

**SECOND CUP  
COFFEE CO.<sup>TM</sup>**

**Annual Information Form**

For the year ended December 27, 2014

March 27, 2015

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## GLOSSARY OF TERMS

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

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

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

**“Bank”** means The Bank of Nova Scotia.

**“Coffee Central”** means the general support network provided by the Company’s head office.

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

**“Fund”** means Second Cup Income Fund or Second Cup Royalty Income Fund.

**“Gross Revenue”** as it relates to both Company-operated cafés and franchised cafés means the total of all sales and other income whatsoever, from whatever source (whether it be of a retail, wholesale or other nature), derived from operating a Second Cup café or any other business activity whatsoever at the Second Cup café, or derived from selling any products from any location, whether or not such amounts are collected and whether payment is made by way of cash, credit or otherwise, all as further described in “Business of Second Cup - Franchise Operations - Second Cup Franchise Agreements.”

**“MD&A”** means Second Cup’s Management’s Discussion and Analysis.

**“OBCA”** means *Business Corporation Act* (Ontario).

**“Operating Credit Facility”** means the revolving credit facility in the amount of up to \$2,000,000 established by the Bank in favour of the Company.

**“Quarter”** means an interim period of 13 weeks ended within the Year.

**“Same café sales”** represents percentage change, on average, in retail sales at cafés (franchised and Company-operated) operating system-wide that have been open for more than 12 months. It is one of the key metrics the Company uses to assess its performance and provides a useful comparison between Quarters. The two principal factors that affect Same café sales are changes in customer traffic and changes in average cheque (the average dollar amount on a single transaction at the café).

**“Second Cup”** or the **“Company”** means The Second Cup Ltd.

**“Second Cup cafés”** refers to the retail outlets dedicated to the sale of specialty coffee and related products operated by Second Cup or Second Cup franchisees and identified by the Second Cup Marks.

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

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

“**Share**” means a common share in the capital of the Company.

“**Shareholders**” means the holders of Shares.

“**System sales of cafés**” means the Gross Revenue of all Second Cup cafés including: (i) the Gross Revenue of the Company-operated cafés in Canada owned by Second Cup; and (ii) the Gross Revenue reported to Second Cup by franchisees of Second Cup cafés on a weekly basis.

“**Tax Act**” means the *Income Tax Act* (Canada).

“**Term Loan**” means the term loan in the principal amount of \$11,000,000 by the Bank to the Company due September 30, 2016.

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

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

“**Year**” means the 52 weeks ended December 27, 2014.

## EXPLANATORY NOTES

All information contained in this Annual Information Form is presented as of December 27, 2014 unless otherwise indicated. All dollar amounts are presented in Canadian currency unless otherwise stated. Reference is made to the glossary for the meaning of certain defined terms.

## FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Information Form may constitute forward-looking statements within the meaning of applicable securities legislation. The terms the “Company,” “Second Cup,” “we,” “us,” or “our” refer to The Second Cup Ltd. Forward-looking statements include words such as “may,” “will,” “should,” “expect,” “anticipate,” “believe,” “plan,” “intend,” and other similar words. These statements reflect expectations regarding future events and financial performance and speak only as of the date of this Annual Information Form. The Annual Information Form should not be read as a guarantee of future performance or results and will not necessarily be an accurate indication of whether or not those results will be achieved. Forward-looking statements are based on a number of assumptions and are subject to known and unknown risks, uncertainties and other factors, many of which are beyond Second Cup’s control that may cause Second Cup’s actual results, performance or achievements, or those of Second Cup cafés, or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The following are some of the factors that could cause actual results to differ materially from those expressed in the underlying forward-looking statements: competition; availability of premium quality coffee beans; the ability to attract qualified franchisees; the location of Second Cup cafés; the closure of Second Cup cafés; loss of key personnel; compliance with government regulations; potential litigation; the ability to exploit and protect the Second Cup trademarks; changing consumer preferences and discretionary spending patterns including, but not restricted to, the impact of weather and economic conditions on such patterns; reporting of system sales by franchisees; and the financial performance and financial condition of Second Cup. The foregoing list of factors is not exhaustive, and investors

should refer to the risks described under “Risk factors” below and “Risks and uncertainties” in Second Cup’s MD&A, which is available at [www.sedar.com](http://www.sedar.com).

Although the forward-looking statements contained in this Annual Information Form are based on what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements and, as a result, the forward-looking statements may prove to be incorrect.

As these forward-looking statements are made as of the date of this Annual Information Form, Second Cup does not undertake to update any such forward-looking statements whether as a result of new information, future events or otherwise. Additional information about these assumptions and risks and uncertainties is contained in the Company’s filings with securities regulators. These filings are also available on the Company’s website at [www.secondcup.com](http://www.secondcup.com).

In addition to using financial measures prescribed by International Financial Reporting Standards (“IFRS”), non-GAAP financial measures and other terms are used in this Annual Information Form. These terms include “System sales of cafés”, “Same café sales”, and “EBITDA”. These terms are not financial measures recognized by IFRS and do not have any standardized meaning prescribed by IFRS and therefore, may not be comparable to similar terms and measures presented by other similar issuers.

## **DISCUSSION ON CERTAIN NON-GAAP FINANCIAL MEASURES**

The following non-GAAP financial measures are believed by management to be useful indicators of Company performance. These measures and terms are intended to provide additional information on Company performance, but should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

### ***System sales of cafés***

System sales of cafés comprise the Gross Revenue of franchises and Company-operated cafés.

### ***Same café sales***

Same café sales represents the percentage change in sales at cafés that have been open for more than 12 months.

### ***EBITDA***

EBITDA represents earnings before interest, taxes, depreciation, and amortization. As there is no generally accepted method of calculating EBITDA, the measure as calculated by the Company may not be comparable to similarly titled measures reported by other issuers.

## **CORPORATE STRUCTURE**

### ***Name, address and jurisdiction of formation***

The Company is the successor to Second Cup Income Fund following completion of the reorganization of the income trust structure of the Fund into a corporate structure by way of a court approved plan of arrangement and articles of arrangement under the OBCA on January 1, 2011 (collectively the “Arrangement”). Pursuant to the Arrangement, the Fund was dissolved and common shares of the Company were distributed to Unitholders of the Fund on the basis of one common share of the Company for each Unit held. Prior to the Arrangement, The Second Cup Ltd. was an indirect wholly

owned subsidiary of the Fund. From and after completion of the Arrangement, the Company has carried on the entire business previously carried on by the Fund and its subsidiaries. The Company's Shares are posted and listed for trading on the Toronto Stock Exchange ("TSX") under the symbol "SCU". The address of the Company's registered office is 6303 Airport Road, 2nd Floor, Mississauga, Ontario, L4V 1R8. The website is [www.secondcup.com](http://www.secondcup.com).

## GENERAL DEVELOPMENT OF THE BUSINESS

### *Business structure*

Second Cup Royalty Income Fund was established on October 22, 2004; the Company operated under an income trust Fund structure from 2004 through to the end of 2010.

Effective January 1, 2011, the income trust structure of the Fund was converted into a publicly traded corporation named "The Second Cup Ltd." pursuant to which the Fund was dissolved.

The Shares of The Second Cup Ltd. commenced trading on the TSX on January 4, 2011 under the symbol "SCU". Since January 1, 2011, the Company has carried on the entire business previously carried on by the Fund and its subsidiaries and is the successor reporting issuer of the Fund in all provinces and territories of Canada.

On November 27, 2014, the Company closed a private placement offering of 2,927,900 common shares at an average share price of \$2.75. Shares outstanding at the year ended December 27, 2014 are 12,830,945.

## BUSINESS OF SECOND CUP

### *General*

Second Cup is Canada's second largest retailer of specialty coffee, as measured by number of cafés. Since the opening of its first café in suburban Toronto in 1975, Second Cup's network has grown to 347 cafés across Canada as at December 27, 2014, of which 312 are franchised and 35 are Company-operated. For the Year, Second Cup's System sales of cafés were \$182.8 million.

Second Cup cafés offer a wide selection of hot and cold specialty coffees, teas, hot chocolate, other beverages, and a variety of complementary products, including pastries, muffins, cookies, coffee accessories and coffee-related gift items, with some cafés also offering sandwiches.

### *What is specialty coffee?*

The term "specialty coffee", as used in reference to coffee production, refers to coffee produced from specialty grade Arabica coffee beans prepared according to exacting standards. Typically, specialty coffee is sourced from the top 10% of the world's Arabica coffee bean production and must satisfy stringent grading and sorting standards, which results in a distinct, tangible difference in the taste profile of specialty coffee as compared lower grade coffee and instant coffee.

### *History*

Second Cup opened its first café in a shopping mall in suburban Toronto in 1975. Until 2002, the chain experienced rapid growth. By 2002, Second Cup had approximately 405 cafés. Following this period of rapid expansion, the number of cafés has declined to 347 as at the end of December 27, 2014.

## *Competitive conditions*

The Canadian specialty coffee industry is intensely competitive. There are a number of large coffee retailers in Canada, as well as a growing number of smaller competitors and food service outlets that serve coffee, and supermarkets that compete in the whole bean and roast and ground segments.

## *The Second Cup café system*

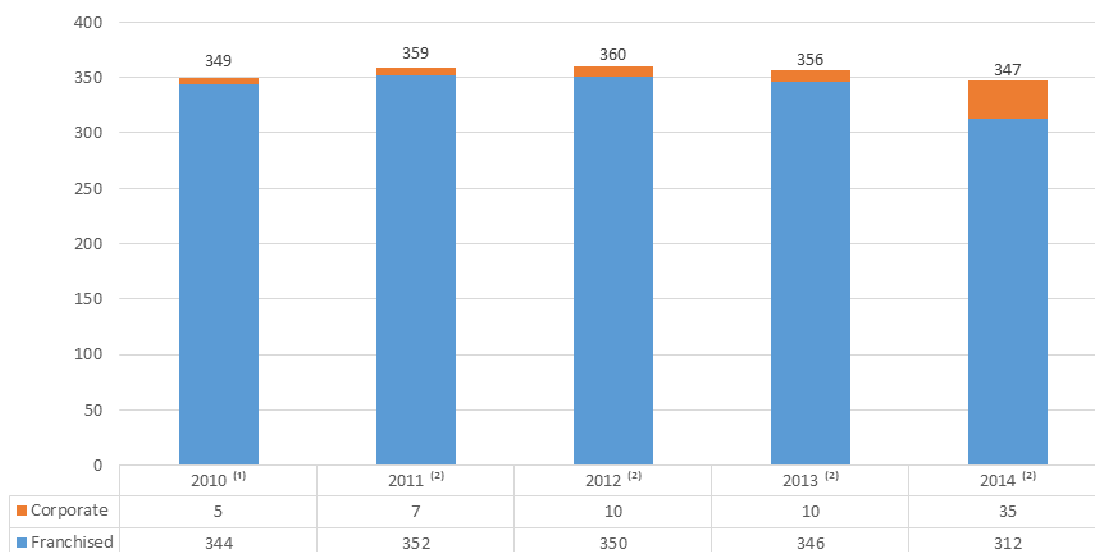
### *The Second Cup concept*

The Second Cup brand has a high degree of retail visibility, with locations in high-traffic areas in major Canadian markets. Second Cup is a franchise-driven business focused on delivering a premium experience to its guests, which includes developing innovative products that make Second Cup cafés a destination of choice for Canadian coffee drinkers. Second Cup is focused on growing the Second Cup business through a combination of growing existing café sales and adding new cafés to the Second Cup network.

### *Number of locations*

Since 1975, there has been substantial growth in the number of Second Cup cafés in Canada, reaching a total of 405 cafés in 2002. Following this period of rapid expansion, the number of cafés has declined with 347 and 356 cafés as at the end of December 27, 2014 and December 28, 2013, respectively.

**Number of Second Cup cafés in Canada**



Notes:

All figures are as at the end of the respective fiscal period.

- (1) For 2010 figures are for a 12- month period ended December 31.
- (2) For 2011 - 2014 figures are for the 52-week fiscal period ended the last Saturday of December.

As illustrated in the chart above, the vast majority of Second Cup cafés are franchised. Although Second Cup is a franchise-driven business, it operates some Company-owned cafés. The mix of corporately

owned cafés increased in the year ended December 27, 2014 as a result of the Company's strategic plan, whereby certain cafés are being reacquired from franchisees for the purposes of upgrading and resale.

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

*Second Cup café openings and closings*

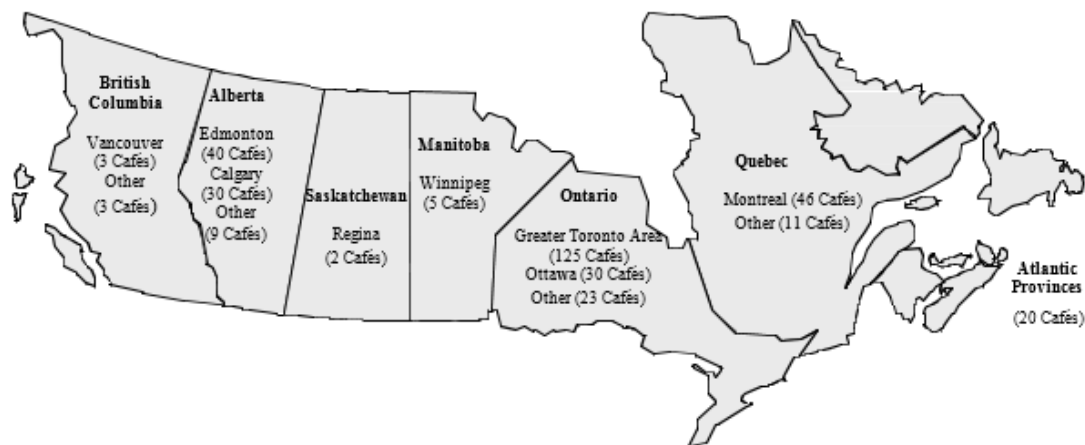
	<u>2010<sup>(1)</sup></u>	<u>2011<sup>(2)</sup></u>	<u>2012<sup>(2)</sup></u>	<u>2013<sup>(2)</sup></u>	<u>2014<sup>(2)</sup></u>
Openings	13	22	18	15	9
Closings	8	12	17	19	18

Notes:

- (1) For 2010 figures are for a 12-month period ended December 31.
- (2) For 2011 - 2014 figures are for the 52-week fiscal period ended the last Saturday of December.

*Geographic presence*

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





*Café types*

Second Cup cafés are situated in a wide range of high-traffic, high-visibility locations, consisting of street-fronts, shopping malls, office towers, power and strip centres and non-traditional retail sites such as hospitals, universities, airports and train stations. Second Cup cafés range from 200 square foot kiosks to 2,500 square foot street-front locations with self-contained customer seating areas and outdoor patios.

The following table illustrates the relative mix of location types in the Second Cup café network as at December 27, 2014:

*Café types*

	<b>Number of Cafés</b>	<b>% of Total</b>
Street-fronts.....	83	24%
Power and strip centres .....	58	17%
Shopping malls.....	61	18%
Non-traditional.....	56	16%
Office towers.....	36	10%
Drive thrus.....	53	15%
Total number of café locations.....	347	100%

*New locations*

Second Cup’s location selection process involves a variety of analytical techniques to evaluate factors that impact the viability of a proposed location, such as visibility, accessibility and traffic, as well as population density, household income, local competition and the proximity to major activity centres. New lease commitments entered into by Second Cup are carefully screened by management using a projected return on investment analysis.

*Leases*

Almost all Second Cup cafés are operated in leased premises. Second Cup enters into the head lease for café locations and, in turn, enters into a sublease on the same terms with its franchisees. The Company believes that entering into such arrangements allows it to maintain greater control over its cafés. The majority of current Second Cup lease agreements include renewal options over a staggered period, with an average of 27 leases coming up for renewal each year over the next 10-year period.

***Products***

The Company has a supply agreement with an independent roaster of coffees. The Company has also partnered with Swiss Water Decaffeinated Coffee Company Inc. to decaffeinate its coffee. The process is 100% chemical-free, removing 99.9% of the caffeine.

The coffee portfolio includes single-origin and estate coffees as well as proprietary blends like Paradiso® and Espresso Forte. The cafés offer a wide variety of hand crafted espresso-based beverages including espressos, cappuccinos, lattes and the Vanilla Bean Latte and Moccaccino. Second Cup is committed to developing and introducing new drinks, an example of which is the Flat White, an internationally popular espresso based drink which Second Cup was the first to market nationally in Canada. The Company has a long history of partnering with coffee producers, and buying direct from

farm or mill, and has Canadian exclusivity to sell San Agustin, Fazenda Vista Alegre, and La Minita Tarrazú; La Minita is considered by many to be the most carefully processed coffee in the world. The Company also produces single serve capsules in a variety of roasts for at home consumption.

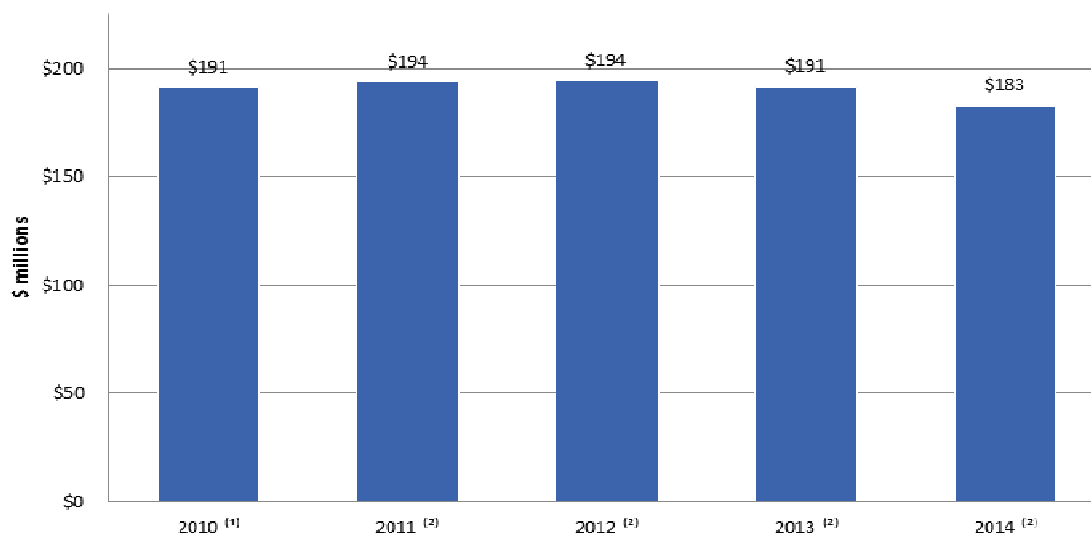
Second Cup prides itself that virtually all of its coffee, espresso and tea beverages are certified by third parties such as Rainforest Alliance Certified™ as environmentally sustainable products. The Company offers a fair-trade and organic certified blend of coffee entitled Cuzco®.

In addition to coffee and other beverages, cafés carry a variety of complementary products, including baked goods, sandwiches, coffee accessories and coffee-related gift items.

## Sales

System sales of cafés comprise the Gross Revenue reported to Second Cup by franchisees of Second Cup cafés and by Company-operated cafés.

### Café System Sales



Notes:

- (1) For 2010 figures are for a 12-month period ended December 31.
- (2) For 2011 - 2014 figures are for the 52-week fiscal period ended the last Saturday of December.

### Same café sales

2010 <sup>(1)</sup>	2011 <sup>(2)</sup>	2012 <sup>(2)</sup>	2013 <sup>(2)</sup>	2014 <sup>(2)</sup>
0.0%	-0.1%	-1.9%	-3.6%	-4.7%

Notes:

- (1) For 2010 figures are for a 12-month period ended December 31.
- (2) For 2011 - 2014 figures are for the 52-week fiscal period ended the last Saturday of December.

*Average sales per café (to the nearest thousand dollars)*

<b>2010</b> <sup>(1)</sup>	<b>2011</b> <sup>(1)</sup>	<b>2012</b> <sup>(2)</sup>	<b>2013</b> <sup>(2)</sup>	<b>2014</b> <sup>(2)</sup>
\$563,000	\$557,000	\$553,000	\$548,000	\$525,000

Notes:

- (1) For 2010 figures are for a 12-month period ended December 31.  
 (2) For 2011 - 2014 figures are for the 52-week fiscal period ended the last Saturday of December.

### ***Seasonality***

The following table shows the percentage of annual System sales of cafés achieved, on average, in each fiscal reporting Quarter over the last three Years:

<b>% of annual System sales of cafés</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>Average</b>
First Quarter	24.2	24.5	24.0	24.2
Second Quarter	24.4	24.9	25.1	24.8
Third Quarter	23.9	23.5	23.9	23.8
Fourth Quarter	27.5	27.1	27.0	27.2
	100.0	100.0	100.0	100.0

Historically, System sales of cafés have been higher in the fourth Quarter, which includes the holiday sales periods of November and December.

### ***Advertising and marketing***

Second Cup's marketing and advertising initiatives are directed toward enhancing the Second Cup brand, promoting new products and driving traffic into cafés.

Second Cup's marketing program is funded through contributions made by Company-operated and franchised cafés to a national co-operative fund, which is administered by Second Cup and the Advisory Council, consisting of six franchisees. Second Cup cafés are required to remit 2% of their Gross Revenue to this fund. These contributions are used to pay for product research and development, franchisee training, in-café improvement initiatives and other programs that benefit the Second Cup system as a whole. Examples of such initiatives include print advertising, outdoor advertising, radio, television and Internet marketing. The fund also supports other programs such as gift card administration.

In addition to contributing to the national co-operative fund, franchisees make expenditures on local advertising and promotions.

### ***Purchasing and distribution***

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

### *Sourcing*

Second Cup uses only Arabica coffee beans from the best growers in Central America, South America, Africa and Indonesia. Management estimates only 1% to 2% of the world's Arabica coffee beans meet Second Cup's stringent standards.

Second Cup has spent years developing and nurturing long-term relationships with farmers, co-operatives and processors in order to secure its supply of high quality coffee. These relationships permit Second Cup to offer many coffees on an exclusive basis. One example is La Minita, an estate coffee from Costa Rica, widely regarded as one of the world's finest. Second Cup continuously aims to strengthen its coffee sourcing programs.

Second Cup believes it has developed relationships with a sufficient number of growers to have a secure source of premium coffee beans. Second Cup also believes it has established a sufficient number of alternative sources of high quality coffee beans that could be accessed if any coffee currently purchased from existing suppliers became unavailable or economically unviable.

As with all commodities, coffee is subject to fluctuations in price. Second Cup works with a major North American coffee and tea company to administer and manage the purchasing of Second Cup's coffee beans pursuant to a custom coffee processing and distribution agreement described below. Second Cup typically locks in a portion of its future coffee costs. By locking in supply costs, Second Cup and its franchisees can better predict costs and availability of key ingredients.

### *Roasting, packaging and distribution*

As part of its commitment to deliver fresh, quality products to each café, Second Cup combines the purchase of high quality coffee beans with high standards for roasting, packaging and distribution.

Second Cup has a custom coffee processing and packaging agreement with a large coffee and tea manufacturer, which allows for control over inventory management as well as coffee roasting, and packaging.

Second Cup also has a distribution agreement with a national distributor, providing Second Cup with access to a national system of warehousing and distribution of its product to franchisees.

The Company has entered into a distribution agreement and has partnered with Kraft Canada Inc. to wholesale its product through grocery and other retail outlets across Canada. This complementary revenue stream provides Second Cup with a source of revenue growth; the Company will continue to evaluate the opportunity to add further product offerings through this channel.

### *Quality control*

Second Cup believes that it is essential to maintain quality control standards at every step in the purchasing and distribution process in order to meet customer expectations. The Company enforces strict policies and procedures surrounding the inspection of coffee beans, the bean roasting process, materials selected for packaging, and the process by which coffee is blended. During in-café preparation, coffee must be sold according to Second Cup's exacting standards for freshness.

### *Franchise operations*

As at December 27, 2014, Second Cup had a total of 347 cafés, 312 of which were franchisee-operated.

Second Cup franchisees have historically invested between \$350,000 and \$550,000 to open a new Second Cup café. They own and operate the Second Cup cafés under a franchise agreement.

Second Cup has developed an operating system that provides each franchisee with the training, tools and guidance to enable them to maximize its business potential. Key components of this system include effective site selection, café design and construction, equipment selection and maintenance programs, “best in class” products and services from suppliers, franchisee training, operational standards, ongoing operational support, and innovative product development and category management.

At Second Cup, some franchisees who consistently meet high operational standards are given the opportunity to become franchisees of additional units.

#### *Second Cup franchise agreements*

The relationship between Second Cup and each of its franchisees is governed by a franchise agreement. Excepting non-traditional agreements with franchisees such as Universities and hospitals, the terms of the franchise agreements entered into with Second Cup franchisees are substantially similar, and are summarized below.

Upon execution of a franchise agreement, a Second Cup franchisee must pay a non-refundable franchise fee, which is currently \$40,000. In addition to the initial franchise fee, the franchisee must pay for expenses incurred in order to fully construct or complete all improvements to the premises.

As part of the standard franchise agreement, a franchisee is required to make expenditures on local advertising and promotion of the café. In addition to local advertising and promotion, franchisees contribute 2.0% of their annual Gross Revenue to Second Cup’s national co-operative fund. This fee is payable to Second Cup at the same time as the royalty fee described above. See “Advertising and marketing” above.

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

Aside from the head lease, Second Cup does not provide any guarantees in connection with a franchisee’s financial arrangements, including with respect to equipment leases and supply purchases. Each franchisee is required to maintain insurance in respect of the leased premises and equipment, comprehensive general liability and business interruption.

The term of each Second Cup franchise agreement commences on the date of execution of the agreement. Unless terminated earlier by Second Cup, the agreement ends at the earlier of the: (a) date on which the lease for occupancy of the premises expires per the original lease agreement; and (b) the date on which the lease for the premises is terminated. The term is typically 10 years, on completion of this term, but without execution of a new franchise agreement, a franchisee may, with the consent of Second Cup, continue to occupy the premises and carry on business as a franchisee of Second Cup on a calendar month-to-month basis on the same terms and conditions set out in the original franchise agreement. The Second Cup franchise agreement does not confer on the franchisee any right of renewal.

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

#### *Franchise reporting*

In accordance with their franchise agreements, franchisees are required to provide a Gross Revenue report on a weekly basis. Within 10 days of the end of each four-week period, they are required to submit a detailed statement of Gross Revenue which includes daily Gross Revenue and total Gross Revenue for such period. Franchisees are also required to furnish profit and loss statements.

Second Cup's regional managers "score" Second Cup cafés approximately three times per year against a list of operational standards to ensure quality and consistency in the chain.

#### *Franchise support systems*

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

- *Real estate and development* - Identify and secure locations for new cafés, perform negotiations with landlords on all new and renewal lease agreements, provide management services for the construction of new cafés, and remodelling projects.
- *Second Cup Coffee College* - Provide franchisees with detailed instruction on the management of a Second Cup café, the fundamentals of coffee and the coffee retailing business. The program includes both classroom sessions and in-café instruction.
- *Training and development* - In addition to Coffee College, ongoing training is conducted, including; regular visits from regional managers, seminars, workshops and meetings, on-line staff training programs, and an educational trip to Costa Rica.
- *Franchisee Advisory Council* - The Franchisee Advisory Council provides a platform for franchisee feedback and input into key decision processes. The council is comprised of six members elected by the franchisees and generally meets three times a year to discuss strategy and business objectives with management.
- *I.T. support desk* - Technical support services are provided to franchisees for gift cards, debit/credit facilities, POS systems and hardware, and wireless Internet systems. The help desk, together with a third party I.T. vendor, provides 24-hour support services.
- *National marketing and program development* - Management of the national co-operative fund, which is used to advertise the Second Cup brand, promotes new and existing products and develops chain-wide programs on behalf of franchisees.
- *Product sourcing* - Establish product specifications and negotiate supply arrangements with authorized suppliers.
- *Finance and technology* - Provide financial tools and training, financial reporting and web-based information systems to franchisees.

#### *The Second Cup trademarks*

The Second Cup Marks are trademarks that are registered or the subject of pending applications for registration under the *Trademarks Act* (Canada), and other unregistered trade-marks used by Second Cup in connection with its business in Canada. The Second Cup Marks also include the methods,

systems and procedures for the operation of Second Cup cafés using certain types of equipment, supplies, ingredients, recipes, merchandising and advertising, and business techniques in Canada.

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

The following are some of the Second Cup Marks: Amoureux de Choco\*lattes®, Caramel Corretto®, Chillatte®, Chiller®, Chocolat Chaud... Glacé®, Chocolate Lovers®, Chocolate Lovers' Lattes®, Coffee College®, Corazon®, Crème Brûlée Ristretto®, Cuzco® , Early Edition Blend®, Encanto®, Frrrozen Hot Chocolate®, Fruizzi®, Icepresso®, Icepresso Chiller®, Jumpin' Juice®, Les Amoureux Du Chocolat®, Make Second Cup Your Second Home®, Mélange Passion Matin®, Mocca Mandarino®, Nouvelles Express®, Paradiso®, Passport®, Profitmaker®, Rwandan Cup of Hope®, Second Cup®, Steamy Monday® , Take A Second For Yourself®, The Second Cup®, The Second Scoop®, The Ultimate Coffee Experience®, There's a Little Love in Every Cup®, Tiamo®, Treat-a-Friend®, Trebella®, Veneto Blend®, What's Brewing®, Where The World Stops, For Just A Second®, White Mocca®, and related design marks.

### ***Employees***

As at December 27, 2014, approximately 360 individuals were employed by Second Cup at Coffee Central and Company-operated cafés. Second Cup's employees are not unionized, and Second Cup has never experienced a strike or work stoppage. Second Cup believes that its relations with its employees are positive.

### ***Government regulation***

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

### ***Credit facilities***

The credit facilities are comprised of an \$11,000,000 non-revolving term credit facility, fully drawn, and an undrawn \$2,000,000 revolving operating credit facility. The term credit facilities are collateralized by substantially all the assets of the Company. The credit facilities mature on September 30, 2016.

Pursuant to the terms of the Company's Term Loan and Operating Credit Facility, the Company is subject to certain financial and other customary covenants. The Company has requirements to maintain:

- a ratio of senior debt to EBITDA ratio ("Leverage Ratio");
- a fixed charge coverage ratio; both of which are based on a trailing four-quarter basis; and

- a maximum amount of permitted distributions and purchases of the Company's own stock based on a trailing cumulative EBITDA, plus a carry-forward legacy surplus of permitted distributions.

As a result of the Company's restructuring, certain one-time costs and the decision to take back a number of cafes, the fixed coverage and leverage ratios were negatively impacted resulting in non-compliance with these covenants as at December 27, 2014. As a result, the debt has been classified as current.

Subsequent to year-end, the Company received a waiver of this non-compliance from its lender and also received an amendment to its banking agreement, which reset certain covenants for the next twelve months.

## RISK FACTORS

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

### *Risks related to the business of Second Cup*

#### **The Canadian specialty coffee industry is characterized by intense competition.**

The Canadian specialty coffee industry is intensely competitive. There are a number of large coffee retailers in Canada, as well as a growing number of smaller competitors and food service outlets that serve coffee, and supermarkets that compete in the whole bean and roast and ground segments.

#### **The performance of Second Cup is highly dependent on its ability to open new profitable cafés.**

Expansion of the café network is contingent on Second Cup's ability to attract qualified franchisees and to open successful new (and renovated) locations. Second Cup faces competition for franchisees and café locations.

The profitability of franchisees impacts the Company's ability to attract new qualified franchisees. There can be no assurance that potential franchisees will be able to secure suitable financing as adverse credit markets may affect the franchisee's access to capital on reasonable economic terms.

The success of Second Cup franchisees is significantly influenced by the location of their cafés. There can be no assurance that suitable café sites can be located and that acceptable leases can be negotiated. Also, there is no guarantee that the property leases in respect of the Second Cup cafés will be renewed or suitable alternative locations will be obtained and, in such event, one or several cafés could be closed. It is possible that the current locations or economic conditions where Second Cup cafés are located could decline or improve in the future.

#### **Profitability of Second Cup cafés is significantly impacted by the compliance of franchisees to the Company's standards and conditions of franchise agreements.**

Second Cup provides training and support to its franchisees, but there is no assurance they will successfully operate cafés in a manner consistent with Second Cup's standards and requirements, or hire and train qualified personnel.



There is also no assurance that a franchisee will continue to pay its lease obligations in a timely manner, which could result in Second Cup being obligated to pay the lease obligations pursuant to its head lease commitment, which would adversely affect the profitability of Second Cup's business.

**General economic conditions and a reduction in consumer discretionary spending could affect the business.**

Adverse changes to these factors could reduce customer traffic at Second Cup cafés. Because revenues are predominantly derived from the sale of coffee and coffee beverages, changes in consumer preferences, which result in decreases in coffee consumption, could have an adverse effect on the industry.

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

The Second Cup franchise relies on the availability of premium quality green coffee beans at reasonable prices. The availability and price of premium quality green coffee beans are influenced by several factors.

Second Cup has no long-term contracts with coffee bean suppliers and relies on historical relationships to ensure availability. There can be no assurance that Second Cup's preferred suppliers will continue to supply coffee beans at competitive prices. The Company relies on a sole independent roaster and decaffeination processor. A production issue or disruption with this service provider could result in a shortage in supply of coffee to the cafés.

**The partnership with Kraft Canada Inc. to distribute whole bean and roast & ground coffees requires significant investments of non-refundable listing fees.**

The TASSIMO self-serve product has achieved positive results and the Company will continue to evaluate this area of potential growth, including the consideration of adding further product offerings. The launch of whole bean and roast & ground coffees are a complementary but different product line in comparison to self-serve. Thus there is a risk that the success of products offered through grocery and retail channels may differ.

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

Pursuant to the franchise agreements, franchisees report Gross Revenue to Second Cup without audit or other form of independent assurance.

**The failure to enforce or maintain the Second Cup Marks may have an adverse impact on the Second Cup business.**

The profitability and growth of the Second Cup business will depend on its ability to capitalize on the Second Cup brand. A failure to enforce or maintain any of Second Cup's intellectual property rights may result in the deterioration of brand equity. If any Second Cup Marks are successfully challenged, this may have an adverse impact on System sales of cafés.

The Company owns the Second Cup Marks in Canada. It does not own identical or similar trademarks relating to the Second Cup business in other jurisdictions. Third parties may use such trademarks in jurisdictions other than Canada in a manner that diminishes or enhances the value of such trademarks.

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

Second Cup and its franchisees will be subject to various federal, provincial and local laws affecting their business. Each Second Cup café is subject to licensing and regulation by a number of governmental authorities, which may regulate among other things, food inspection, health, employee and public safety, zoning, smoking laws and fire prevention. Ongoing operations as well as new café development could be temporarily or permanently delayed as a result of failure to obtain the required licences or approvals, and or violation of laws.

**Potential litigation and other complaints could adversely affect performance.**

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

**Fluctuations in the Canadian and U.S. dollar exchange rates can affect the Company's financial results.**

Second Cup purchases certain products, such as coffee, in U.S. dollars. As the Canadian dollar weakens against the U.S. dollar, these products become more expensive.

**Issues relating to information technology systems and infrastructure could cause a material negative financial result.**

Second Cup relies heavily on information technology network infrastructure. The Company's ability to service customers, manage operations, perform administration and analyze the business depends on the reliability and capacity of these technology systems, most of which are administered by third party suppliers. The failure of these systems to operate effectively or the inability to upgrade or replace these systems, could cause a material negative financial result. The Company is continually reviewing its systems and procedures to minimize risk.

**Increased concerns about food safety in general or other unusual events.**

In February 2014, it was announced that the Government of Ontario is in the process of advancing legislation that would require quick service restaurants to post calorie counts on its menu boards. Such legislation has not been finalized as at the date of this Annual Information Form. Overt disclosure of calorie counts may alter consumer spending habits, which would impact Gross Revenue. It is also undetermined what the potential impact of associated financial requirements would be to fulfill legislative requirements.

*Risk related to the structure of the Company*

**The Company has third party debt service obligations under the Term Loan and the Operating Credit Facility, which may impact the use of cash flows.**

The Company has third party debt service obligations under the Term Loan and the Operating Credit Facility. See “General Development of the Business - Credit Facilities”. The Company’s ability to make scheduled payments of the principal of, or interest on, or to refinance, its indebtedness will depend on the profitability of Second Cup.

The Term Loan is due September 30, 2016. The Term Loan and the Operating Credit Facility bear interest at an effective rate of 5.32%. Current and future borrowings by Second Cup could adversely affect its performance.

The Term Loan and Operating Credit Facility contain numerous restrictive covenants that limit the discretion of the Company with respect to certain business matters.

## DESCRIPTION OF CAPITAL STRUCTURE

The authorized capital of the Company consists of an unlimited number of Shares. The summary below of the rights, privileges, restrictions and conditions attaching to the Shares is subject to, and qualified in its entirety by reference to, the Company’s articles and by-laws, which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

### *Common shares*

Each Share entitles the holder thereof to one (1) vote at all meetings of Shareholders, except where holders of another class are entitled to vote separately as a class as provided by law or the rules of any applicable stock exchange. Subject to the rights of the holders of any other class of shares ranking senior to the Shares, the holders of Shares are entitled to such dividends as the Board of Directors may declare from time to time, which dividends are payable in money or property or by issuing fully paid shares of the Company.

Subject to the prior rights of the holders of any other class of shares, in the event of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, or any other distribution of assets of the Company among its Shareholders for the purpose of winding-up its affairs, the holders of Shares are entitled to receive the remaining property and assets of the Company.

## DIVIDENDS AND DISTRIBUTIONS

### *Dividend policy*

The declaration of dividends is subject to the discretion of the Board of Directors and may vary depending on, among other things, the Company’s earnings, financial requirements, debt covenants, the satisfaction of solvency tests imposed by the OBCA for the declaration of dividends and other conditions existing at such time.

The Company announced the suspension of its dividend payment with the release of the second Quarter 2014 results. To date, there has been no further discussion on dividend payment amongst the Board of Directors.

### *Cash dividends*

The following table sets forth the month of payment, record date, payment date and the dividend per Share paid by the Company for each quarter of the 2012, 2013 and 2014 fiscal years:

	<b>Period</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Dividend Per Share</b>
2012	Quarter ended March 31, 2012	17-May-12	31-May-12	\$0.15
	Quarter ended June 30, 2012	17-Aug-12	31-Aug-12	\$0.15
	Quarter ended September 29, 2012	16-Nov-12	30-Nov-12	\$0.085
	Quarter ended December 29, 2012	15-Mar-13	28-Mar-13	\$0.085
2013	Quarter ended March 30, 2013	17-May-13	31-May-13	\$0.085
	Quarter ended June 29, 2013	16-Aug-13	30-Aug-13	\$0.085
	Quarter ended September 28, 2013	15-Nov-13	29-Nov-13	\$0.085
	Quarter ended December 28, 2013	21-Mar-14	28-Mar-14	\$0.085
2014	Quarter ended March 31, 2014	23-May-14	6-Jun-13	\$0.085
	Quarter ended June 30, 2014	-	-	-
	Quarter ended September 30, 2014	-	-	-
	Quarter ended December 27, 2014	-	-	-

## DIRECTORS AND OFFICERS

### *Directors*

The current directors of the Company are set forth below. Each director will hold office until the close of the Company's next annual meeting of Shareholders or until such director resigns, is removed or ceases to be qualified to act as a director.

<b><u>Name, Position Being Nominated for and Municipality of Residence</u></b>	<b><u>Director Since</u></b>	<b><u>Principal Occupation (Preceding 5 Years)</u></b>
<b>MICHAEL BREGMAN</b> <sup>(1)(2) (3)</sup> Chair of the Board of Directors, Toronto, Ontario, Canada Independent	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.
<b>ALIX BOX</b> Director, Oakville, Ontario, Canada Non-independent	February 24, 2014	President and Chief Executive Officer of the Corporation from February 2014 to present. Senior Vice President at Holt Renfrew & Co. Ltd. from 2008 to February 2014.
<b>STEPHEN KELLEY</b> <sup>(2)</sup> Director, Kitchener, Ontario, Canada Independent	Director since December 20, 2013 <sup>(4)</sup>	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>Director Since</u>	<u>Principal Occupation (Preceding 5 Years)</u>
ALTON McEWEN <sup>(3)(4)</sup> Director, Bellevue, Washington, USA Independent	December 20, 2013	Former Chief Executive Officer of Distant Lands Coffee Company. Director of Swiss Water Decaffeinated Coffee Company, Inc. and Canadian Coffee Association.
RAEL MERSON <sup>(2)(5)</sup> Director, Toronto, Ontario, Canada Independent	December 20, 2013	President of Mixed Use Capital, a real estate development company in California, from 2009 to present.
ALAN SIMPSON <sup>(3)</sup> Director, Toronto, Ontario, Canada Independent	December 20, 2013	President of Grand Slam 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.

The following is a summary biography of each of the directors of the Company:

*Alix Box*

Ms. Box has served as the President and Chief Executive Officer and a member of the Board of Directors since February 24, 2014. Prior to that, Ms. Box was a member of the senior leadership team at Holt Renfrew & Co. Ltd. for seven years, most recently as Senior Vice President, Retail Channel, and previously as Senior Vice President, Sales and Marketing and Senior Vice President, Sales and Operations. Prior to that, Ms. Box was Vice President of Operations, Starbucks Canada from 2002 to 2007 and Director of Operations from 1997 to 2002.

*Michael Bregman*

Since 2003, Mr. Bregman has been the Principal and Chief Executive Officer of Tailwind Capital Inc., a Toronto-based investment management firm. Mr. Bregman is an experienced entrepreneur and was formerly the Chairman and Chief Executive Officer of Second Cup. After purchasing the Second Cup for \$12 million in 1988, Mr. Bregman took the Company public in 1993, ultimately returning \$175 million to Shareholders, culminating in the sale of the company to Cara Operations Ltd. in 2002. He currently serves on the Board of Directors of Clairvest Group Inc., and MapleMusic and previously served on the Board of Directors of a number of other companies, including General Donlee Canada Inc., Vincor International Inc. and Humpty Dumpty Snack Foods Inc. Mr. Bregman earned an MBA from the Harvard Business School after receiving his undergraduate degree from the Wharton School of Business at the University of Pennsylvania.

*Alton McEwen*

Alton McEwen held the position of Chief Executive Officer at Distant Lands Coffee from July, 2011 until he resigned in February, 2015. From 2004 to July 2011, Mr. McEwen was retired. From 1988 to 1996, Mr. McEwen was President and Chief Executive Officer of The Second Cup Ltd. From 1997 to 1999, Mr. McEwen was President of Gloria Jeans Coffee in the US, which was owned by Second Cup. Mr. McEwen also held executive positions at mmmuffins, Michel's Baguette bakery cafés, Rowntree MacIntosh Canada and Laura Secord Candy stores. Mr. McEwen currently serves on the board of

Swiss Water Decaffeinated Coffee and the Canadian Coffee Association. Mr. McEwen most recently became a Director of Second Cup in 2013.

*Rael Merson*

Since 2009, Mr. Merson has been the President of Mixed Use Capital, a real estate development company that is developing commercial real estate in California. Mr. Merson retired as President of Rogers Broadcasting Limited in 2008 after spending over 21 years building that company into one of Canada's leading broadcasters. He is most closely associated with the various acquisitions that were made to build Rogers Broadcasting, including The Shopping Channel, City TV, Sportsnet, OMNI TV and various radio stations. Mr. Merson is a Chartered Professional Accountant with the Chartered Professional Accountants of Ontario (previously denoted as the Institute of Chartered Accountants of Ontario).

*Stephen Kelley*

Mr. Kelley has served as the Chief Executive Officer of Stocom Research Trading & Investments Ltd., an investment firm, since 2004. Prior to that, Mr. Kelley was a financial analyst with Stocom from 1999 to 2004. He was first appointed to the Board of Directors of Second Cup in October 2012 and is also currently a director of Wind Athletes Canada. Mr. Kelley holds an Honours Bachelor of Science, Applied Mathematics degree from the University of Western Ontario.

*Alan Simpson*

Mr. Simpson graduated from the Wharton School of Economics and Finance (Summa Cum Laude) in 1983. That year, he joined Town Shoes Limited when the company had a total of only nine stores located in Ontario. In 1990, Mr. Simpson became Chief Operating Officer of Town Shoes Limited and in 1992 started The Shoe Company division. From 2000 until 2013, he served as Chief Executive Officer of Town Shoes Limited. During that time, Town Shoes Limited, operating under the names Town Shoes and The Shoe Company, expanded to approximately 200 stores across Canada, including acquisitions of Sterling Shoes and The Shoe Warehouse. In 2012, Town Shoes Limited was acquired by Callisto Capital and Alberta Investment Management Corp.

## *Officers*

The names and municipalities of residence of the persons who are the current executive officers of the Company are as follows:

<b>Name</b>	<b><u>Position with Second Cup</u></b>
Alix Box ..... <i>Oakville, Ontario</i>	President and Chief Executive Officer
Sandra Clarke..... <i>Toronto, Ontario</i>	Interim Vice President Finance and Chief Financial Officer
Wayne C. Vanderhorst..... <i>Grimsby, Ontario</i>	Vice President, Franchise Development
Chris Sonnen..... <i>Bolton, Ontario</i>	Vice President, Operations
Vanda Provato..... <i>Toronto, Ontario</i>	Vice President, Marketing

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

### *Alix Box - President and Chief Executive Officer*

Ms. Box has served as the President and Chief Executive Officer and a member of the Board of Directors of the Company since February 24, 2014. Prior to that, Ms. Box was a member of the senior leadership team at Holt Renfrew & Co. Ltd. since 2007, most recently as Senior Vice President, Retail Channel, and previously as Senior Vice President, Sales and Marketing and Senior Vice President, Sales and Operations. Prior to that, Ms. Box was Vice President of Operations, Starbucks Canada from 2002 to 2007 and Director of Operations from 1997 to 2002.

### *Sandra Clarke - Interim Vice President Finance and Chief Financial Officer*

Ms. Clarke joined The Second Cup Ltd., as Interim Chief Financial Officer in December 2014. Since 2012, Ms. Clarke has been the Principal of her own financial consulting firm, Solv Consulting, whose clients include Canadian Tire Corporation and Manpower Group Canada. Previous to joining Second Cup Ltd., Ms. Clarke was Chief Financial Officer at The Canadian Press Enterprises Inc., from 2010 to 2012. Prior to 2010, Ms. Clarke was Vice President of Finance at Manpower Group Canada. Ms. Clarke holds a Chartered Professional Accountants designation and a Certified Management Accountants designation, both, in good standing.

*Wayne C. Vanderhorst – Vice President, Franchise Development*

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

*Chris Sonnen – Vice President, Operations*

Mr. Sonnen joined Second Cup as Vice President, Operations and Coffee Experience in June 2014. Prior to joining Second Cup, Mr. Sonnen was the Concept Leader at Canyon Creek division of SIR Corp., President of Shoeless Joe's Sports Grill and Vice President of Operations, East Side Mario's. Mr. Sonnen began his career with Second Cup as Director, Retail Operations, Coffee Buyer and Director, Operations Development and Training, Second Cup Coffee Co. from 1994 - 2000 and Vice President, Operations, Second Cup (Cara Operations Ltd.) from 2002 - 2005.

*Vanda Provato – Vice President, Marketing*

Ms. Provato joined Second Cup as Vice President, Marketing in July 2014. Prior to joining, Ms. Provato was the Vice President, Marketing at Indigo Books & Music Inc. Before Indigo, she was the Vice President, Marketing at AOL Canada Inc.

As of March 27, 2015 the directors and executive officers of the Company held 1,314,700 Shares, representing approximately 10% of the Company's issued and outstanding Shares.

***Existing or potential conflicts of interest***

Alton McEwen, a director of the Company since December 20, 2013, previously served as Chief Executive Officer of Distant Lands Coffee, a long-term supplier of coffee to Second Cup. As of February 2015, Mr McEwen has resigned from Distant Lands Coffee.

***Audit Committee***

As required by applicable securities laws, the Company has established an Audit Committee to monitor the Company's financial reporting, accounting systems and internal controls, and to liaise with the Company's external auditor. The Audit Committee is required to consist of at least three directors, each of whom must be "independent" within the meaning of Multilateral Instrument 52-110 - *Audit Committees*, subject to the provisions of such instrument. The Chair of the Audit Committee receives compensation of \$10,000 per year for such role.

*Charter of the Audit Committee*

The charter of the Audit Committee is attached to this Annual Information Form as Schedule A.

*Composition of the Audit Committee.*

Presently, the Audit Committee consists of Messrs. Michael Bregman, Stephen Kelley, and is chaired by Mr. Rael Merson. All members of the Audit Committee are independent and financially literate, as such terms are defined under Multilateral Instrument 52-110 - *Audit Committees*. See "Directors and Officers" for a summary of the education and experience of each member of the Audit Committee.



*Pre-approval policies and procedures*

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

*Audit fees*

PricewaterhouseCoopers LLP serves as the auditor of the Company. Fees paid or payable for the 2014 and 2013 fiscal years to PricewaterhouseCoopers LLP are \$182,900 and \$156,490, respectively. These fees are detailed below:

	<b>2014 Fiscal Year</b>	<b>2013 Fiscal Year</b>
Audit fees	\$147,800	\$146,450
Audit related fees	-	3,040
All other fees	42,000	7,000
	<u>\$189,800</u>	<u>\$156,490</u>

The nature of each category of fees is described below.

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

*Tax Fees:* Tax fees were paid for professional services rendered for the preparation of the Company's annual income tax returns, specified procedures pertaining to tax provisions, and advice associated therewith.

### *Insider reporting*

The following individuals are “insiders” of the Company and, as such, will have reporting obligations as insiders under the securities laws of the various provinces and territories of Canada, including the obligation to file “insider trading reports” under those laws:

- The directors and senior officers of the Company.

## **MARKET FOR SECURITIES**

### *Trading price and volume*

The outstanding Shares of the Company are listed and posted for trading on the TSX under the symbol “SCU”. The following table shows the closing price ranges and average daily volumes traded of the Shares for each month of 2014.

<b>Month</b>	<b>Trading Price Range</b>	<b>Average Trading Volume</b>
January 2014	\$4.85 - \$5.15	16,390
February 2014	\$4.84 - \$5.47	22,482
March 2014	\$4.74 - \$5.02	9,253
April 2014	\$4.85 - \$5.00	6,666
May 2014	\$4.27 - \$4.97	13,018
June 2014	\$4.25 - \$4.59	5,486
July 2014	\$4.12 - \$4.30	6,924
August 2014	\$3.20 - \$4.27	34,091
September 2014	\$3.26 - \$3.49	10,124
October 2014	\$2.85 - \$3.41	10,107
November 2014	\$2.62 - \$3.16	21,111
December 2014	\$2.95 - \$3.58	30,194

On November 27, 2014, the Company closed a private placement offering of 2,927,900 common shares at an average share price of \$2.75. Shares outstanding at the year ended December 27, 2014 are 12,830,945.

## **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

Neither the Company nor any of its affiliates are involved in any litigation or proceedings which, if determined adversely, would be material to the Company, and no such proceedings are known to the Company to be contemplated. See “Risk factors” and note 22 in the Audited Financial statements of Second Cup for the Year.

The Company is not aware of any penalties or sanctions imposed by a court or securities regulatory authority or other regulatory body against the Company since December 27, 2014, nor has the Company entered into any settlement agreements before a court or with a securities regulatory authority since December 27, 2014.

## **INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

None.

## **TRANSFER AGENT AND REGISTRAR**

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

## **MATERIAL CONTRACTS**

The material contracts relating to the Company are as follows:

- (a) the loan agreement, as amended, in respect of the Company as more particularly described under "Business of Second Cup – Credit Facility".

Copies of the foregoing documents may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## **EXPERTS**

The Company's auditor is PricewaterhouseCoopers LLP, Chartered Professional Accountants, who have prepared an independent auditor's report dated March 7, 2014 in respect of the Company's financial statements with accompanying notes for the 2012 and 2013 fiscal years. PricewaterhouseCoopers LLP has advised that they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Professional Accountants of Ontario.

## **ADDITIONAL INFORMATION**

Additional information relating to the Company may be obtained on request from the administrative office of the Company at 6303 Airport Road, 2<sup>nd</sup> Floor, Mississauga, Ontario, L4V 1R8 or may be found on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information, including with respect to directors' remuneration and indebtedness and principal holders of the Shares of the Company will be contained in the Company's information circular for its 2014 annual meeting of Shareholders.

Additional financial information is provided in the Audited Financial Statements and notes to the Audited Financial Statements of the Company and Management's Discussion and Analysis for 2014 .

**SCHEDULE A: CHARTER OF THE AUDIT COMMITTEE**

**THE SECOND CUP LTD.  
AUDIT COMMITTEE CHARTER**

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## Charter of the Audit Committee

The term “Corporation” herein shall refer to The Second Cup Ltd. and the term “Board” shall refer to the Board of Directors of the Corporation. “The term “Management” herein shall refer to senior management of the Corporation.

### PURPOSE

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

- recommend to the Board of Directors:
  - (a) the external auditor to be nominated for the purpose of preparing or issuing an auditor’s report or performing other audit, review or attest services for the Corporation; and
  - (b) the compensation of the external auditor.
- oversee the work of the Corporation’s external auditor engaged for the purpose of preparing or issuing an auditor’s report or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between management and the external auditor regarding financial reporting.
- pre-approve all non-audit services to be provided to the Corporation by the Corporation’s external auditor.
- oversee the integrity and effectiveness of the Corporation’s financial statements and financial reporting process, including the audit process and the Corporation’s internal accounting controls and procedures and compliance with related legal and regulatory requirements;
- oversee the qualifications and independence of the external auditor;
- review the audit plan and assess the reasonableness of the audit fee;
- monitor the execution of the audit plan;
- oversee the annual work of the external auditor;
- review and evaluate the auditor’s findings;
- conduct an annual assessment; and
- provide an avenue of communication between the external auditor, the Board and Management.

In addition, the Committee will review and/or approve any other matter specifically delegated to the Committee by the Board, including a quarterly review to ensure the Corporation is meeting its financial covenants with its lender.

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

The Corporation is responsible for the preparation, presentation and integrity of the Corporation’s financial statements. Management is also responsible for maintaining appropriate accounting and financial reporting principles and policies and systems of risk assessment and internal controls and procedures designed to provide reasonable assurance that assets are safeguarded and transactions are

properly authorized, recorded and reported and to assure the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with accounting standards and applicable laws and regulations.

The external auditor is responsible for planning and carrying out an audit of the Corporation's annual financial statements in accordance with generally accepted auditing standards to provide reasonable assurance that, among other things, such financial statements are in accordance with with International Financial Reporting Standards ("IFRS").

## **AUDIT RESPONSIBILITIES OF THE COMMITTEE**

### **Selection and Oversight of the External Auditor**

1. The external auditor is ultimately accountable to the Committee and the Board as the representatives of the Shareholders of the Corporation and shall report directly to the Committee and the Committee shall so instruct the external auditor. The Committee shall evaluate the performance of the external auditor and make recommendations to the Board on the reappointment or appointment of the external auditor of the Corporation to be proposed in the Corporation's proxy circular for Shareholder approval and shall have authority to terminate the external auditor. If a change in external auditor is proposed, the Committee shall review the reasons for the change and any other significant issues related to the change, including the response of the incumbent auditor and enquire on the qualifications of the proposed auditors before making its recommendation to the Board. The Board is responsible for selecting the external auditor to be proposed in the Corporation's proxy circular for Shareholder approval and appointment.
2. The Committee shall review and recommend to the Board for approval the terms of engagement and the compensation to be paid by the Corporation to the external auditor with respect to the conduct of the annual audit.
3. The Committee shall review the independence of the external auditor and shall make recommendations to the Board on appropriate actions to be taken which the Committee deems necessary to protect and enhance the independence of the external auditors. In connection with such review, the Committee shall:
  - (a) discuss with the external auditor all relationships or services that may impact the objectivity and independence of the external auditor;
  - (b) require that the external auditor submit to it on a periodic basis, and at least annually, a formal written statement delineating all relationships between the Corporation, on the one hand, and the external auditor and its affiliates on the other hand;
  - (c) require that: (i) both the lead audit partner and the partner responsible for performing a second review respecting the audit be rotated at least every seven years and be subject to a five-year time out; and (ii) all other partners on the audit engagement team who provide more than 10 hours of audit, review or attest services with respect to the Corporation's financial statements or who serve as the lead partner in connection with any audit or review related to financial statements of a subsidiary whose assets or revenues constitute at least 20% of the assets or revenues of the Corporation be rotated at least every seven years and be subject to a two-year time out;

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

#### **Oversight of Internal Audit Function**

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

### **Oversight and Monitoring of Audits**

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

### **Oversight and Review of Accounting Principles and Practices**

13. The Committee shall, as it deems necessary, oversee, review and discuss with Management, the external auditor and any internal auditors:
  - (a) the quality, appropriateness and acceptability of the Corporation's accounting principles and practices used in its financial reporting, changes in the Corporation's accounting principles or practices and the application of particular accounting principles and disclosure practices by Management to new or unusual transactions or events;
  - (b) all significant financial reporting issues and judgments made in connection with the preparation of the Corporation's financial statements, including the effects of alternative methods within IFRS on the financial statements and any "second opinions" sought by Management from an independent auditor with respect to the accounting treatment of a particular item;
  - (c) disagreements between Management and the external auditor or any internal auditors regarding the application of any accounting principles or practices;
  - (d) any material change to the Corporation's auditing and accounting principles and practices as recommended by Management, the external auditor or any internal auditors or which may result from proposed changes to applicable IFRS;
  - (e) the effect of regulatory and accounting initiatives on the Corporation's financial statements and other financial disclosures;
  - (f) any reserves, accruals, provisions, estimates or management programs and policies, including factors that affect asset and liability carrying values and the timing of revenue and expense recognition, that may have a material effect on the financial statements of the Corporation;



- (g) any legal matter, claim or contingency that could have a significant impact on the financial statements, the Corporation's compliance policies and any material reports, inquiries or other correspondence received from regulators or governmental agencies and the manner in which any such legal matter, claim or contingency has been disclosed in the Corporation's financial statements;
- (h) the treatment for financial reporting purposes of any significant transactions which are not a normal part of the Corporation's operations;
- (i) the use of any "pro forma" or "adjusted" information not in accordance with IFRS; and
- (j) Management's determination of the impairment of any of the Corporation's assets, if any, as required by applicable accounting standards.

#### **Oversight and Monitoring of Internal Controls**

14. The Committee shall, as it deems necessary, exercise oversight of, review and discuss with Management and the external auditor:
  - (a) the adequacy and effectiveness of the Corporation's internal accounting and financial controls based on recommendations of Management and the external auditor for the improvement of accounting practices and internal controls;
  - (b) any material weaknesses in the internal control environment, including with respect to computerized information system controls and security; and
  - (c) Management's compliance with the Corporation's processes, procedures and internal controls.

#### **Communications with Others**

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

#### **Oversight and Monitoring of the Financial Disclosures**

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

and any other disclosure documents including press releases or regulatory filings of the Corporation containing or accompanying financial information of the Corporation.

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

17. The Committee shall review all financial statements and material change reports prepared for the Corporation.
18. Prior to their distribution and filing, the Committee shall review and discuss financial information provided to analysts and ratings agencies. The Chair of the Committee may perform this review function, on behalf of the Committee, as is required. Such discussions may, at the discretion of the Committee, be done generally (i.e., by discussing the types of information to be disclosed and the type of presentation to be made) and the Committee need not discuss in advance each instance in which the Corporation discloses financial information if it has reviewed and approved the Corporation's policies and procedures with respect to such matters.
19. The Committee shall meet with Management to review and assess the processes and systems in place for the review of public disclosure documents that contain audited and unaudited financial information and their effectiveness.
20. As part of the process by which the Committee shall satisfy itself as to the reliability of public disclosure documents that contain audited and unaudited financial information, the Committee shall require each of (i) the President or Chief Executive Officer and (ii) the Chief Financial Officer of the Corporation to provide a certificate addressed to the Committee certifying in respect of each annual and quarterly report the matters such officers are required to certify in connection with the filing of such reports under applicable securities laws.
21. The Committee shall review the disclosure with respect to its pre-approval of audit and non-audit services provided by the external auditor.

#### **Oversight of Finance Matters**

22. The Committee shall meet periodically with Management to review and discuss the Corporation's major financial risk exposures and the policy steps Management has taken to monitor and control such exposures.
23. The Committee shall meet periodically with the Secretary of the Corporation to review issues arising out of compliance activities, as well as assess contingent legal and regulatory risks.

#### **Committee Reporting**

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

### **Insider Trading**

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

### **Additional Responsibilities**

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

### **THE CHARTER**

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

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

