



Annual Information Form

For the year ended December 28, 2013

March 26, 2014

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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 franchise partners and identified by the Second Cup Marks.

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

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

“**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 franchise partners 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 28, 2013.

EXPLANATORY NOTES

All information contained in this Annual Information Form is presented as of December 28, 2013 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 franchise partners; 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 franchise partners; 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 “Risks factors” below and “Risks and uncertainties” in Second Cup’s MD&A, which is available at 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.

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

System sales of cafés

System sales of cafés comprise the Gross Revenue reported to Second Cup by franchise partners of Second Cup cafés and by Company-operated cafés. This measure is useful in assessing the operating performance of the entire Company network, such as capturing the net growth of the overall café network. Sales are reported by franchise partners to Second Cup on a weekly basis without audit or other form of independent assurance. Second Cup’s substantiation of sales reported by its franchise partners is through analytical and financial reviews performed by management, comparison to sales data on the Point of Sales System (“POS”), on-site visits, and analyses of raw materials purchased by the cafés as reported by authorized vendors.

Increases in System sales of cafés result from the addition of new cafés and Same café sales (as described below). The primary factors influencing the number of cafés added to the Second Cup café network include the availability and cost of high quality locations, competition from other specialty coffee retailers and other businesses for prime locations, and the availability of qualified franchise partners.

System sales of cafés are also affected by the permanent closure of Second Cup cafés. Cafés are closed when they cease to be viable or, occasionally, when a renewal of a lease for a particular location is not available or when an alternative, preferable location is available.

Same café sales

Same café sales represents the percentage change, on average, in 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 with specific focus on organic growth. Organic growth is an indicator on how the Company is impacted by operational effectiveness, the results of marketing efforts, pricing, and responsiveness to competition. Same café sales provides a useful comparison between periods while also encompassing other matters such as seasonality. The two principal factors that affect Same café sales are changes in customer traffic and changes in average cheque.

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 is likely not comparable to similarly titled measures reported by other issuers. EBITDA is presented as management believes it is a useful indicator of the Company's ability to meet debt service, capital expenditure requirements, and evaluate liquidity. Management interprets trends in EBITDA as an indicator of relative financial performance. EBITDA should not be considered by an investor as an alternative to net income or cash flows as determined in accordance with IFRS.

These non-GAAP measures and terms are intended to provide additional information on the Company's performance and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

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".

GENERAL DEVELOPMENT OF THE BUSINESS

Establishment of the Second Cup Income Fund

Second Cup Royalty Income Fund was established on October 22, 2004 and completed an initial public offering on December 2, 2004 raising aggregate proceeds of approximately \$95.8 million. The Fund used the net proceeds of the offering to indirectly acquire the Second Cup Marks and entered into a licence and royalty agreement pursuant to which The Second Cup Ltd. was granted a licence to use the Second Cup Marks and agreed to pay a royalty to a subsidiary of the Fund. On April 2, 2007, the Fund completed an internal reorganization pursuant to which the subsidiary corporations of the Fund were replaced with a newly formed trust and limited partnership. On August 21, 2009, the Fund changed its name from Second Cup Royalty Income Fund to Second Cup Income Fund.

Acquisition of Second Cup

On June 27, 2009, the Fund acquired all the issued and outstanding shares of The Second Cup Ltd. Following the closing of the acquisition, The Second Cup Ltd. and its management team continued to operate the Second Cup business as an indirect wholly-owned subsidiary of the Fund. Prior to the acquisition, the Fund derived its revenue through royalty payments indirectly received from The Second Cup Ltd. Following the acquisition, the business of the Fund and the business of The Second Cup Ltd. previously carried on separately were recombined.

Conversion to a corporate structure

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 Second Cup Ltd. and 2241221 Ontario Inc. were amalgamated, and the corporation resulting from such amalgamation called "The Second Cup Ltd." issued to the then Unitholders of the Fund one Share for each Unit held.

The Shares commenced trading on the TSX on January 4, 2011 under the symbol "SCU". The Units were delisted from the TSX on December 31, 2010.

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.

BUSINESS OF SECOND CUP

General

Second Cup is Canada's largest specialty coffee franchisor and second largest retailer of specialty coffee, as measured by number of cafés. Since the opening of its first café in suburban Toronto in 1975, Second Cup's network has grown to 356 cafés across Canada as at December 28, 2013, of which 346 are franchised and 10 are Company-operated. For the Year, Second Cup's System sales of cafés were \$191,434,005.

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

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 to premium grade or commodity grade coffee and instant coffee. The term specialty coffee, as used in reference to the retail market for coffee products, is increasingly being used as a general term to describe the sector within the coffee market characterized by cafés offering an upscale retail experience and hand-crafted, premium coffee products such as espresso-based beverages, blender drinks and iced coffee beverages.

History

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

Throughout the 1990s and early 2000s, Second Cup focused on extending its core product offering to include espresso-based beverages, iced beverages, blender drinks, and complementary food items such as pastries, muffins and cookies. During this period, Second Cup also continued to expand by opening cafés in street-front locations and power and strip centres, as well as in non-traditional retail locations such as hospitals, universities, airports, train stations and other transportation venues.

Competitive conditions

The Canadian specialty coffee market is highly competitive and highly fragmented, with few barriers to entry. Three specialty coffee retailers have a significant presence in Canada: Second Cup, Starbucks and Timothy's. Starbucks' annual report shows that it operates approximately 1,337 locations in Canada (as of September 29, 2013), and Timothy's website states that it operates approximately 74 locations in Canada (as of March 13, 2014). The remainder of the specialty coffee retailers in Canada consist of smaller, mainly regional, branded chains and independent retailers.

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

In addition to specialty coffee retailers, there are a number of "mainstream" coffee retail chains, such as Tim Horton's, Coffee Time and Country Style, who compete with Second Cup in the Canadian coffee market and a growing number of "quick service restaurants" such as McDonalds who have also added premium and specialty coffee to their service offerings.

With 356 cafés as at December 28, 2013, Second Cup has the second largest number of specialty coffee retail outlets in Canada.

The Second Cup café system

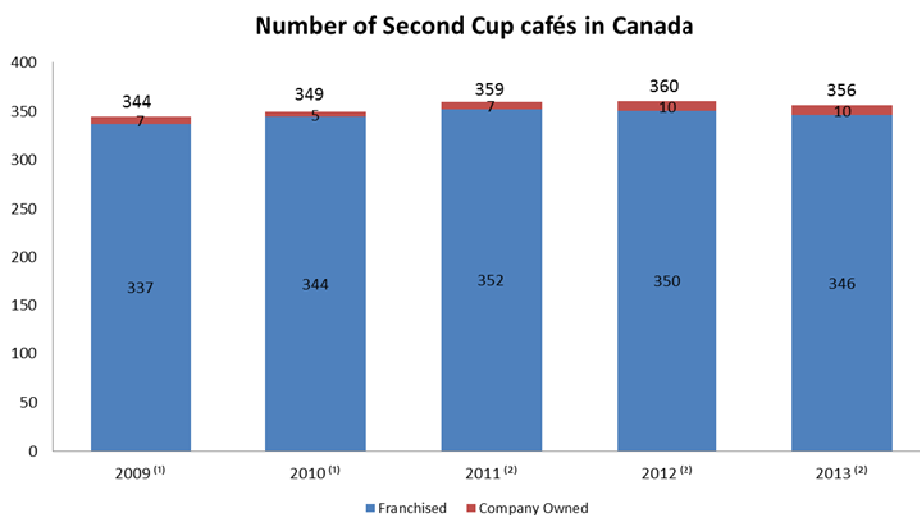
The Second Cup concept

The Second Cup brand has a high degree of retail visibility, with locations in high-traffic areas in almost every major city in Canada. Second Cup is a franchise-driven business focused on delivering a premium experience to its guests, which includes offering products that are "best in class" and focused on developing innovative, market leading products that make Second Cup cafés a destination of choice for Canadian coffee drinkers. Second Cup is focused on continuing the growth of the Second Cup 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. Following periods of steady expansion in the 1970s and 1980s, Second Cup experienced rapid growth in net new cafés from 1997 to 2000, adding 99 cafes, many of which were in non-traditional retail sites such as "store-in-store", hospital, airport and other venues.

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



Notes:

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

- (1) For 2009 and 2010 figures are for a 12 month period ended December 31.
- (2) For 2011-2013 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 Company-operated cafés from time to time as an intermediary measure before transitioning operations to a franchise partner. Second Cup also operates some Company-operated cafés as test sites for product and service innovation.

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

Second Cup café openings and closings

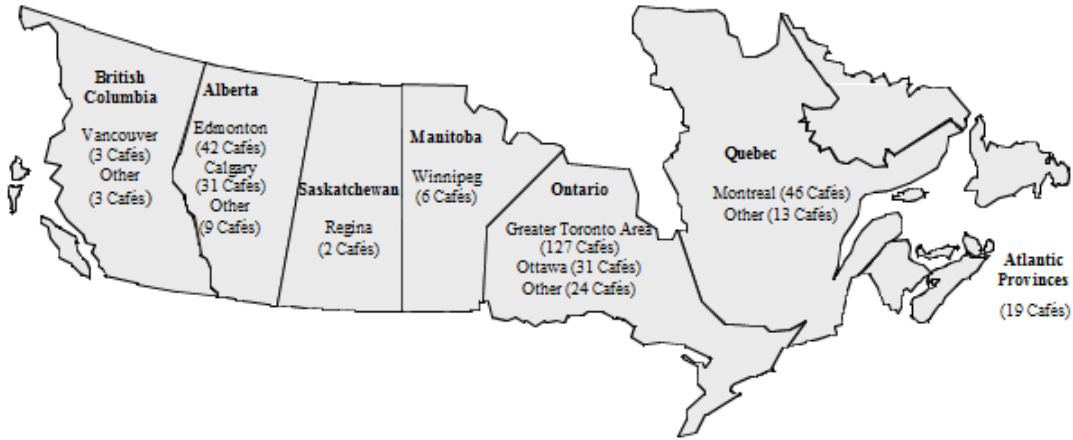
	2009 ⁽¹⁾	2010 ⁽¹⁾	2011 ⁽²⁾	2012 ⁽²⁾	2013 ⁽²⁾
Openings	10	13	22	18	15
Closings	27	8	12	17	19

Notes:

- (1) For 2009 and 2010 figures are for a 12 month period ended December 31.
- (2) For 2011-2013 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, train stations and other transportation venues. Second Cup café sizes range from 200 square foot cappuccino 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 28, 2013

	Number of Cafés	% of Total
Street-fronts.....	86	24%
Power and strip centres	58	16%
Shopping malls.....	63	18%
Non-traditional.....	59	17%
Office towers.....	38	11%
Drive thru.....	52	14%
Total number of café locations.....	356	100%

- *Street-fronts* - As at December 28, 2013, there were 86 Second Cup cafés operating in street-front locations, representing 24% of all Second Cup cafés in Canada. Street-front cafés average 1,500 square feet and generally contain seating for approximately 15 or more customers, with many also offering external patio seating.

- *Power and strip centres* - With the growth of power and strip centres containing “big box” retailers and factory outlet stores, Second Cup has opened an increasing number of cafés in this type of venue. Second Cup had 58 cafés operating in power and strip centres, representing 16% of all Second Cup cafés in Canada as at December 28, 2013. Power and strip centre cafés average 1,500 square feet and

typically have self-contained seating and external patio areas, with some having drive-thru access as well.

- *Shopping malls* - There were 63 Second Cup cafés operating in shopping malls, representing 18% of all Second Cup cafés in Canada as at December 28, 2013. These cafés average 600 square feet, but can range from 200 square foot cappuccino kiosks to 1,600 square foot sites.
- *Non-traditional* - Second Cup has developed a flexible café format that is suitable for non-traditional retail locations, such as hospitals, universities, “store-in-store” sites, airports, train stations and other transportation venues. Second Cup operated 59 non-traditional cafés, representing 17% of all Second Cup cafés in Canada as at December 28, 2013, and consisting of 13 cafés located in hospitals, 36 cafés located in educational venues, 10 cafés located in transportation venues.
- *Office towers* - Second Cup had 38 cafés operating in office towers, representing 11% of all Second Cup cafés in Canada as at December 28, 2013. Office tower cafés average 850 square feet, but can range from 200 square foot cappuccino kiosks to 1,600 square foot sites. Office tower locations tend to serve a customer base of individuals working in the office tower itself.
- *Drive thrus* - There were 52 Second Cup cafés that have drive thru windows, representing 14% of all Second Cup cafés in Canada as at December 28, 2013. Cafés with Drive Thru windows average 1,800 square feet, but can range from 1,500 square foot to 2,500 square foot sites.

New locations

Prior to entering a particular market area, Second Cup conducts a thorough market assessment to determine the optimal number and placement of cafés. Second Cup’s location selection process involves a variety of analytical techniques to evaluate factors that impact upon the viability of a proposed location, such as visibility, accessibility and traffic, as well as population density, household income, local competition and the proximity to major activity centres.

New lease commitments entered into by Second Cup are carefully screened by management using a projected return on investment analysis.

Leases

Almost all Second Cup cafés are operated in leased premises. Second Cup enters into the head lease for most café locations and, in turn, enters into a sublease with its franchise partners. Second Cup believes that entering into such arrangements allows it to maintain greater control over, and flexibility with respect to, the development process and the ongoing goodwill generated at its cafés. The leases that have been entered into by Second Cup are renewable over a staggered period, with an average of approximately 35 leases coming up for renewal annually over the next 10 years. The staggered nature of the lease renewal periods provides Second Cup with the flexibility to address underperforming cafés, and ensures the periodic refreshment of the café network as franchise partners are required to modernize locations upon the renewal of the franchise agreement.

Products

Second Cup’s coffee portfolio includes over 25 types of coffee, including a number of single origin estate coffees and a variety of blends exclusive to Second Cup, such as Paradiso®, Espresso Forte and Second Cup’s Holiday Blend. Second Cup uses a mild, medium, and dark roast scale which allows customers to quickly and easily select their coffee according to their tastes. Second Cup also offers a wide variety of espresso-based beverages and blender drinks such as espressos, cappuccinos, lattes

and iced coffees, and is continually developing variations of these products. Examples of innovative espresso-based beverages and blender drinks developed by Second Cup include the Caramel Corretto®, Chillatte®, Frrrozen Hot Chocolate® and Icepresso Chiller®.

In February 2014, Second Cup achieved an important milestone with 100% of its coffees being sustainably certified either by Rainforest Alliance or Fair Trade USA. This means that every latte, cappuccino, espresso, iced coffee or brewed coffee produced in a Second Cup is made from sustainably produced coffees. In addition to its coffees, all of Second Cup's whole leaf teas and herbal tisanes also carry the Rainforest Alliance Seal. Second Cup's tea program includes a wide assortment of whole leaf teas from China, India and Kenya, which range from classics like Earl Grey and Jasmine teas to bright and playful teas like Wildberry and Orange Spice.

New beverages introduced in 2013 included Chocolate Chai Latte in February, Caramel Iced Coffee in March, Caramel Icepresso® and Caramel Apple Smoothie in April, a nostalgic twist on the Italian Soda with the introduction of classic flavours such as Root Beer, Orange and Cream Soda in July and the introduction of a new micro-lot coffee, a Kenya Reserve, in November.

In 2012, Second Cup entered into a partnership with Kraft Canada Inc. to produce, market and sell Second Cup signature coffees across Canada using the TASSIMO T DISC on-demand beverage system. The partnership offers Second Cup cafés a new category of business for sales and traffic in the rapidly growing single serve segment of the coffee business. It also provides a new revenue stream for Second Cup through the licencing agreement with Kraft and the sales of Second Cup branded TASSIMO T DISC into grocery and other channels outside of the café business. The T DISCS are also sold in Second Cup cafés. In addition to the T DISCS launched in 2012 (Paradiso®, Paradiso® Dark and Caffè Latte) two additional varieties were launched in the fall of 2013, Caramelo® and Espresso Forte.

As a result of the growing partnership between Second Cup and Kraft Canada Inc., in 2013 both companies announced their intention to launch whole bean (Cuzco®, Paradiso®, and Espresso Forte) and roast & ground coffees (Paradiso®, Colombian Supremo Dark and Caramelo®) with six varieties in total, in grocery stores across Canada starting in February 2014. This launch will offer Canadians more ways to enjoy the quality and variety they have come to expect from Second Cup. Expansion into the grocery channel broadens Second Cup's brand by reaching guests in markets that might not have a Second Cup café nearby and better serves current Second Cup guests in-home.

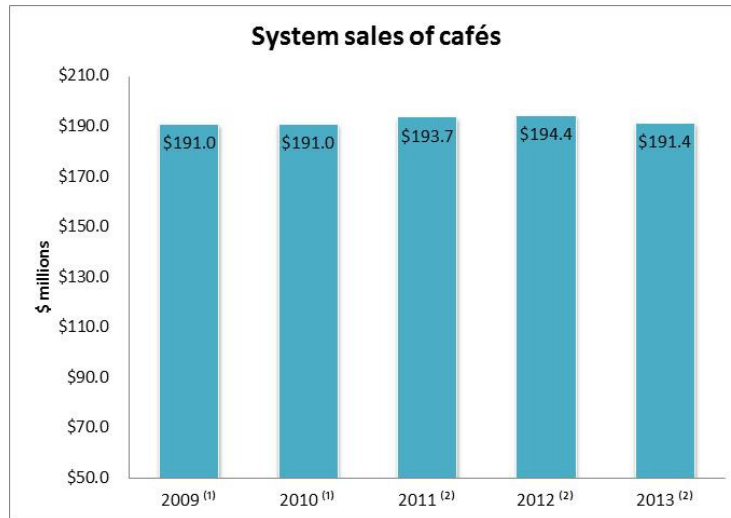
In addition to coffee-based products and other beverages, Second Cup cafés carry a variety of complementary products including baked goods, desserts and 'grab & go' items. Most cafés also offer sandwiches to capitalize on the consumer need for convenience and "one stop shopping". A national sandwich promotion with Breton Chips ran in 2013 to encourage sandwich trial and awareness.

Second Cup addresses the important breakfast day-part with hot breakfast sandwiches, yogurt and granola parfaits, and Second Cup branded oatmeal. In 2013 the breakfast line-up was updated with the launches of Peach Blueberry Yogurt Parfait, Apple Almond Crumble Oatmeal, and Berry Medley Oatmeal. Breakfast sandwiches were supported with a national promotion during the fall of 2013.

New seasonal limited time offer muffins, baked goods and cookies are offered throughout the year to support the beverage program. In 2013, three packaged gluten-free products were introduced to address the special dietary needs of our guests.

Sales

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



Notes:

- (1) For 2009 and 2010 figures are for a 12 month period ended December 31.
- (2) For 2011-2013 figures are for the 52-week fiscal period ended the last Saturday of December.

Same café sales

2009 ⁽¹⁾	2010 ⁽¹⁾	2011 ⁽²⁾	2012 ⁽²⁾	2013 ⁽²⁾
-3.2%	0.0%	-0.1%	-1.9%	-3.6%

Notes:

- (1) For 2009 and 2010 figures are for a 12 month period ended December 31.
- (2) For 2011-2013 figures are for the 52-week fiscal period ended the last Saturday of December.

Average sales per café (to the nearest thousand dollar)

2009 ⁽¹⁾	2010 ⁽¹⁾	2011 ⁽²⁾	2012 ⁽²⁾	2013 ⁽²⁾
\$554,000	\$563,000	\$557,000	\$553,000	\$548,000

Notes:

- (1) For 2009 and 2010 figures are for a 12 month period ended December 31.
- (2) For 2011-2013 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:

% of annual System sales of cafés	2011	2012	2013	Average
First Quarter	23.5	24.2	24.5	24.1
Second Quarter	24.4	24.4	24.9	24.5
Third Quarter	24.0	23.9	23.5	23.8
Fourth Quarter	28.1	27.5	27.1	27.6
	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. Because of this seasonality, the results for any Quarter are not necessarily indicative of what may be achieved for any other Quarter of that Year.

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 strives to create highly relevant and appealing programs that are consistent with the delivery of “A little love in every cup®” which our customers have come to expect.

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. All Second Cup cafés, subject to some exceptions, are required to remit a fixed percentage of their Gross Revenue (typically 3.0%, depending on the type of café) to this fund. These contributions are used to pay for the development and execution of marketing plans, product research and development, training, in-café improvement initiatives and other programs that benefit the Second Cup system as a whole. Examples of such initiatives include print advertising (magazine and newspaper), outdoor advertising (billboard), radio, television and internet marketing. The fund is also applied towards other programs such as gift card administration.

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

Purchasing and distribution

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

Sourcing

Second Cup uses only Arabica coffee beans, which it seeks to buy from the best growers around the globe. Second Cup’s green coffee beans are sourced from a diverse set of suppliers in Central

America (Costa Rica and Panama), South America (Colombia, Peru and Brazil), Africa (Kenya and Ethiopia) and Indonesia (Sumatra). Management estimates only 1% to 2% of the world's Arabica coffee beans grown each year meet Second Cup's stringent standards for procurement.

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

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

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

Roasting, packaging and distribution

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

Quality control

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

Second Cup's quality control procedures begin with testing of pre-shipment samples. Subsequently upon delivery to a port in North America of green coffee beans, each shipment is inspected and sampled for compliance with specifications prior to being shipped to Second Cup's roasting facility. Once inspected, Second Cup coffees are roasted using a "batch roasting" method. This method calls for roasting comparatively small amounts of beans at any one time to maximize the taste profile of each roast. Batch roasting allows Second Cup to ensure superior coffee quality because of the ability

to determine the exact temperature and length of time for its various roasts. In addition, by using a dedicated roasting facility, Second Cup is able to maintain a consistently high standard of coffee beans free of contamination from beans of lower quality used by other coffee producers.

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

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

Franchise operations

Second Cup is the largest specialty coffee café franchisor in Canada. It views its franchise system as the principal means to successfully enhance and expand the Second Cup brand and café network. As at December 28, 2013, Second Cup had 346 franchise partner developed cafés in operation, owned by a total of approximately 218 different Second Cup franchise partners.

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

As of December 28, 2013, Second Cup's candidate selection process had yielded a pool of 38 approved candidates to whom Second Cup could offer Second Cup franchises. In addition, 61 existing franchise partners are approved to open new cafés.

Second Cup franchise partners typically invest between \$240,000 and \$500,000 to open a new Second Cup café. They own and operate the Second Cup cafés as independent businesses, licensed under a franchise agreement to use the Second Cup Marks. Second Cup franchise partners are required to devote their full time and attention to the business and to personally play a leadership role in the café's operations.

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

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

Second Cup franchise agreements

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

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

In 2011, to accelerate growth of new cafés, Second Cup introduced a revised royalty structure for new cafés. New cafés that opened in 2011, 2012, and 2013 are permitted to pay a royalty rate of 3% in the first year, a rate of 6% in the second year and, thereafter, a rate of 9% of Gross Revenue. The overall effective royalty rate (excluding sales from Company-operated cafés) fell from 7.9% in 2012 to 7.6% for the Year as a result of the revised royalty structure for new cafés as well as café specific arrangements in place during the period. Certain cafés pay a lower royalty rate. The majority of these cafés are located in institutions such as hospitals and educational facilities which typically require less franchisor support. Royalties are payable in installments following the end of a four-week period or on a weekly basis.

Without limiting the generality of the foregoing, Gross Revenue includes:

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

The following is not included in calculating Gross Revenue:

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

In calculating Gross Revenue, the following is deducted:

- Any cash refunded to a customer on account of the return of any products, provided that the amount refunded in respect of such products was originally included in calculating Gross Revenue;
- An exchange of products made between the operator of the Second Cup café and a customer, provided that the amount paid for the products by the customer was originally included in calculating Gross Revenue;

- An amount equal to the value of any discount given to a customer on account of the purchase of any products through the use of a coupon or other similar promotions approved by Second Cup, provided the sale upon which the discount is given was recorded at full value in calculating Gross Revenue.

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

As part of the standard franchise agreement, a franchise partner is also required to make expenditures on local advertising and promotion of the café equal to the greater of 2% of the franchise partner's annual Gross Revenue or the amount required to be expended pursuant to the provisions of the relevant lease relating to the premises. In addition to local advertising and promotion, the majority of franchise partners are required to contribute 3.0% of their annual Gross Revenue to Second Cup's national co-operative fund. This fee is payable to Second Cup at the same time as the royalty fee described above. See "Advertising and marketing" above.

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

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

Unless terminated earlier by Second Cup in accordance with its terms, the term of each Second Cup franchise agreement commences on execution of the agreement and terminates at the close of business on the day which is one day prior to the earlier of: (i) the date upon which the specific term of the lease governing the occupancy of the premises at the time of entering into of the franchise agreement expires and (ii) the date on which the lease for the premises is terminated. Upon completion of this term, which is typically 10 years, but without execution of a new franchise agreement, a franchise partner may, with the consent of Second Cup, continue to occupy the premises and carry on business as a franchise partner of Second Cup on a calendar month-to-month basis upon the same terms and conditions set out in the original franchise agreement. The Second Cup franchise agreement does not confer on the franchise partner any right of renewal.

The Second Cup franchise agreement permits transfers of a franchise partner's interest in a Second Cup café, subject to Second Cup's consent. In the case of a transfer, a franchise partner is required to pay to Second Cup 10% of the purchase price to be paid by the purchaser. Prior to the completion of

the transfer, the purchaser is subject to the same screening process as other new candidates and is required to successfully complete any training that may be required by Second Cup.

Franchise reporting

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

Beginning in 2010 Second Cup started to implement a new POS, with the implementation completed by the end of 2012. Second Cup Coffee Central has access to the sales data of each café which allows management to compare sales data from the POS to what was reported by the franchise partner.

In addition to self-reporting by franchise partners, Second Cup's regional managers are required to "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 one director and 15 regional managers, as well as a number of other employees in customer service, training and other operational functions. Second Cup seeks to provide a variety of support services to its franchise partners to assist them in becoming successful operators, including the following:

- *Franchise partner selection and approval* - Second Cup continuously improves upon its systematic approach to the selection of franchise partners. Potential franchise partners, whether they are acquiring cafés from Second Cup or from existing Second Cup franchise partners, are required to go through a series of checks, interviews and hands-on performance evaluations to ensure that the quality of Second Cup's franchise partner base is continuously improving.
- *Real estate and development* - Second Cup's real estate and development teams take a lead role in identifying and securing prime development locations for new cafés. This includes market and site analysis and site-specific financial projections, allowing senior management the opportunity to make informed decisions on potential sites prior to franchise partner selection. In addition, the team negotiates with landlords on all new and renewal lease agreements. Second Cup provides full management services (including design, equipment procurement and construction management services) to franchise partners for both the construction of new cafés, as well as the remodelling and upgrading of existing cafés, to ensure that the cafés conform to current design standards.
- *Second Cup Coffee College* - Second Cup strongly believes that coffee knowledge and training represent points of meaningful differentiation in the specialty coffee market. Following the decision to join Second Cup's franchise family, franchise partners enrol in Second Cup's Coffee College training program. Over a six-week period, franchise partners are given detailed instruction on the management of a Second Cup café, the fundamentals of coffee and the coffee retailing business. The program includes both classroom sessions and in-café instruction.
- *Training and development* - In addition to Coffee College, training sessions are conducted periodically throughout the year. Second Cup also provides ongoing guidance for franchise partners through regular visits from regional managers, the holding of periodic seminars,

- workshops and meetings, and by providing an on-line training program to assist franchise partners in properly training their staff. Additionally, in order to promote a deeply rooted understanding of the coffee industry, each operator is required to make an educational trip to Costa Rica upon entering into the franchise agreement, to experience firsthand the growing, harvesting and processing of high quality coffee.
- *Café opening support* - Second Cup provides a minimum of 12 to 14 days of full time, in-café support for new café openings. A regional manager provides three days of advance planning and training services to the franchise partner and then remains at the café for a full week following the opening of the café. Furthermore, two one-day follow-up sessions are scheduled 30 and 90 days after the opening of the café to ensure that operating standards are being met.
 - *Conventions, special events and franchise partner advisory council* - Second Cup hosts an annual convention or regional meeting at which franchise partners, management and key suppliers interact and participate in educational sessions, workshops and social activities. In addition, regional meetings are held periodically during the year. Furthermore, Second Cup has established a Franchise Partner Advisory Council that provides management with franchise partner feedback and input into key decision processes. The council is comprised of 11 members elected by the franchise partners and generally meets three times a year to discuss strategy and business objectives with management.
 - *I.T. support desk* - Second Cup provides technical support services to its franchise partners for gift cards, debit/credit facilities, POS systems and hardware, and wireless internet systems. The Second Cup I.T. help desk together with a third party I.T. vendor provides support 24 hours a day.
 - *National marketing and program development* - Second Cup is responsible for collecting all contributions from franchise partners to the national co-operative fund, which are then used to advertise the Second Cup brand, promote new and existing products and develop chain-wide programs on behalf of franchise partners.
 - *Product sourcing* - To maintain the quality and consistency of ingredients and products, as well as to ensure that franchise partners obtain favourable pricing, Second Cup establishes product specifications and negotiates supply arrangements with authorized suppliers.
 - *Finance and technology* - Second Cup provides appropriate customized tools and training for franchise partners to manage the financial performance of their cafés and ensure appropriate financial reporting to Second Cup on an ongoing basis. Additional information technology assistance is also provided in the form of standardized point of sale platforms and web-based information systems focused on operational knowledge.

The Second Cup marks

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

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

The following are some of the Second Cup Marks: 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 28, 2013, 74 individuals were employed by Second Cup at Coffee Central, as well as an estimated 128 employees in 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 very 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 franchise partners 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 franchise partners 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

On September 26, 2013, the Company renegotiated its Term Loan and Operating Credit Facility, including an extension of the maturity of the credit facilities to September 30, 2016. The Operating Credit Facility is repayable on demand and provides the Company with working capital from time to time, if required. As at December 28, 2013, there was no balance drawn on the Operating Credit Facility.

The indebtedness and liability of the Company under the Term Loan and the operating credit facility are collateralized by substantially all the assets of the Company.

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.

During the Year, the Company was in compliance with all financial and other covenants of the Company's Term Loan and Operating Credit Facility.

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 with respect to price, location and coffee and food quality. In addition to Second Cup, there are two major specialty coffee retailers in Canada, as well as a growing number of smaller, mainly regional, competitors. In addition to competing directly with specialty coffee retailers, Second Cup competes with "mainstream" coffee retailers, as well as, all restaurants and food service outlets that serve coffee and in particular a national quick service food chain has introduced premium and specialty coffee to its menu items. In the whole and ground bean segment of the specialty coffee industry, Second Cup franchise partners will compete against specialty coffee chains as well as supermarkets, many of which have substantially greater financial and other resources than Second Cup franchise partners will have. If Second Cup franchise partners are unable to successfully compete in the Canadian specialty coffee industry, System sales of cafés may be adversely affected.

The closure of Second Cup cafés may affect the profitability of the Second Cup business.

The profitability of the Second Cup business will depend on System sales of cafés, which will in turn depend on the number of Second Cup cafés that are operating. Each year, a number of Second Cup cafés may close in the normal course and such closures may result in a decrease in the profitability of the Second Cup business as a result of cafe closing costs, ongoing lease obligations incurred by Second Cup under its head lease and unpaid royalty payments owed by the franchise partner at closing.

The growth of the café network is dependent on Second Cup's ability to attract qualified franchise partners.

The growth of the café network is dependent upon the ability of Second Cup to attract qualified franchise partners which is tied to the existing profitability of franchise partners. The opening and success of Second Cup cafés is dependent on a number of factors, including: availability of suitable sites; negotiations of acceptable leases for new locations; availability, training and retention of management and other employees necessary to staff new Second Cup cafés; adequately supervising construction; and securing suitable financing; among other factors, some of which are beyond the control of Second Cup. Adverse credit markets may affect the ability of franchise partners to obtain new credit or refinance existing credit on economically reasonable terms. Second Cup provides training and support to its franchise partners, but the quality of franchised operations may be diminished by any number of factors beyond Second Cup's control. There is no assurance that Second Cup franchise partners will successfully operate cafés in a manner consistent with Second Cup's standards and requirements, or hire and train qualified managers and other personnel. If they do not, the image and reputation of Second Cup may suffer, and System sales of cafés and results of operations of the Second Cup cafés could decline.

The ability to locate and secure acceptable Second Cup cafés sites may be limited and Second Cup may be required to contribute to the franchise partner lease obligations.

Second Cup faces competition for café locations and franchise partners from its competitors and from franchisors and operators of other businesses. The success of Second Cup franchise partners is significantly influenced by the location of their cafés. There can be no assurance that current Second Cup café locations will continue to be attractive, or that additional café sites can be located and secured as demographic patterns change. Also, there is no guarantee that the property leases in respect of the Second Cup cafés will be renewed or suitable alternative locations will be obtained and, in such event, one or several cafés could be closed. It is possible that the current locations or economic conditions where Second Cup cafés are located could decline in the future, resulting in potentially reduced sales in those locations, which will have an adverse effect on System sales of cafés. There is no assurance that future sites will produce the same results as past sites. There is also no assurance that a franchise partner 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 discretionary revenue/spending could affect the business.

The Canadian specialty coffee industry is also affected by changes in discretionary spending patterns, which in turn are dependent on consumer confidence, disposable consumer income and general economic conditions. Factors such as change in general economic conditions, recessionary or inflationary trends, job security and unemployment, equity market levels, consumer credit availability and overall consumer confidence levels may affect the business.

Adverse changes to these factors could reduce customer traffic at Second Cup cafés or impose practical limits on pricing, either of which could reduce System sales of cafés. Because the industry's revenues are predominantly derived from the sale of coffee and coffee beverages, changes in consumer preferences which result in decreases in coffee consumption would have an adverse effect on the industry, including Second Cup and the Second Cup franchise partners. The coffee business is also affected by changes in demographic trends, traffic and weather patterns and the type, number and proximity of competing cafés. In addition, factors such as inflation, increased ingredient, raw material, labour and benefit costs and the availability of experienced management and hourly employees may adversely affect the Canadian specialty coffee industry in general and therefore potentially affect Second Cup and the Second Cup franchise partners.

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

The success of Second Cup franchise partners to generate System sales of cafés will depend to a large extent upon the availability of premium quality green coffee beans at reasonable prices. The availability and price of premium quality green coffee beans are influenced by several factors that are beyond Second Cup's and Second Cup franchise partners' control, including changes in weather patterns and other natural phenomena, political events or disruptions of shipping and port channels. In addition, green coffee bean prices have been affected in the past, and could be affected in the future, by the actions of governments or organizations which have attempted to influence commodity prices of green coffee beans through agreements establishing export quotas or restricting coffee supplies worldwide. Price increases for green coffee beans could result in increases in the retail price of coffee beverages and other coffee products sold in Second Cup cafés, which could adversely affect System sales of cafés. Similarly, a significant reduction in the availability of coffee beans purchased by Second Cup could have a material adverse effect on System sales of cafés.

Second Cup has no long-term contracts with coffee bean suppliers and relies upon historical relationships to ensure availability. While there are a number of coffee bean suppliers, there can be no assurance that coffee bean suppliers that have relationships with Second Cup will continue to supply coffee beans at competitive prices. There is a risk of a disruption in the supply of coffee to the cafés given the Company relies on its sole independent roaster and sole decaffeination processor.

Second Cup's ability to generate revenue will depend primarily on the ability of franchise partners to generate Gross Revenue.

The ability of Second Cup to earn royalties will depend primarily on Second Cup franchise partners' ability to generate Gross Revenue and to pay royalties to Second Cup. Failure to achieve adequate levels of collection from Second Cup franchise partners could have an adverse effect on Second Cup's revenue.

The loss of key personnel and/or a shortage of experienced management and hourly employees could have an adverse impact on Second Cup's operations and cafés.

The success of Second Cup will depend on the efforts of key personnel to operate the business including retaining and attracting appropriate franchise partner candidates and locating new café sites in order to continue to successfully grow Second Cup's business and thereby increase System sales of cafés. The departure of key personnel could have a material adverse effect on Second Cup's ability to conduct its business, maintain existing franchises, generate new franchises and locate new café sites.

Franchise partners report Gross Revenue to Second Cup without audit or other form of independent assurance.

Pursuant to the franchise agreements, franchise partners report Gross Revenue to Second Cup on a weekly basis without audit or other form of independent assurance. Although Second Cup has developed various mechanisms to seek to verify Gross Revenue reported by its franchise partners, Second Cup does not have a centralized accounting system in place for all franchise partners to monitor such Gross Revenue. Second Cup's substantiation of sales reported by its franchise partners is through analytical and financial reviews performed by management, comparison to sales data on the POS, on-site visits and analyses of raw materials purchased by the cafés as reported by authorized vendors. Furthermore, audits are performed at random by an internal audit team on cafés throughout the network. There can be no assurance, however, that Gross Revenue reported by franchise partners is accurate and in accordance with the terms of the franchise agreements.

The failure to enforce or maintain, or a successful challenge to, the Second Cup Marks may have an adverse impact on the Second Cup business.

The ability of Second Cup to maintain or increase its System sales of cafés 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 Second Cup being unable to capitalize on its efforts to utilize its brand equity. In addition, if any Second Cup Marks are ever successfully challenged, this may have an adverse impact on System sales of cafés.

The Company owns the Second Cup Marks in Canada. It does not own identical or similar trade-marks relating to the Second Cup business in other jurisdictions. Third parties may use such trade-marks in jurisdictions other than Canada in a manner that diminishes the value of such trade-marks. If this occurs, the value of the Second Cup Marks may suffer and System sales of cafés could decline. Similarly, negative publicity or events associated with such trade-marks in jurisdictions outside of

Canada may negatively affect the image and reputation of Second Cup cafés in Canada, resulting in a decline in System sales of cafés.

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

Second Cup and its franchise partners will be subject to various federal, provincial and local laws affecting their business. Each Second Cup café is subject to licensing and regulation by a number of governmental authorities, which may regulate among other things, food inspection, health, employee and public safety, zoning, smoking laws and fire prevention. Difficulties in obtaining or failures to obtain the required licences or approvals could delay or prevent the development of a new Second Cup café in a particular area. In addition, changes in laws and regulations to which Second Cup and its franchise partners are currently subject may have an adverse effect on System sales of cafés. The loss of a licence or approval, or a violation of laws, could force the temporary or permanent shut down of a Second Cup café, which could adversely affect System sales of cafés.

Potential litigation and other complaints could adversely affect System sales of cafés.

Second Cup franchise partners may be the subject of complaints or litigation from customers alleging food related illness, injuries suffered on the premises or other food quality, health or operational concerns. Adverse publicity resulting from such allegations may adversely affect the Gross Revenue of Second Cup cafés, regardless of whether such allegations are true or whether Second Cup or the Second Cup franchise partner is ultimately held liable. In addition, due to the nature of its business, Second Cup may from time to time be involved in litigation with past and existing franchise partners, suppliers and other third parties. Although historically Second Cup's involvement in such litigation has been rare and has not been material to the operation of the business of Second Cup, litigation is expensive, time consuming and may divert management's attention away from the operation of the business. Management cannot be certain that a substantial claim may not arise that would be material to the operations of Second Cup.

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 for the Company, and therefore our franchise partners. World commodity prices, such as coffee, will also fluctuate. Therefore in a decreasing Canadian dollar environment, decreases in commodity prices will offset the unfavourable financial impact as a result of changes in exchange rates (and vice versa, increases in commodity prices will further increase the unfavourable financial impact).

The failure of IT systems to operate effectively and problems with upgrading or replacing IT systems could cause a material negative financial result.

Second Cup relies heavily on information technology network infrastructure. The Company's ability to manage operations effectively and efficiently depends on the reliability and capacity of these technology systems, most of which are administered by third party suppliers. The Company relies on POS for system sales for both marketing trends and royalty calculations through the IT network infrastructure. Cafés rely on IT network infrastructure to order goods and process credit, debit and gift card transactions. Coffee Central financial and administrative functions rely on IT infrastructure for accurate and reliable information. The failure of these systems to operate effectively and problems with upgrading or replacing 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 fulfil legislative requirements.

Risk related to the structure of the Company

Dividends are not guaranteed and will depend on the performance of the Second Cup business.

The dividends paid to Shareholders are not guaranteed and will be dependent on the performance of the Second Cup business and the continuous evaluation on the Company's direction and future plans. Second Cup collects royalties, franchise fees and other amounts from Second Cup franchise partners, generates revenues from its Company-operated cafés, and generates revenue from wholesale channels. In the conduct of its business, Second Cup pays expenses and incurs debt and obligations to third parties. These expenses, debts and obligations could impact the ability of the Company to pay dividends. Expansion initiatives, such as the introduction of new wholesale revenue streams in grocery and third party retail locations often require one-time listing fees which may impact the ability of the Company to pay dividends. In addition, the growth of the café network is dependent upon investments made by Second Cup to select new locations, enter into new leases and recruit, train and supervise franchises, which may affect amounts available to be paid as dividends.

There can be no assurance that the dividend paid by the Company will remain at the current level. The Company has outstanding indebtedness.

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 degree to which the Company is leveraged could have important consequences to the holders of the Shares, including the notion that a portion of the Company's cash flow from operations will be dedicated to the payment of the principal and/or interest on its indebtedness, thereby reducing funds available for distribution to the Company. 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 the bankers' acceptance rate plus a range of 2.25% to 3.25% depending on the Company's leverage ratio. As at December 28, 2013, the applicable margin pertaining to the aforementioned range was 2.75% (2012 - 2.75%). The Company had in place an interest rate swap arrangement that matured on April 1, 2013, which fixed the interest rate on Term Loan at an estimated effective rate of 5.79%. On September 30, 2013, the Company entered into an interest rate swap agreement with a notional value of \$11,000,000 that expires on September 30, 2016. The swap fixed the interest rate on the Company's non-revolving term credit facility at 2.07% per annum plus the margin noted above, which resulted in a fixed effective interest rate of 4.82%. 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. In certain circumstances, these restrictive covenants may restrict the cash available for payment of dividends to Shareholders.

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.

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 ranking senior to the 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's current policy is to pay out a portion of earnings while retaining a sufficient amount to adequately fund organic growth initiatives. The determination to declare and make payable dividends from Second Cup is at the discretion of the Board of Directors of Second Cup and until declared payable, Second Cup has no requirement to pay cash dividends to Shareholders. Taking into account current economic conditions and their impact on the profitability of Second Cup, the Board of Directors will continually review the level of dividends paid by the Company and there can be no assurance the dividends will remain at the current level.

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 2011, 2012 and 2013 fiscal years:

	Period	Record Date	Payment Date	Dividend Per Share
2011	Quarter ended April 2, 2011	May 16, 2011	May 30, 2011	\$0.15
	Quarter ended July 2, 2011	August 17, 2011	August 31, 2011	\$0.15
	Quarter ended October 1, 2011	November 16, 2011	November 30, 2011	\$0.15
	Quarter ended December 31, 2011	March 16, 2012	March 30, 2012	\$0.15
2012	Quarter ended March 31, 2012	May 17, 2012	May 31, 2012	\$0.15
	Quarter ended June 30, 2012	August 17, 2012	August 31, 2012	\$0.15
	Quarter ended September 29, 2012	November 16, 2012	November 30, 2012	\$0.085
	Quarter ended December 29, 2012	March 15, 2013	March 28, 2013	\$0.085
2013	Quarter ended March 30, 2013	May 17, 2013	May 31, 2013	\$0.085
	Quarter ended June 29, 2013	August 16, 2013	August 30, 2013	\$0.085
	Quarter ended September 28, 2013	November 15, 2013	November 29, 2013	\$0.085
	Quarter ended December 28, 2013	March 21, 2014	March 28, 2014	\$0.085

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.

Name, Municipality and Province of Residence Residence	Director Since
Alix Box <i>Oakville, Ontario</i>	February 24, 2014
Michael Bregman ⁽¹⁾⁽²⁾⁽³⁾ <i>Toronto, Ontario</i>	December 20, 2013
Alton McEwen ⁽³⁾⁽⁴⁾ <i>Bellevue, Washington, USA</i>	December 20, 2013
Rael Merson ⁽²⁾⁽⁵⁾ <i>Toronto, Ontario</i>	December 20, 2013
Stephen Kelley ⁽²⁾ <i>Kitchener, Ontario</i>	December 20, 2013
Alan Simpson ⁽³⁾ <i>Toronto, Ontario</i>	December 20, 2013

Notes:

- (1) Chair of the Board
- (2) Member of Audit Committee
- (3) Member of the Governance Committee
- (4) Chair of the Governance Committee
- (5) Chair of the Audit Committee

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 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.

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., Ideaca Ltd. 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

Mr. McEwen has been the Chief Executive Officer of Distant Lands Coffee since July 2011. Distant Lands Coffee is a leading vertically integrated coffee company, which is involved in farming, milling, and roasting coffee for leading food service and grocery retail companies in the US and Internationally. Mr. McEwen has worked in the food and beverage business throughout his career and actively in the coffee business as President and Chief Executive Officer of Second Cup from 1988 to 1996 and from 2000 to 2004, and served as President of a number of Second Cups' US acquisitions from 1997 to 1999. He has served on the Strategic Planning Committee of the Specialty Coffee Association and on the Board of the Canadian Coffee Association. He has been on the Board of Swiss Water Decaffeinated Coffee Company, Inc. since 2005, Ten Peaks Coffee Company Inc. since 2006, and Distant Lands Coffee since 2006. From 1987 to 1993 he was President of mmmuffins and Michel's Baguette bakery cafés, a chain of 250 bakery stores in Canada and the US. From 1983 to 1987, Mr. McEwen was President of Rowntree MacIntosh Canada, an industry leading confectionary company, and Laura Secord Candy stores. Mr. McEwen is a graduate of McGill University.

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, Chartered Accountant with 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 9 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 through 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:

Name	<u>Position with Second Cup</u>
Alix Box <i>Oakville, Ontario</i>	President and Chief Executive Officer
Steve Boyack..... <i>Mississauga, Ontario</i>	Vice President Finance and Chief Financial Officer
Dan Caldarone..... <i>Toronto, Ontario</i>	Vice President, General Counsel, and Corporate Secretary
Rita Toporowski..... <i>Oakville, Ontario</i>	Vice President, Corporate Planning and Development
Wayne C. Vanderhorst..... <i>Grimsby, Ontario</i>	Vice President, Franchise Development
Thomas Zacharias..... <i>Toronto, Ontario</i>	Vice President, Operations

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.

Steve Boyack - Vice President Finance and Chief Financial Officer

Mr. Boyack joined Second Cup as Interim Vice President Finance and Chief Financial Officer in June 2013 and as Vice President Finance and Chief Financial Officer in September 2013. Prior to joining Second Cup, Mr. Boyack was Senior Vice President Sales and Operations at The Source (Bell) Electronics Inc. from 2011 until 2012; Chief Financial Officer at The Source (Bell) Electronics Inc. from 2010 until 2011; Chief Financial Officer at Prizm Income Fund from 2008 until 2009. Mr. Boyack is a Chartered Professional Accountant, Chartered Accountant with Chartered Professional Accountants of Ontario (previously denoted as the Institute of Chartered Accountants of Ontario).

Donato (Dan) Caldarone – Vice President, General Counsel and Corporate Secretary

Mr. Caldarone joined Second Cup in May 2012. From January 2008 to May 2012, Mr. Caldarone was Legal Counsel with Cara Operations Limited. Prior to that, Mr. Caldarone was a Partner with the law firm Aird & Berlis LLP, where he practised business and franchise law from 2000 – 2004 and 2005 – 2007. Mr. Caldarone is a lawyer and member of the Law Society of Upper Canada.

Rita Toporowski – Vice President, Corporate Planning & Development

Ms. Toporowski joined Second Cup as Vice President Corporate Planning & Development in June 2009. Prior to that, Ms. Toporowski was Vice President Corporate Planning & Development for S.C. Coffee Co. from July 2007 to June 2009. Before joining S.C. Coffee Co., she was with Air Canada for over 16 years in numerous senior level positions including Senior Director Six Sigma.

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.

Thomas Zacharias – Vice President, Operations

Mr. Zacharias joined Second Cup in August of 2011. Mr. Zacharias previously held the position of Vice President Franchise Operations at Mr. Lube Canada LP., where he worked from February of 2007 until July of 2011. Prior to that Mr. Zacharias was employed by Cara Operations Ltd. from February 1999 until November 2006 in a number of positions most recently as Chief Operating Officer, Air Terminal Restaurants Division.

As of March 21, 2014, the directors and executive officers of the Company held 501,200 Shares, representing approximately 5% 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, is also a director and the Chief Executive Officer of Distant Lands Coffee, a long-term supplier of coffee to the Company.

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 auditors. 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 auditors or any of their affiliates are subject to pre-approval by the audit committee. The committee may approve policies and procedures for the pre-approval of non-audit services to be rendered by the external auditors, which policies and procedures (i) shall include reasonable detail with respect to the services covered, (ii) shall require that the committee be informed of each non-audit service and (iii) shall not include delegation of the committee’s responsibilities to management.

Audit fees

PricewaterhouseCoopers LLP serves as the auditors of the Company. Fees paid or payable for the 2013 and 2012 fiscal years to PricewaterhouseCoopers LLP are \$149,950 and \$160,000, respectively. These fees are detailed below:

	2013 Fiscal Year	2012 Fiscal Year
Audit fees	\$146,450	\$153,000
Audit-related fees	3,040	-
Tax fees	-	7,000
All other fees	7,000	-
	<hr/> \$156,490	<hr/> \$160,000

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 on 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 2013.

Month	Trading Price Range	Average Trading Volume
January 2013	\$5.15 - \$5.77	9,848
February 2013	\$5.15 - \$5.60	9,100
March 2013	\$5.04 - \$5.34	13,890
April 2013	\$4.00 - \$5.08	13,255
May 2013	\$4.00 - \$4.59	15,150
June 2013	\$3.96 - \$4.25	6,670
July 2013	\$3.98 - \$4.29	7,177
August 2013	\$3.92 - \$4.22	8,024
September 2013	\$3.81 - \$4.04	13,460
October 2013	\$3.91 - \$4.09	14,227
November 2013	\$4.10 - \$4.35	11,057
December 2013	\$4.25 - \$5.10	8,144

LEGAL PROCEEDINGS

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 Year.

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 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.

EXPERTS

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

ADDITIONAL INFORMATION

Additional information relating to the Company may be obtained on request from the administrative office of the Company at 6303 Airport Road, 2nd Floor, Mississauga, Ontario, L4V 1R8 or may be found on SEDAR at 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 2013.

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 Corporation; and
 - (b) the compensation of the external auditor.
- oversee the work of the Corporation’s external auditors engaged for the purpose of preparing or issuing an auditor’s report or performing other audit, review or attest services for the 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 auditors;
- 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 auditors;
- review and evaluate the auditor’s findings;
- conduct an annual assessment; and
- provide an avenue of communication between the external auditors, 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 auditors are 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 generally accepted accounting principles.

AUDIT RESPONSIBILITIES OF THE COMMITTEE

Selection and Oversight of the External Auditors

1. The external auditors are ultimately accountable to the Committee and the Board as the representatives of the Shareholders of the Corporation and shall report directly to the Committee and the Committee shall so instruct the external auditors. The Committee shall evaluate the performance of the external auditors and make recommendations to the Board on the reappointment or appointment of the external auditors of the Corporation to be proposed in the Corporation's proxy circular for Shareholder approval and shall have authority to terminate the external auditors. If a change in external auditors is proposed, the Committee shall review the reasons for the change and any other significant issues related to the change, including the response of the incumbent auditors and enquire on the qualifications of the proposed auditors before making its recommendation to the Board. 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 auditors with respect to the conduct of the annual audit.
3. The Committee shall review the independence of the external auditors and shall make recommendations to the Board on appropriate actions to be taken which the Committee deems necessary to protect and enhance the independence of the external auditors. In connection with such review, the Committee shall:
 - (a) discuss with the external auditors all relationships or services that may impact the objectivity and independence of the external auditors;
 - (b) require that the external auditors submit to it on a periodic basis, and at least annually, a formal written statement delineating all relationships between the Corporation, on the one hand, and the external auditors and their 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 auditors or any of their 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 auditors, which policies and procedures (i) shall include reasonable detail with respect to the services covered, (ii) shall require that the Committee be informed of each non-audit service and (iii) shall not include delegation of the Committee's responsibilities to management.
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 auditors.
6. The Committee shall require the external auditors to provide to the Committee, and the Committee shall review and discuss with the external auditors, all reports which the external auditors are required to provide to the Committee or the Board under rules, policies or practices of professional or regulatory bodies applicable to the external auditors, and any other reports which the Committee may require. Such reports shall include:
- (a) a description of the external auditors' internal quality-control procedures, any material issues raised by the most recent internal quality-control review, or peer review, of the external auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the external auditors, and any steps taken to deal with any such issues; 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 auditors (iii) other material written communication between the external auditors and Management, such as any management letter or schedule of unadjusted differences; and (iv) disagreements between Management and/or the internal auditors and the external auditors regarding financial reporting.
7. The Committee is responsible for settling any unresolved disagreements between Management and the external auditors 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 auditors and Management the audit function generally, the objectives, staffing, locations, co-ordination, reliance upon Management, any internal audit and general audit approach and scope of proposed audits of the financial statements of the Corporation, the overall audit plans, the responsibilities of Management and the external auditors, the audit procedures to be used and the timing and estimated budgets of the audits.
10. The Committee shall discuss with the external auditors any difficulties or disputes that arise with Management or any internal auditors during the course of the audit and the adequacy of Management's responses in correcting audit-related deficiencies.
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 auditors 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 generally accepted accounting principles on the financial statements and any "second opinions" sought by Management from an independent auditor with respect to the accounting treatment of a particular item;
 - (c) disagreements between Management and the external auditors or any internal auditors regarding the application of any accounting principles or practices;
 - (d) any material change to the Corporation's auditing and accounting principles and practices as recommended by Management, the external auditors or any internal auditors or which may result from proposed changes to applicable generally accepted accounting principles;
 - (e) the effect of regulatory and accounting initiatives on the 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 upon 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 generally accepted accounting principles; 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 auditors:
 - (a) the adequacy and effectiveness of the Corporation's internal accounting and financial controls based on recommendations of Management and the external auditors 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 auditors and Management and recommend to the Board for approval the audited financial statements and the notes and Management's Discussion and Analysis accompanying such financial statements, the 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 auditors, 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, in 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 process 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 auditors.

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