

**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 the 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 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 auditor. 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 Corporation's 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.

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