance chart are generally flat.

NEO Summary Compensation Table

The following table provides a summary of compensation including base salary, short term incentive plan, long term incentive plan and amounts otherwise earned by the NEOs during the period from December 30, 2012 to December 28, 2013. Certain aspects of this compensation are dealt with in further detail in the following tables below.

Name and principal position	Year	Salary	Share-based awards	Option-based awards	Non-equity Incentive plan compensation		Pension value	All other compensation ⁽⁶⁾	Total compensation
					Annual incentive plans ⁽³⁾	Long term incentive plans			
Stacey Mowbray ⁽⁷⁾ President and Chief Executive Officer	2013	\$429,575	-	-	-	-	-	\$707,211 ⁽¹⁰⁾	\$1,136,786
	2012	\$427,886	-	-	-	-	-	\$25,097	\$452,983
	2011	\$420,993	\$118,504 ⁽¹⁾	-	\$118,504 ⁽²⁾	-	-	\$23,686	\$681,687
Steve Boyack ⁽⁸⁾ Vice President Finance and Chief Financial Officer	2013	\$60,577	-	-	-	-	-	\$3,981	\$64,558
	2012	-	-	-	-	-	-	-	-
	2011	-	-	-	-	-	-	-	-
Robert Masson ⁽⁹⁾ Former Chief Financial Officer	2013	\$102,444	-	-	-	-	-	\$7,168	\$109,612
	2012	\$182,784	-	-	-	-	-	\$13,256	\$196,040
	2011	\$172,861	\$9,806 ⁽¹⁾	-	\$29,418 ⁽²⁾	-	-	\$13,147	\$225,232
Catherine Whelan Molloy ⁽⁴⁾ Chief Marketing Officer	2013	\$229,500	-	-	-	-	-	\$14,190	\$243,690
	2012	\$228,288	-	-	-	-	-	\$13,647	\$241,935
	2011	\$56,250	\$12,600 ⁽¹⁾	-	\$19,677 ⁽²⁾	-	-	\$2,843	\$91,370
Wayne Vanderhorst Vice President Franchise Development	2013	\$190,000	-	-	-	-	-	\$13,400	\$203,400
	2012	\$186,231	-	-	-	-	-	\$13,325	\$199,556
	2011	\$170,730	\$9,856 ⁽¹⁾	-	\$29,568 ⁽²⁾	-	-	\$13,015	\$223,169
Thomas Zacharias ⁽⁵⁾ Vice President Operations	2013	\$178,500	-	-	-	-	-	\$15,570	\$194,070
	2012	\$177,558	-	-	-	-	-	\$15,551	\$193,109
	2011	\$67,308	\$9,800 ⁽¹⁾	-	\$49,000 ⁽²⁾	-	-	\$6,192	\$132,300

Notes:

- (1) Notional Shares were awarded under the 2011 LTIP on December 23, 2011. Such Notional Shares vest as to one third on each of the first, second and third occurrence of December 15th following the date of the award. See “Executive and Other Compensation – Long Term Incentive Plan” above and “Executive and Other Compensation – Share Based Awards - Fair Value” below.
- (2) The STIP/Annual incentive plan was paid on March 15, 2012.
- (3) The Corporation has included an accrual for 2013 bonus in its 2013 financial statements, a portion of which may be paid to NEOs. Due to the recent changes to the composition of the Board of Directors on December 20, 2013, and Ms. Box joining the Corporation as President & CEO on February 24, 2014, a final determination of amounts to be paid to any one or more NEOs in respect of 2013 bonus has not yet been made.
- (4) Catherine Whelan Molloy joined the Corporation on September 8, 2011. Ms. Whelan Molloy ceased to be an employee of the Corporation on March 17, 2014.
- (5) Thomas Zacharias joined the Corporation on August 2, 2011.
- (6) Each NEO received an RSP contribution from the Corporation equal to 2% of their base salary, except Ms. Mowbray who received an RSP contribution equal to 2.5% of her base salary. Each NEO received an annual car allowance of \$9,600, except Mr. Zacharias who received an annual car allowance of \$12,000 and Ms. Mowbray who received an annual car allowance of \$14,400. Car allowances paid were prorated for any NEO who was not employed for the full period covered by the chart.
- (7) Ms. Mowbray ceased to be the President and Chief Executive Officer of the Corporation on February 21, 2014. In addition to the severance payment recorded in the chart above and disclosed in Note (10) below, Ms. Mowbray also received a discretionary bonus of \$100,000 paid in 2014.

- (8) Mr. Boyack was appointed interim Vice President Finance and Chief Financial Officer on June 24, 2013, and was subsequently appointed Vice President Finance and Chief Financial Officer on September 11, 2013. In addition to the compensation recorded in the chart above, the Corporation paid gross fees to a third party placement and consulting company in the amount of \$79,182 for the services of Mr. Boyack during the period he was interim Vice President Finance and Chief Financial Officer.
- (9) Mr. Masson ceased to be Vice President, Finance and Chief Financial Officer on June 24, 2013.
- (10) Ms. Mowbray's employment was terminated in fiscal year 2013, with effect on February 21, 2014. As severance, Ms. Mowbray will be paid \$682,072 in two installments in fiscal year 2014, which amounts are recorded in the chart above.

Share Based Awards – Fair Value

In 2013, under the LTIP established by the Corporation in 2010, no Notional Shares were awarded to the NEOs. The following table provides information with respect to share-based awards, outstanding at the end of the Corporation's most recently completed fiscal year ended December 28, 2013.

Name	Option-based Awards				Share-based Awards		
	Number of securities underlying unexercised options	Option exercise price	Option expiration date	Value of unexercised in-the-money options	Number of shares or units of shares that have not vested ⁽¹⁾	Market or payout value of share-based awards that have not vested ⁽²⁾	Market or payout value of vested share-based awards not paid out or distributed ⁽³⁾
Stacey Mowbray ⁽⁴⁾ President and Chief Executive Officer	-	-	-	-	6,322	\$32,242	\$75,259
Steve Boyack ⁽⁵⁾ Vice President Finance and Chief Financial Officer	-	-	-	-	-	-	-
Robert Masson ⁽⁶⁾ Former Chief Financial Officer	-	-	-	-	-	-	-
Catherine Whelan Molloy Chief Marketing Officer	-	-	-	-	672	\$3,427	\$8,002
Wayne Vanderhorst Vice President Franchise Development	-	-	-	-	526	\$2,683	\$6,259
Thomas Zacharias Vice President Operations	-	-	-	-	523	\$2,667	\$6,224

Notes:

- (1) The unvested share-based awards reported represent one-third of the Notional Shares awarded under the Corporation's LTIP in 2011.
- (2) The payout value is based on a value per Notional Share of \$5.10, being the value of the Shares as of December 28, 2013.
- (3) The payout value of shares reported represents two-thirds of the Notional Shares awarded under the Corporation's LTIP in 2011, all of which were vested as of December 28, 2013, valued based on the market value per Share of \$5.10 on December 28, 2013. Vested Notional Shares awarded in 2011 are paid out in 2014. Notional Shares may be forfeited if employment discontinues.
- (4) Ms. Mowbray ceased to be the President and Chief Executive Officer of the Corporation on February 21, 2014.

- (5) Mr. Boyack was appointed interim Vice President Finance and Chief Financial Officer on June 24, 2013, and was subsequently appointed Vice President Finance and Chief Financial Officer on September 11, 2013.
- (6) Mr. Masson ceased to be Vice President Finance and Chief Financial Officer on June 24, 2013.

The following table provides certain information with respect to incentive plan awards earned as at the end of the Corporation's most recently completed fiscal year ended December 28, 2013.

Name	Option-based awards – Value vested during the year	Share-based awards – Value vested during the year ⁽¹⁾	Non-equity incentive plan compensation – Value earned during the year
Stacey Mowbray ⁽²⁾ President and Chief Executive Officer	-	\$83,972	-
Steve Boyack ⁽³⁾ Vice President Finance and Chief Financial Officer	-	-	-
Robert Masson ⁽⁴⁾ Former Chief Financial Officer	-	-	-
Catherine Whelan Molloy Chief Marketing Officer	-	\$4,341	-
Wayne Vanderhorst Vice President Franchise Development	-	\$7,113	-
Thomas Zacharias Vice President Operations	-	\$3,376	-

Notes:

- (1) The value of vested shares represents the value of Notional Shares awarded under the Corporation's LTIP in 2010 and 2011, as applicable, and vested as of December 28, 2013. The Notional Shares were valued at \$5.10 per Notional Share, being the price of the Shares when the Notional Shares vested as of December 28, 2013.
- (2) Ms. Mowbray ceased to be the President and Chief Executive Officer of the Corporation on February 21, 2014.
- (3) Mr. Boyack was appointed interim Vice President Finance and Chief Financial Officer on June 24, 2013, and was subsequently appointed Vice President Finance and Chief Financial Officer on September 11, 2013.
- (4) Mr. Masson ceased to be Vice President Finance and Chief Financial Officer on June 24, 2013.

Employment Agreements, Severance and Other Termination Benefits

Each of Alix Box and Thomas Zacharias has entered into an employment agreement with the Corporation which governs certain terms relating to their employment. Each of these agreements remains in effect until termination by either party pursuant to its terms.

Ms. Box's employment with the Corporation commenced on February 24, 2014. Pursuant to Ms. Box's employment agreement, she will receive a base salary of \$475,000 per annum, subject to review by the Board of Directors commencing in 2016. Ms. Box received a one-time signing bonus of \$250,000. Ms. Box is eligible for a bonus each year. See "Executive and Other Compensation – Short Term Incentive Plan/Annual Bonus". For fiscal 2014, Ms. Box's bonus is guaranteed at a minimum of \$150,000. Following approval of the Stock Option Plan at the Meeting, in lieu of Ms. Box's participation in the LTIP (see "Executive and Other Compensation – Long Term Incentive Plan") the Corporation intends to grant Ms. Box an option to acquire 400,000 Shares at an exercise price equal to the Fair Market Value (as defined in the Stock Option Plan) of the underlying Shares on the date of grant, with 80,000 of such options vesting on January 1, 2015 and each January 1 thereafter for the next four years, and with such options expiring 10 years after the date of grant. See "Annual and Special Meeting Business – Approval of Stock Option Plan". In the event the Stock Option Plan is not approved by Shareholders by January 1, 2015, the

Corporation has agreed to negotiate with Ms. Box to provide a reasonable alternative pursuant to the Corporation's LTIP.

Ms. Box's employment agreement provides that upon termination of her employment with the Corporation, without cause, she will be entitled to (i) a severance payment equal to 18 months base salary, payable on a regular payroll basis over the 18 months immediately following the date of termination, (ii) continue to participate in the Corporation's executive benefits plan and receive other allowances generally provided to senior executives of the Corporation for 18 months from the date of termination, and (iii) her options to acquire Shares, which will continue to vest and be exercisable for 18 months from the date of termination. Notwithstanding the foregoing, if Ms. Box replaces any benefits through alternative employment following the date of termination, then the Corporation will not be required to further continue such benefit. As a condition precedent to any termination/severance payment or benefits or allowances being made or provided, Ms. Box's employment agreement requires her to deliver a full and final general release in favour of the Corporation, its affiliates, subsidiaries and related organizations, and all of their respective shareholders, directors, officers and employees. Ms. Box's employment agreement contains certain customary non-competition, non-solicitation and confidentiality provisions in favour of the Corporation.

Mr. Zacharias' employment with the Corporation commenced on August 2, 2011. Mr. Zacharias' employment agreement provides that upon termination of his employment with the Corporation, without cause, he will be entitled to a severance payment on the date of termination determined based on his length of employment, to a maximum of 12 months base salary. If Mr. Zacharias' employment had terminated without cause and without prior notice on December 28, 2013, Mr. Zacharias would have been entitled to a severance payment of approximately 8 months base salary.

Stacey Mowbray's employment was terminated in fiscal year 2013, with effect on February 21, 2014. Ms. Mowbray will receive a severance payment of \$685,376 in two installments in fiscal year 2014.

INDEBTEDNESS OF DIRECTORS

No Director, Nominee, officer of the Corporation and none of their associates is currently or was at any time during the fiscal year ended December 28, 2013, indebted to the Corporation and no indebtedness of such persons has been the subject of a guarantee, support agreement, letter of credit or other similar agreement provided by the Corporation.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Corporation purchased directors' and officers' liability insurance during fiscal 2013 with a policy limit of \$20 million per occurrence in each policy year, subject to a deductible of \$25,000 per occurrence, in respect of claims made thereunder by the Corporation.

CORPORATE GOVERNANCE

The Corporation is committed to maintaining high standards of governance. The Corporation has continued to refine its governance practices in light of Canadian regulatory initiatives, particularly NI 58-101, National Policy 58-201, *Corporate Governance Guidelines* ("NP 58-201") and National Instrument 52-110, *Audit Committees* ("NI 52-110"). The Corporation's current governance practices are disclosed below in accordance with NI 58-101. The information required by Form 52-110F1 of NI 52-110 is contained in the Corporation's 2013 Annual Information Form under the heading "Audit Committee" and in Appendix A of the Corporation's 2013 Annual Information Form.

Board of Directors

The Board of Directors is elected by the Shareholders and is responsible for the overall stewardship of the affairs of the Corporation. The Board of Directors discharges its responsibilities directly and through its committees, currently consisting of the Corporation's Audit Committee and Governance Committee. The Board of Directors has adopted a mandate that sets out the role of the Directors. The text of this mandate is set out in Appendix A to this Circular. The Directors may, in respect of the assets of the Corporation, 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 Directors includes, among other things:

- reviewing and approving the strategic and annual plans of the Corporation;
- monitoring performance and providing reports to Shareholders as required;
- supervising the activities of the Corporation, including the investments of the Corporation; and
- approving payments of dividends from the Corporation to Shareholders.

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

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

A majority of the Directors must be independent within the meaning of NI 52-110. The Board of Directors is currently comprised of six Directors (all of whom have been nominated for election at the Meeting). The Board of Directors has determined that all of the Nominees other than Alix Box, the President and Chief Executive Officer of the Corporation, are independent within the meaning of NI 52-110 and NI 58-101. Each member of the Corporation's Audit Committee will be an independent Director.

As part of its mandate, the Governance Committee will review on an annual basis the contributions of the Directors and consider whether the current composition of the Board of Directors promotes effectiveness and efficiency in its decision-making. As discussed below, the Governance Committee will assess the contribution and the performance of the Directors, both individually and collectively, and the standing committees of the Board of Directors.

Currently, there are no members of management on the Board of Directors other than Alix Box. On February 24, 2014, Ms. Box became the President and Chief Executive Officer and a Director of the Corporation.

Where warranted, Directors have the ability to engage outside professional advisors at the Corporation's expense to assist in the fulfillment of their duties. The chair of the Board of Directors (the "**Chair**") is responsible for authorizing all requests for professional advisors by individual Directors, the Board of Directors or any committee of the Board of Directors.

Position Descriptions

The Board of Directors has adopted a formal position description for both the Chair and the CEO. Both are designed to assist the Chair and CEO in delineating their respective roles and responsibilities.

The CEO's position description identifies the CEO's responsibilities, which include: leading the day-to-day operations of the Corporation in accordance with the strategic plan; developing a long-term strategy for the Corporation that enhances Shareholder value; developing an annual operating plan and financial budget to achieve the Corporation's long-term strategy; developing or supervising effective disclosure and internal controls; and

developing a positive and ethical work environment for the Corporation that attracts, retains and motivates high-value employees.

The Chair's position description identifies the Chair's responsibilities, which include: oversight of the Board of Directors in its discharge of its duties in the Board of Director's mandate; overseeing the distribution of information to the Board of Directors and presiding over board meetings; establishing procedures to govern the effective and efficient conduct of the Board of Director's work; acting as a liaison between the Board of Directors and management of the Corporation, where necessary; and representing the Corporation to Shareholders of the Corporation and other external groups.

The Directors have not developed written position descriptions for the chair of each committee. The Board of Directors of the Corporation believe that the charters of the Audit Committee and Governance Committee adequately delineate the roles of the chairs of such committees.

Orientation and Continuing Education

The Governance Committee oversees any orientation programs to familiarize new Directors with the affairs and operations of the Corporation, including: the Corporation's structure; financial, accounting and risk issues; compliance programs and policies; management of the Corporation; and the external auditors. The Directors of the Corporation have access to members of management of the Corporation and are provided with materials describing the Corporation's operations, strategic plans and financial results.

The Governance Committee also oversees continuing educational opportunities for all Directors, as necessary, so that as individuals the Directors' knowledge and understanding of the activities of the Corporation remains current.

Ethical Business Conduct

As part of the Corporation's commitment to effective corporate governance, all Directors and officers of the Corporation must act in accordance with the Corporation's Code of Conduct (the "Code"). The Code has been adopted by the Board of Directors and requires every Director, officer, and employee, as the case may be, to observe high standards of business and personal ethics as they carry out their duties and responsibilities. The Code is a guide that is intended to sensitize these individuals to significant legal and ethical issues that frequently arise and to the mechanisms available to report illegal or unethical conduct. The Code addresses ethical conduct, conflicts of interest and compliance with the law. The Code is administered by management although the Board of Directors has the ultimate responsibility for monitoring compliance with the Code, including granting any departures or waivers from the Code. A copy of the Code may be obtained on request from the administrative office of the Corporation at 6303 Airport Rd., 2nd Floor, Mississauga, Ontario, L4V 1R8.

Nomination of Directors

The Governance Committee of the Corporation is responsible for proposing new Director nominees and making recommendations to the Board of Directors. Directors are also encouraged to identify potential candidates and the Chair shall be consulted and have input into the process.

As part of its mandate, the Governance Committee determines the criteria, objectives and procedures for selecting members of the Board of Directors. In this process, the committee considers factors such as independence, integrity, skills, expertise and breadth of experience. The committee also periodically reviews the competencies, skills and personal qualities of each existing Director, and the contributions made by each individual Director to the effective operation of the Board of Directors. The committee may also make recommendations for changes to the composition of the Board of Directors.

Compensation of Directors

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

Assessments

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

Audit Committee

The Audit Committee for fiscal year 2013 consisted of James S. Anas (chair), Bryan Held, Michael T. Rosicki and Peter Saunders up until May 3, 2013, and subsequently James S. Anas (chair), Bryan Held, Stephen Kelley and Peter Saunders up until the resignation of Mr. Kelley from the Board of Directors on December 18, 2013, and the resignations of Messrs. Anas, Held and Saunders from the Board of Directors on December 20, 2013. Following the resignations on December 20, 2013, the Audit Committee for the remainder of fiscal 2013 consisted of Rael Merson (chair), Michael Bregman and Stephen Kelley. All Directors who served on the Audit Committee in fiscal year 2013 are independent, as required by NI 52-110. The members of the committee are appointed by the Board of Directors from among its members annually, and as necessary to fill vacancies, and the Board of Directors generally appoints the chair of the Audit Committee.

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

The committee is mandated to assist the Board of Directors in fulfilling applicable reporting issuer obligations respecting audit committees and its oversight responsibilities with respect to financial reporting. The committee assists the Board of Directors in overseeing, among other matters, the work of the Corporation's external auditors, the integrity of the Corporation's financial statements and financial reporting process, the qualifications and independence of the external auditors and the work of the Corporation's financial management and external auditors in these areas. The committee also provides an open avenue of communication between the external auditors, the Board of Directors, and management of the Corporation. The committee reviews and recommends to the Board of Directors for approval, the Corporation's annual and interim financial statements and related management's discussion and analysis and selected disclosure documents, including the Corporation's annual information form and any other financial statements required by regulatory authorities, before they are released to the public or filed with the appropriate regulators.

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

Additional information relating to the Audit Committee and a copy of the Audit Committee's charter is set out in the latest annual information form of the Corporation.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditor of the Corporation is PricewaterhouseCoopers LLP, Chartered Accountants.

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

INTEREST OF CERTAIN PERSONS OR COMPANIES IN MATTERS TO BE ACTED UPON

Other than the election of Directors and the grant of options to Ms. Box pursuant to the Stock Option Plan (as described under the heading “Annual and Special Meeting Business – Approval of Stock Option Plan” above), none of the Directors or executive officers of the Corporation who have been a Director or executive officer since the commencement of the Corporation’s last financial year, nominees for election as Directors of the Corporation, and no associate or affiliate of any of the foregoing, has any material interests, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter to be acted upon at the Meeting.

INTEREST OF EXPERTS

The Corporation’s annual financial statements have been audited by PricewaterhouseCoopers LLP, Chartered Accountants, Toronto, Ontario. Such firm is independent in accordance with the firm’s rules of professional conduct in Ontario.

ADDITIONAL INFORMATION

Additional information relating to the Corporation is included in its 2013 annual information form, its audited financial statements for the year ended December 28, 2013 and the related management’s discussion and analysis. Copies of these documents may be obtained from the SEDAR website at www.sedar.com, or upon request from the Chief Financial Officer of the Corporation: 6303 Airport Road, Mississauga, Ontario, L4V 1R8 (telephone 905-362-1818 or e-mail investor@secondcup.com). Financial information is provided in the Corporation’s financial statements and management’s discussion and analysis for the year ended December 28, 2013.

OTHER BUSINESS

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

APPROVAL OF CIRCULAR

The contents and sending of this Circular have been approved by the Directors of the Corporation and a copy of the circular has been sent to each Director, the auditor of the Corporation and each Shareholder entitled to notice of the Meeting.

DATED at Mississauga, Ontario, this 21st day of March, 2014.

BY ORDER OF THE DIRECTORS

Michael Bregman
Chair of the Board of Directors

APPENDIX A

**THE SECOND CUP LTD.
CHARTER FOR THE BOARD OF DIRECTORS**

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	A-1
DUTIES OF DIRECTORS.....	A-1
Oversight of the Corporation	A-1
Monitoring of Financial Performance and Other Financial Reporting Matters.....	A-1
Policies and Procedures	A-2
Communications and Reporting	A-2

THE SECOND CUP LTD.

CHARTER FOR THE BOARD OF DIRECTORS

INTRODUCTION

Terminology:

“**Board of Directors**” means the board of directors of the Corporation.

“**By-Laws of the Corporation**” means the by-laws governing the Corporation, as amended from time to time.

“**Corporation**” means The Second Cup Ltd.

The Board of Directors is elected by the shareholders of the Corporation and is responsible for the overall stewardship of the affairs of the Corporation. The Board of Directors shall be subject to the fiduciary standard and standard of care set out in the By-Laws of the Corporation. The Board of Directors is responsible for establishing and maintaining a culture of integrity in the conduct of the Corporation’s affairs.

DUTIES OF DIRECTORS

1. The Board of Directors discharges its responsibilities both directly and through its committees, currently consisting of the Audit Committee and the Governance, Human Resources and Compensation Committee of the Corporation. The Board of Directors may appoint other committees as permitted by the By-Laws of the Corporation, including ad hoc committees to address certain issues of a more short-term nature.

Oversight of the Corporation

1. The Board of Directors is responsible for reviewing and approving the strategic and annual plans of the Corporation.
2. The Board of Directors is responsible for monitoring performance and providing reports to shareholders of the Corporation as required.
3. The Board of Directors is responsible for supervising the activities of the Corporation, including the investments of the Corporation.
4. The Board of Directors is responsible for declaring and effecting payments of dividends from the Corporation to shareholders of the Corporation.
5. The Board of Directors may delegate to committees matters it is responsible for, but the Board of Directors retains its oversight function and ultimate responsibility for all delegated responsibilities.

Monitoring of Financial Performance and Other Financial Reporting Matters

1. The Board of Directors will review all financial statements, material change reports and such other additional information regarding the financial position or business of the Corporation necessary to comply with any continuous disclosure obligations applicable to the Corporation.
2. The Board of Directors is responsible for overseeing the Corporation’s compliance with its undertakings to applicable securities regulatory authorities regarding financial statements and other information regarding its financial position or business, and regarding insider reporting and trading.

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

Policies and Procedures

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

Communications and Reporting

1. The Board of Directors is responsible for:
 - (a) overseeing the Corporation's continuous disclosure obligations;
 - (b) overseeing the accurate reporting of the financial performance of the Corporation to shareholders, other security holders and regulators on a timely and regular basis;
 - (c) overseeing that financial results of the Corporation are reported fairly and in accordance with generally accepted accounting standards and related legal disclosure requirements;
 - (d) taking steps to enhance the timely disclosure of any other developments that have a significant and material impact on the Corporation;
 - (e) reporting annually to shareholders on its stewardship for the preceding year;
 - (f) overseeing the provision to shareholders of all such information as is required by applicable law and regulatory requirements, prior to each meeting of shareholders;
 - (g) overseeing the investor relations and communications strategy of the Corporation; and
 - (h) overseeing the Corporation's ability to accommodate feedback from shareholders.

APPENDIX B
OPTION PLAN RESOLUTION

RESOLVED AS AN ORDINARY RESOLUTION THAT:

1. The Shareholders hereby approve the stock option plan of the Corporation, substantially in the form set out in Appendix C of the management information circular dated March 21, 2014.
2. Any director or officer of the Corporation be and he or she is hereby authorized and directed, on behalf of the Corporation, to execute and deliver all such documents and to do all such other acts or things as he or she may determine to be necessary or advisable to give effect to this resolution.

**APPENDIX C
STOCK OPTION PLAN**

(See attached.)

THE SECOND CUP LTD.
STOCK OPTION PLAN

Effective as of: May 9, 2014

**THE SECOND CUP LTD.
STOCK OPTION PLAN**

The purpose of this Plan is to advance the interests of the Company by: (i) providing Eligible Persons with incentives; (ii) encouraging share ownership by Participants; (iii) increasing the proprietary interest of Participants in the success of the Company; (iv) encouraging Participants to remain with the Company or its Affiliates; and (v) attracting new directors and employees.

**ARTICLE 1
INTERPRETATION**

Section 1.1 Interpretation

For the purposes of this Plan, the following terms shall have the following meanings:

- (a) “**Affiliate**” means any corporation or other entity which is directly or indirectly controlled by the Company;
- (b) “**Associate**” has the meaning ascribed thereto in the *Securities Act* (Ontario) or its successor, as amended from time to time;
- (c) “**Board**” means the board of directors of the Company as constituted from time to time, or a committee and/or member thereof as authorized from time to time with respect to any particular functions of the board of directors, as set forth herein;
- (d) “**Business Day**” means a day, other than a Saturday or Sunday, on which banking institutions in Toronto, Ontario are not authorized or obligated by law to close;
- (e) “**Cause**”, the existence of which will be determined in good faith by the Board or a designee of the Board, with respect to a Participant shall, if such Participant has entered into a service or employment agreement with the Company or an Affiliate that is in effect, have the meaning given to the term in that agreement, or, if no such agreement exists, or if “Cause” is not defined therein, then Cause shall include, but not be limited to:
 - (i) willful misconduct of the Participant with regard to the Company, or an Affiliate, which constitutes a material breach of any of his or her obligations set forth in any written agreement governing the terms of the Participant’s service as the same may then be in effect and such breach, if curable, has not been cured within fifteen (15) days after written notice by the Company, or the affected Affiliate, to the Participant;
 - (ii) fraud, embezzlement, theft or other material dishonesty by the Participant with respect to the Company, or an Affiliate;
 - (iii) the Participant’s material breach of his or her fiduciary duties as an officer or manager of the Company, or an Affiliate, or as an officer, trustee, director or other fiduciary of any pension or benefit plan of the Company, or an Affiliate, or willful misconduct which has, or could reasonably be expected to have, a material adverse effect upon the business, interests or reputation of the Company, or an Affiliate, and such breach or conduct, if curable, has not been cured within fifteen (15) days after written notice by the Company, or the affected Affiliate, to the Participant;
 - (iv) the Participant’s conviction of an indictable offence or an analogous provision under the laws of a local jurisdiction; or

- (v) refusal or failure by the Participant to attempt in good faith to follow or carry out the reasonable written instructions of the Board which failure, if curable, does not cease within fifteen (15) days after written notice of such failure is given to the Participant by the Board. For purposes of this paragraph, no act, or failure to act, on the Participant's part shall be considered "willful" unless done or omitted to be done by him or her not in good faith and without reasonable belief that his or her action or omission was in the best interests of the Company of any of its Affiliates;
- (f) **"Change of Control Event"** means:
 - (i) a sale, lease or other disposition of all or substantially all of the assets of the Company; or
 - (ii) any transaction or series of related transactions, including without limitation a reorganization of the Company, an amalgamation of the Company, an arrangement involving the Company, a take-over bid (as that term is defined in the *Securities Act* (Ontario)) for all of the Shares, whether or not the Company is a party thereto, after giving effect to which in excess of fifty percent (50%) of the Company's voting power is owned directly, or indirectly through one or more entities, by any person and its Affiliates or Associates;
- (g) **"Code"** has the meaning given to that term in Appendix 1;
- (h) **"Company"** means The Second Cup Ltd. and its respective successors and assigns, and any reference in the Plan to action by the Company means action by or under the authority of the Board or any person or committee that has been designated for the purpose by the Company;
- (i) **"Date of Grant"** means the date on which a particular Option is granted by the Board as evidenced by the Grant Agreement pursuant to which the particular Option was granted;
- (j) **"Effective Date"** means May 9, 2014;
- (k) **"Eligible Person"** means any director or employee (including officers) of the Company or any of its Affiliates, as designated by the Board;
- (l) **"Exercise Period"** means the period from the Vesting Date to the to the Expiry Date during which a particular Option may be exercised in the manner described in Section 4.1;
- (m) **"Exercise Price"** has the meaning given to that term in Section 3.2;
- (n) **"Exercise Notice"** means an election to exercise Options granted to a Participant under this Plan, substantially in the form attached hereto as Schedule "B", as may be amended from time to time;
- (o) **"Expire"** means, with respect to an Option, the termination of such Option, on the occurrence of which such Option is void, incapable of exercise, and of no value whatsoever; and Expiry, Expires and Expired have a similar meaning;
- (p) **"Expiry Date"** means the date on which an Option is Expired;
- (q) **"Fair Market Value"** means, on any particular day, the volume weighted average closing price of a Share on the Stock Exchange for the five (5) preceding days on which the Shares were traded, and if the Shares are not listed and posted for trading on the Stock Exchange at the relevant time, the Fair Market Value of a Share shall be determined by the Board acting in good faith;

- (r) “**Grant Agreement**” means an agreement between the Company and a Participant under which an Option is granted, substantially in the form attached hereto as Schedule “A”, as may be amended from time to time;
- (s) “**Insider**” has the meaning ascribed thereto in the TSX Company Manual, as such manual may be amended, supplemented or replaced from time to time;
- (t) “**Net Benefit**” has the meaning given to that term in Section 4.1(2);
- (u) “**Option**” means an option to purchase a newly issued Share granted to an Eligible Person pursuant to the terms of this Plan;
- (v) “**Participant**” means an Eligible Person to whom an Option has been granted;
- (w) “**Plan**” means this The Second Cup Ltd. Stock Option Plan, as amended from time to time;
- (x) “**Proposed Transaction**” has the meaning given to that term in Section 5.1(2);
- (y) “**Share**” means a common share in the capital stock of the Company;
- (z) “**Shareholders**” means holders of Shares;
- (aa) “**Source Deductions**” has the meaning given to that term in Section 7.1;
- (bb) “**Stock Exchange**” means the TSX or, if the Shares are not listed or posted for trading on the TSX, the stock exchange on which the Shares are listed or posted for trading;
- (cc) “**Termination Date**” means the date on which a Participant ceases to be an Eligible Person as a result of a termination of employment with the Company or an Affiliate for any reason, including death, retirement, resignation, or Cause. For the purposes of the Plan, a Participant’s employment with the Company or an Affiliate shall be considered to have terminated effective on the last day of the Participant’s actual and active employment with the Company or Affiliate whether such day is selected by agreement with the individual, unilaterally by the Company or Affiliate and whether with or without advance notice to the Participant. For the avoidance of doubt, no period of notice or pay in lieu of notice that is given or that ought to have been given under applicable law in respect of such termination of employment that follows or is in respect of a period after the Participant’s last day of actual and active employment shall be considered as extending the Participant’s period of employment for the purposes of determining his or her entitlement under the Plan;
- (dd) “**TSX**” means the Toronto Stock Exchange; and
- (ee) “**Vesting Date**” means the date on and after which a particular Option may be exercised as specified in the Grant Agreement, subject to the Expiry Date, and amendment or acceleration from time to time in accordance with the terms of the Plan.

In the Plan, words importing the singular number shall include the plural and vice versa and words importing any gender include any other gender. Whenever the Board or, where applicable, the committee or member appointed pursuant to Section 2.1(2), is to exercise discretion in the administration of the terms and conditions of this Plan, the term “discretion” means the sole and absolute discretion of the Board or such committee or member, as the case may be.

ARTICLE 2 GENERAL PROVISIONS

Section 2.1 Administration

- (1) The Board shall administer this Plan. Subject to the terms and conditions set forth herein, the Board has the authority: (i) to grant Options to Eligible Persons; (ii) to determine the terms, including the limitations, restrictions, vesting period and conditions, if any, upon such grants; (iii) to interpret this Plan and all agreements entered into hereunder; (iv) to adopt, amend and rescind such administrative guidelines and other rules relating to this Plan as it may from time to time deem advisable; and (v) to make all other determinations and to take all other actions in connection with the implementation and administration of this Plan as it may deem necessary or advisable. The Board's guidelines, rules, interpretations, and determinations shall be conclusive and binding upon the Company, its Affiliates, and all Participants, Eligible Persons and their legal, personal representatives and beneficiaries.
- (2) The Board shall have the right to delegate the administration and operation of this Plan, in whole or in part, to a committee and/or to any member thereof. For greater certainty, any such delegation by the Board may be revoked at any time at the Board's sole discretion.
- (3) No member of the Board or any person acting pursuant to authority delegated by it hereunder shall be liable for any action or determination in connection with the Plan made or taken in good faith, and each member of the Board and each such person shall be entitled to indemnification by the Company with respect to any such action or determination.
- (4) The day-to-day administration of this Plan may be delegated to such officers and employees of the Company as the Board determines.

Section 2.2 Shares Reserved

Subject to Section 2.4(4), the securities that may be acquired by Participants under this Plan shall consist of authorized but unissued Shares. The total number of Shares issuable under this Plan shall be no greater than ten percent (10%) of the total issued and outstanding Shares of the Company (calculated on a non-diluted basis) as of the Effective Date, being 990,304 Shares. If an Option Expires, is forfeited, or is cancelled for any reason, the Shares subject to that Option shall again be available for grants under the Plan.

Section 2.3 Limits with Respect to Insiders

The maximum number of Shares which may be issued to Insiders under the Plan, or when combined with any other security based compensation arrangements, within any 1-year period, may not exceed ten percent (10%) of the Shares issued and outstanding. The maximum number of Shares issuable to Insiders under the Plan, or when combined with any other security based compensation arrangements, at any time, may not exceed ten percent (10%) of the Shares issued and outstanding.

Section 2.4 Amendment and Termination

- (1) The Board may, in its sole discretion, suspend or terminate the Plan at any time or from time to time amend or revise the terms of the Plan or of any Grant Agreement, subject to any required regulatory approval, provided that such suspension, termination, amendment, or revision will not adversely alter or impair any Option previously granted except where the Participant consents, or where required by law.
- (2) If the Plan is terminated, the provisions of the Plan and any administrative guidelines and other rules and regulations adopted by the Board and in force on the date of termination will continue in effect as long as any Option or any rights pursuant thereto remain outstanding and, notwithstanding the termination of the Plan, the Board will remain able to make such amendments to the Plan or the Options as they would have been entitled to make if the Plan were still in effect.

- (3) Subject to Section 2.4(1) and compliance with the applicable Stock Exchange rules, the Board may from time to time, in its discretion and without the approval of Shareholders, make amendments to the Plan or any Grant Agreement without the approval of Shareholders under Section 2.4(4), which may include but are not limited to:
- (a) any amendment of a “housekeeping” nature;
 - (b) a change to the vesting provisions of the Plan and any Option;
 - (c) a change to the provisions governing assignability and the effect of termination of a Participant’s employment, contract or office, or cessation of a Participant’s directorship;
 - (d) the addition of a form of financial assistance and any amendment to a financial assistance provision which is adopted; and
 - (e) an amendment to the Plan or an Option as necessary to comply with applicable law or achieve a particular tax treatment, or to comply with the requirements of the Stock Exchange or any other regulatory body having authority over the Company, the Plan, the Participants or the Shareholders.
- (4) Subject to compliance with the applicable Stock Exchange rules, Shareholder approval is required for the following amendments to the Plan:
- (a) any increase in the maximum number of Shares that may be issuable from treasury pursuant to Options granted under the Plan (as set out in Section 2.2), including an increase to the maximum number of Shares or a change from a fixed maximum percentage of Shares to a fixed maximum number, other than an adjustment pursuant to a change in capitalization;
 - (b) any reduction in the Exercise Price after an Option has been granted or any cancellation of an Option and the substitution of that Option with a new Option with a reduced Exercise Price, except in the case of an adjustment pursuant to a change in capitalization;
 - (c) any extension of the Expiry Date of an Option, except in case of an extension due to a black-out period;
 - (d) any amendment which increases or removes the maximum number of Shares that may be issued to (i) Insiders and their Associates; or (ii) any one Insider and his/her Associates under the Plan or any other proposed or established equity program of the Company in a one-year period, except in the case of an adjustment pursuant to a change in capitalization; and
 - (e) any amendment to Section 2.4(3) and Section 2.4(4).

ARTICLE 3 OPTIONS

Section 3.1 Grant

- (1) Subject to the provisions of this Plan, the Board may grant Options to any Eligible Person upon the terms, conditions and limitations set forth herein and such other terms, conditions and limitations permitted by and not inconsistent with this Plan as the Board may determine and set forth in the Grant Agreement.
- (2) An Option shall be evidenced by a Grant Agreement, signed on behalf of the Company.

Section 3.2 Exercise Price

An Option may be exercised at a price that shall be fixed by the Board at the time that the Option is granted, but in no event shall it be less than the Fair Market Value of the underlying Shares on the Date of Grant (the “**Exercise Price**”).

Section 3.3 **Vesting**

All Options granted hereunder shall vest in accordance with the terms of the Grant Agreement entered into in respect of such Options. Notwithstanding the foregoing, where a Grant Agreement does not specify the Vesting Date of an Option, the Option shall vest as follows:

1/5 of the Option on the first anniversary of the Date of Grant;

1/5 of the Option on the second anniversary of the Date of Grant;

1/5 of the Option on the third anniversary of the Date of Grant;

1/5 of the Option on the fourth anniversary of the Date of Grant; and

1/5 of the Option on the fifth anniversary of the Date of Grant.

ARTICLE 4 EXERCISE & EXPIRY

Section 4.1 **Conditions of Exercise**

- (1) Vested Options may only be exercised during the Exercise Period by the Participant or his or her legal representative. Subject to the restrictions set out in this Plan, Options to acquire Shares may be exercised by delivering to the Company an Exercise Notice, together with a bank draft or certified cheque in an amount equal to the aggregate Exercise Price and the amount necessary to satisfy any Source Deductions.
- (2) The Board may, in its sole discretion, allow a Participant to, in lieu of exercising Options in accordance with Section 4.1(1), elect to surrender such Options to the Company in consideration for an amount from the Company equal to (i) the aggregate Fair Market Value of the Shares issuable under such Options, less (ii) the aggregate Exercise Price in respect of such Options, which amount shall be rounded down to the nearest whole number of Shares ((i) less (ii) being the “**Net Benefit**”). A Participant may elect to be paid the Net Benefit in cash, subject to the approval of the Board. Where the Net Benefit is satisfied in cash, the Company will deduct any Source Deductions from such payment. Where the Net Benefit is satisfied in Shares from treasury, the Participant will deliver a bank draft or certified cheque to the Company in an amount equal to any Source Deductions.
- (3) Where Shares are to be issued to the Participant pursuant to the terms of Section 4.1, as soon as practicable following the receipt of the Exercise Notice and the required bank draft or certified cheque, the Company shall duly issue such Shares to the Participant.

Section 4.2 **Exercise Period**

- (1) The Exercise Period shall be determined by the Board in its sole and absolute discretion at the time the Option is granted, and unless otherwise provided in the Participant’s Grant Agreement and subject to earlier Expiry in accordance with the terms of the Plan, each Option shall Expire ten (10) years after the Date of Grant.
- (2) No Option in respect of which Shareholder approval is required under the rules of the Stock Exchange shall be exercisable until the time that such Option has been approved by the Shareholders.
- (3) Notwithstanding any other provision of the Plan, if the Expiry Date of a vested Option falls on, or within the nine (9) Business Days immediately following a date upon which such Participant is prohibited from exercising such Option due to a black-out period or other trading restriction imposed by the Company, then the Expiry Date of such Option shall be automatically extended to the tenth (10th) Business Day following the date the relevant black-out period or other trading restriction imposed by the Company is lifted, terminated or removed.

Section 4.3 **Expiry Date and Termination of Employment or Service**

- (1) Unless otherwise provided in the Participant's Grant Agreement or employment agreement and regardless of any adverse or potentially adverse tax or other consequences resulting from the foregoing:
 - (a) if a Participant ceases to be an Eligible Person as a result of his or her termination without Cause, retirement, resignation, or failure to be re-elected as a director of the Company or an Affiliate: (i) the Expiry Date of any unvested Options held by such Participant is the Participant's Termination Date, and (ii) the Expiry Date of any vested Options held by such Participant is the date that is ninety (90) days after the Participant's Termination Date;
 - (b) if a Participant ceases to be an Eligible Person as a result of his or her death: (i) the Expiry Date of any unvested Options held by such Participant is the Participant's Termination Date, and (ii) the Expiry Date of any vested Options (including any Options that vest on the Participant's Termination Date) held by such Participant (or personal representative) is the date that is one hundred and eighty (180) days after the Participant's Termination Date; and
 - (c) if a Participant ceases to be an Eligible Person as a result of his or her Board service, office or employment being terminated for Cause, the Expiry Date of all Options held by such Participant (whether vested or unvested) is the Participant's Termination Date.

ARTICLE 5 CHANGE OF CONTROL EVENT

Section 5.1 **Change of Control Event**

- (1) In the event of a Change of Control Event, the Board of Directors may make such provision for the protection of the rights of the Participants as the Board of Directors in its discretion considers appropriate in the circumstances, including, without limitation, changing the Vesting Date or Dates for any Option, changing the date on which any Option Expires, providing for substitute rights in the continuing entity, and permitting the conditional exercise of Options in connection with a potential Change of Control Event.
- (2) Notwithstanding any other provision of the Plan, the Company shall give written notice to the Participants advising that all of their Options (whether or not currently exercisable) outstanding immediately prior to the occurrence of a transaction or series of transactions that, if completed, would result in (i) a Change of Control Event and (ii) the Shares no longer being listed on the Stock Exchange (a "**Proposed Transaction**"), may be exercised prior to the completion of the Proposed Transaction, in each case, conditional upon the completion of the Proposed Transaction. For the purpose of this Section 5.1(2), "Shares" shall include any adjustments contemplated by Section 7.4(b)). If the Proposed Transaction is not completed within 180 days after the date of the notice, the Company will return to any affected Participant all rights under the Participant's Options as if no conditional exercise had been affected.

ARTICLE 6 CLAWBACK

All incentive compensation paid by the Company, or any of its Affiliates, is subject to clawback and recapture (including without limitation Shares issued pursuant to the exercise of any Options granted pursuant to the terms of this Plan and any proceeds from the disposition of such Shares), to the extent permitted by law, if the Board has determined in its sole discretion that:

- (a) such amounts were based on the achievement of financial results that were subsequently materially revised (e.g. due to the restatement of the Company's, or any of its Affiliates', financial statements);
- (b) the Participant engaged in grossly negligent or intentional misconduct that caused or substantially caused the need for the material revision;

- (c) fewer Options would have been granted or vested had the financial results been accurate; and
- (d) the Participant has breached any non-competition or non-solicitation agreement with the Company or an Affiliate.

ARTICLE 7 MISCELLANEOUS

Section 7.1 Tax Withholdings and Deductions

Notwithstanding any other provision contained herein, in connection with the exercise of an Option by a Participant from time to time, as a condition to such exercise (i) the Company shall require such Participant to pay to the Company or the relevant Affiliate an amount as necessary so as to ensure that the Company or such Affiliate, as applicable, is in compliance with the applicable provisions of any federal, provincial or local law relating to the withholding of tax or other required deductions in connection with the exercise of such Options (the “**Source Deductions**”); or (ii) in the event a Participant does not pay the amount specified in (i), the Company shall be permitted to engage a broker or other agent on behalf of the Participant, at the risk and expense of the Participant, to sell a portion of the underlying Shares issued on the exercise of such Option to the Participant through the facilities of the Stock Exchange, and to apply the proceeds received on the sale of such underlying Shares as necessary so as to ensure that the Company or the relevant Affiliate, as applicable, is in compliance with the applicable Source Deductions relating to the exercise of such Options. In addition, the Company or the relevant Affiliate, as applicable, shall be entitled to withhold from any amount payable to a Participant, either under this Plan or otherwise, such amount as may be necessary so as to ensure that the Company or the relevant Affiliate is in compliance with the applicable Source Deductions relating to the exercise of such Options. Each Participant agrees to indemnify and save the Company harmless from any and all amounts payable or incurred by the Company or its Affiliates if it is subsequently determined that any greater amount should have been withheld in respect of taxes or any other statutory withholding.

Section 7.2 Non-Transferability

No assignment or other transfer of Options, whether voluntary, involuntary, by operation of law or otherwise (other than upon the death of the Participant), is permitted under the Plan.

Section 7.3 Participation in this Plan

- (1) Nothing contained in the Plan nor in any Option granted thereunder shall be deemed to give any Participant any interest or title in or to any Shares or any rights as a Shareholder or any other legal or equitable right against the Company, or any of its Affiliates.
- (2) The Company’s or any Affiliate’s obligation under this Plan shall be merely that of an unfunded and unsecured promise of the Company or such Affiliate to pay money in the future, and the rights of Participants (and their legal personal representatives) shall be no greater than those of unsecured general creditors.
- (3) The Plan shall not give any Participant or any employee of the Company or any of its Affiliates the right or obligation to or to continue to serve as a director, officer or employee, as the case may be, to or of the Company or any of its Affiliates.
- (4) The Company makes no representation or warranty as to the future market value of the Shares or with respect to any income tax matters affecting the Participant resulting from the grant or exercise of an Option or transactions in the Shares. With respect to any fluctuations in the Fair Market Value of Shares, neither the Company, nor any of its directors, officers, employees, shareholders or agents shall be liable for anything done or omitted to be done by such person or any other person with respect to the price, time, quantity or other conditions and circumstances of the issuance of Shares hereunder, or in any other manner related to the Plan. For greater certainty, no amount will be paid to, or in respect of, a Participant under the Plan or pursuant to any other arrangement, and no additional Options will be granted to such Participant to compensate for a downward fluctuation in the price of the Shares, nor will any other form of benefit be conferred upon, or in respect of, a Participant for such purpose.

Section 7.4 Reorganization of Capital

- (a) The existence of any Option does not affect in any way the right or power of the Company or the Shareholders to make, authorize or determine any adjustment, recapitalization, reorganization or any other change in the Company's capital structure or its business, or any amalgamation, combination, plan of arrangement, merger or consolidation involving the Company, to create or issue any bonds, debentures, Shares or other securities of the Company or to determine the rights and conditions attaching thereto, to declare and pay dividends, to effect the dissolution or liquidation of the Company or any sale or transfer of all or any part of its assets or business, or to effect any other act or proceeding, whether of a similar character or otherwise, whether or not any such action referred to in this Section 7.4(a) would have an adverse effect on this Plan or any Option granted hereunder.
- (b) Appropriate adjustments, with regards to Options granted or to be granted, in the number of Shares that are available for purchase and/or in the purchase price for such Shares under the Plan and to the maximum number of Shares available for issuance under the Plan may be made by the Board, acting reasonably, to give effect to the number of shares of the Corporation resulting from subdivisions, consolidations, conversions, exchanges or reclassifications of the Shares, the payment of stock dividends by the Corporation (other than cash dividends) or other changes in the capital stock of the Corporation that the Board may, in their discretion, consider relevant for purposes of ensuring that the rights of the Participants are not prejudiced thereby (including amalgamations, mergers, reorganizations, liquidations and similar material transactions).

Section 7.5 Notice

Any notice required to be given by this Plan shall be in writing and shall be given by registered mail, postage prepaid, or delivered by courier or by facsimile transmission addressed, if to the Company, to the head office of the Company, Attention: Chief Financial Officer; or if to a Participant, to such Participant at his or her address as it appears on the books of the Company or in the event of the address of any such Participant not so appearing, then to the last known address of such Participant; or if to any other person, to the last known address of such person.

Section 7.6 No Fractional Shares

No fractional Shares shall be issued upon the exercise of any Option granted under the Plan and, accordingly, if a Participant would become entitled to a fractional Share upon the exercise of an Option, or from an adjustment permitted by the terms of this Plan, such Participant shall only have the right to purchase the next lowest whole number of Shares, and no payment or other adjustment will be made with respect to the fractional interest so disregarded.

Section 7.7 Governing Law

The Plan shall be governed by the laws of Ontario and the federal laws of Canada applicable therein.

**APPENDIX 1
US EMPLOYEES**

The terms of the Plan are hereby modified with respect to those Participants who are U.S. Participant:

SPECIAL APPENDIX
to the
The Second Cup Ltd.
Stock Option Plan

Special Provisions Applicable to Participants Subject to
the United States Internal Revenue Code

This Appendix sets forth special provisions of the Plan (the “Plan”) that apply to U.S. Participants. All Options issued under the Plan to U.S. Participants are intended to (i) comply with the requirements of Section 422 of the Code, or any successor thereto and (ii) be exempt from and avoid the penalties imposed by Section 409A of the Code, or any successor thereto, and all provisions hereunder shall be read, interpreted, and applied with that purpose in mind. Terms used herein that are defined in the Plan shall have the meanings set forth in the Plan, as amended from time to time.

1. Interpretation

- (1) For the purposes of this Appendix, the following terms have the following meanings:
 - (a) “**Code**” means the United States Internal Revenue Code of 1986, as amended, and any applicable United States Treasury Regulations and other binding regulatory guidance thereunder;
 - (b) “**Incentive Stock Option**” means any Option granted under the Plan which the Board intends (at the time it is granted) to be an incentive stock option within the meaning of Code Section 422 or any successor thereto;
 - (c) “**Non-Qualified Option**” means any Option granted under the Plan to a U.S. Participant which is not an Incentive Stock Option;
 - (d) “**Ten Percent Shareholder**” means a U.S. Participant who owns (or is deemed to own pursuant to Code Section 424(d)) stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company, a Subsidiary Company or any other Affiliate, as applicable;
 - (e) “**Separation From Service**” shall have the meaning set forth in Section 2(4) below;
 - (f) “**Subsidiary Company**” shall have the meaning set forth in Section 2(2) below; and
 - (g) “**U.S. Participant**” shall have the meaning set forth in Section 2(1), below.
- (2) The Plan and this Appendix are complementary to each other and shall, with respect to Options granted to U.S. Participants, be read and deemed as one. In the event of any contradiction, whether explicit or implied, between the provisions of this Appendix and the Plan, the provisions of this Appendix shall prevail with respect to Options granted to U.S. Participants. Options may be granted under this Appendix either as Incentive Stock Options or as Non-Qualified Options, subject to the provisions set forth in Section 2(2) below and any other applicable restrictions or limitations as provided under applicable law.

2. Application

- (1) The following special rules and limitations are applicable to Options issued under the Plan to U.S. Participants the grant of Options to whom (or the exercise of Options by whom) is subject to taxation in the

United States (referred to hereunder as “**U.S. Participants**”), in order, *inter alia*, that all or part of such Options granted to U.S. Participants may be Incentive Stock Options.

- (2) Incentive stock options may only be awarded to employees (including officers) of the Company or an entity that, with respect to the Company, is a “parent company” or “subsidiary company” within the meaning of Code Sections 424(f) (“**Subsidiary Company**”). Furthermore, except as otherwise provided in Code Section 422, if a U.S. Participant is no longer employed by the Company or a Subsidiary Company, the U.S. Participant’s Option shall cease to be treated as an Incentive Stock Option.
- (3) To the extent that the aggregate fair market value (determined as of the time the Option is granted) of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the U.S. Participant under all Share Compensation Arrangements of the Company, a Subsidiary Company or any other Affiliate (if applicable) exceeds US\$100,000 during any calendar year, the Options or portions thereof that exceed such limit (according to the order in which they are granted) shall be treated as Non-Qualified Options in accordance with Code Section 422(d) or any successor thereto, notwithstanding any contrary provision of the Plan and/or Grant Agreement.
- (4) No U.S. Participant shall be permitted to defer the recognition of income beyond the exercise date of a Non-Qualified Option or beyond the date that the Shares received upon the exercise of an Incentive Stock Option are sold. However, if the Board determines that an Option granted hereunder constitutes a *deferral of compensation* for purposes of Code Section 409A and provided the Shares are publicly traded and the U.S. Participant holding said Option is a “*specified employee*” for purposes of Code Section 409A, then and only under these conditions, no distribution or payment of any amount shall be made upon a *separation from service* (as that term is defined in Treasury Regulation Section 1.409A-1(h)) (“**Separation From Service**”) before a date that is six (6) months following the date of such U.S. Participant’s Separation From Service, or, if earlier, the date of the U.S. Participant’s death.
- (5) Each U.S. Participant is solely responsible and liable for the satisfaction of all taxes and penalties that may be imposed on or for the account of such U.S. Participant in connection with the Plan (including, without limitation, any taxes and penalties under Code Section 409A, if applicable, notwithstanding that Options granted to a U.S. Participant under the Plan were designed with the intention not to constitute a *deferral of compensation* for purposes of Code Section 409A), and neither the Company, a Subsidiary Company nor any other Affiliate of the Company shall have any obligation to indemnify or otherwise hold such U.S. Participant (or any beneficiary) harmless from any or all of such taxes or penalties.
- (6) The Company, a Subsidiary Company and any Affiliate, if applicable, shall withhold taxes according to the requirements of applicable laws, rules, and regulations, including the withholding of taxes at source to satisfy any applicable federal, provincial, state, or local tax withholding obligation and employment taxes.
- (7) Each recipient of an Option hereunder who is or who becomes a U.S. Participant is advised to consult with his or her personal tax advisor with respect to the tax consequences under federal, state, local and other tax laws of the receipt and/or exercise of an Option hereunder.
- (8) Without derogating from the powers and authorities of the Board detailed in the Plan, and unless specifically required under applicable law, the Board shall also have the sole and full discretion and authority to administer the provisions of this Appendix and all actions related thereto including, in addition to any powers and authorities specified in the Plan, the performance, from time to time and at any time, of either or both of the following:
 - (a) deciding whether to issue Options as Incentive Stock Options or as Non-Qualified Options; and
 - (b) adopting standard forms of Grant Agreements to be applied with respect to U.S. Participants, incorporating and reflecting, *inter alia*, relevant provisions regarding the grant of Options in accordance with this Appendix, and amending or modifying the terms of such standard forms from time to time.

3. *Exercise Price*

Notwithstanding any other provision of the Plan, so long as at the time of the grant of an Option the Shares are “readily tradable” as determined under United States Treasury Regulation Section 1.409A-1(b)(5)(vi)(G), the Exercise Price shall be, subject to applicable Stock Exchange rules, the closing sale price of the Shares reported on the primary securities exchange on which the Shares are listed on the last business day on which such exchange is open for trading prior to the date of grant of such Option, and if at the time of grant the Shares are not “readily tradable” as determined under United States Treasury Regulation Section 1.409A-1(b)(5)(vi)(G), the Exercise Price shall be, subject to applicable Stock Exchange rules, determined by the reasonable application of a reasonable valuation method in accordance with Treasury Regulation Section 1.409A-1(b)(5)(iv)(B).

4. *Expiry of Option/Trading Blackouts*

Notwithstanding any other provision of the Plan and any provisions of the Grant Agreement to the contrary, Options granted to U.S. Participants may not be exercised under any circumstance following the ten (10) year anniversary of the date of grant.

5. *Disqualifying Disposition*

Without limiting the generality of the foregoing, if a U.S. Participant sells or otherwise disposes of any of the Shares acquired pursuant to an Incentive Stock Option on or before the later of (x) the date two years after the date the Option is granted, or (y) the date one year after the transfer of such Shares to the U.S. Participant upon exercise of the Incentive Stock Option, the U.S. Participant shall notify the Company in writing within 30 days after the date of any such disposition (“**Disqualifying Disposition**”) and shall remit to the Company or its Affiliate, as applicable, the amount of any applicable federal, state, provincial and local withholding and employment taxes. For greater certainty, an election made in accordance with Section 4.1(2) of the Plan shall also constitute a Disqualifying Disposition, notwithstanding that the required notification and the remittance of applicable taxes to the United States tax authorities may differ from the provisions of this Section 5.

6. *Adjustments to Options*

The number of Shares deliverable on the exercise of an Option held by a U.S. Participant and the Exercise Price of an Option held by a U.S. Participant shall be adjusted in a manner intended to keep the Options exempt from Code Section 409A.

7. *Amendment of Appendix*

The Board shall retain the power and authority to amend or modify this Appendix to the extent the Board in its sole discretion deems necessary or advisable to comply with any guidance issued under Code Sections 409A and 422. Such amendments may be made without the approval of any U.S. Participant.

8. *Ten Percent Shareholders*

- (1) If any U.S. Participant to whom an Incentive Stock Option is to be granted under this Plan is, at the time of the grant of such Option, a Ten Percent Shareholder, then the following special provisions shall apply:
 - (a) the per share price at which Shares may be purchased upon the exercise of an Incentive Stock Option shall be no less 110% of the fair market value of a Share at such time as the Option is granted (as determined under the applicable provisions of the Code), and
 - (b) for the purpose of this Section 8 only, the exercise period shall not exceed five (5) years from the date the Option is granted.
- (2) Subject to the provisions of this Section 8 regarding Ten Percent Shareholders, no Option may be granted hereunder to a U.S. Participant following the expiry of ten (10) years after the date on which this Plan is adopted by the Board or the date this Plan is approved by the shareholders of the Company, whichever is earlier.

**SCHEDULE “A”
STOCK OPTION GRANT AGREEMENT**

**THE SECOND CUP LTD.
STOCK OPTION PLAN**

[Name & Address]

[Date]

Dear [Name]:

This is to advise you that you have been selected to participate in the The Second Cup Ltd. Stock Option Plan (the “Plan”). Effective _____, you will be granted an Option to acquire _____ Shares of The Second Cup Ltd. (the “Company”) at a price of Cdn.\$_____ per Share.

Your Option is subject to the provisions of the Plan, a copy of which is **[enclosed/available at intranet site]**. Capitalized terms not otherwise defined in this Grant Agreement are as defined in the Plan.

Your Option will vest in accordance with the following schedule:

[1/5 on [date];

[1/5 on [date];

[1/5 on [date];

[1/5 on [date]; and

[1/5 on [date].

Subject to earlier Expiry in accordance with the Plan, including on termination of employment or service, your Option will Expire on [date].

The Option grant described above is strictly confidential and the information concerning the number or price of Shares granted under this Option should not be disclosed to anyone.

If you have any questions about the Plan or your Option, please contact ●.

Please sign and return a copy of this Grant Agreement.

Yours sincerely,

* * * * *

I acknowledge receipt of and agree to be bound by the terms of: (i) this Grant Agreement; (ii) the Plan (including all the appendices to the Plan). I acknowledge that my participation in the plan is voluntary and has not been induced by expectation of employment or service or continued employment or service.

I have been advised to obtain, and have been afforded the opportunity to obtain, independent legal advice with respect to this Grant Agreement and I understand the nature and consequences of this Grant Agreement, including potential tax implications under Canadian (and if applicable, U.S.) federal, provincial, state and other laws with respect to the receipt of Options

I _____ am/ _____ am not [check appropriate box] a U.S. Taxpayer.*

DATED this _____ day of _____, 20__.

Name (please print)

Signature

* "U.S. Taxpayer" means an employee who is a citizen or a resident alien of the United States for purposes of the United States Internal Revenue Code or an employee for whom the compensation subject to deferral under this Plan would otherwise be subject to United States federal income taxation under the United States Internal Revenue Code.

SCHEDULE "B"
ELECTION TO EXERCISE STOCK OPTIONS

TO: THE SECOND CUP LTD. (the "Company")

The undersigned option holder hereby irrevocably elects to exercise Options granted by the Company to the undersigned pursuant to a Grant Agreement dated ●, 20● under the The Second Cup Ltd. Stock Option Plan (the "Plan"), for the number Shares set forth below. Capitalized terms used herein and not otherwise defined shall have the meanings given to them in the Plan.

Please complete the following:

Number of Shares to be Acquired: _____

Option Exercise Price (per Share): \$ _____

Aggregate Purchase Price: \$ _____

Amount enclosed that is payable on account of any Source Deductions relating to this Option exercise (contact the Company for details of such amount): \$ _____

Or check here if alternative arrangements have been made with the Company;

and hereby tenders a certified cheque or bank draft for such aggregate purchase price, and, if applicable, all Source Deductions, and directs such Shares to be registered in the name of _____.

I hereby agree to file, on a timely basis, all reports that I may be required to file under applicable securities laws. I understand that this request to exercise my Options is irrevocable.

[I acknowledge the provisions in the Plan with respect to Clawback and reaffirm the covenants given by me under the Non-Competition/Non-Solicitation Agreement I am a party to with the Company and/or its Affiliates and agree to continue to be bound by all of the terms thereof.]

I have been advised to obtain, and have been afforded the opportunity to obtain, independent legal advice with respect to this Exercise Notice and I understand the nature and consequences of this Exercise Notice, including potential tax implications under Canadian (and if applicable, U.S.) federal, provincial, state and other laws with respect to the receipt of Shares.

I _____ am/_____ am not [check appropriate box] a U.S. Taxpayer.*

DATED this ____ day of _____, _____.

Signature of Option Holder

Name of Option Holder (Please Print)

* "U.S. Taxpayer" means an employee who is a citizen or a resident alien of the United States for purposes of the United States Internal Revenue Code or an employee for whom the compensation subject to deferral under this Plan would otherwise be subject to United States federal income taxation under the United States Internal Revenue Code.

