MATERIAL CHANGE REPORT

1. *Reporting Issuer*:

The Second Cup Ltd.
175 Bloor Street East
South Tower, Suite 801
Toronto, Ontario
M4W 3R8

2. *Date of Material Changes:*

July 13, 2001

3. *Press Release:*

The press release attached as Schedule "A" was issued on July 13, 2001.

4. *Summary of Material Changes:*

On July 13, 2001, The Second Cup Ltd. (the "Company") announced that it had entered into an agreement (the "Agreement") with three of its significant shareholders, CARA Operations Limited ("Cara"), Michael Bregman and Louis Bregman.

Under the Agreement, CARA and the Bregmans have agreed not to increase their beneficial ownership of Second Cup shares above specified percentages (38% for CARA and approximately 22.43% for the Bregmans) without the prior written consent of the other parties to the Agreement, subject to certain limited exemptions, other than by way of a formal take-over bid made to all holders of Second Cup shares. The Agreement does not prevent a partial bid made to all shareholders for less than all of the Second Cup shares, and does not restrict sales of shares by the significant shareholders.

The Agreement also provides that the size of Second Cup's board of directors will be reduced to eight members prior to or at Second Cup's next annual meeting, provided that if it the board determines it to be appropriate for the chief executive officer to sit on the board then the board shall consist of nine members. CARA shall be entitled to four nominees and the Bregmans shall be entitled to three nominees, subject in each case to reduction in the event that the shareholders' beneficial ownership of Second Cup shares is reduced; the remaining nominee shall be independent of the significant shareholders. The parties have agreed on the slate of directors to be put forward by management at Second Cup's next shareholders' meeting. The Agreement also provides that Michael Bregman will be chairman of Second Cup's board for so long as he is a director until such time as either CARA beneficially owns in excess of 50% of the shares or the Bregmans collectively own less than 15% in the aggregate.

The Agreement is terminable by either CARA or the Bregmans on fifteen days' notice. As long as the Agreement is in effect each of CARA and the Bregmans will be required to vote against any shareholder rights plan or other similar plan primarily designed to prevent or discourage take-over bids for Second Cup shares.

5. *Full Description of Material Changes:*

Under the Agreement, CARA and the Bregmans have agreed not to increase their beneficial ownership of Second Cup shares above specified percentages (38% for CARA and approximately 22.43% for the Bregmans) without the prior written consent of the other parties to the Agreement, subject to certain limited exemptions, other than by way of a formal take-over bid made to all holders of Second Cup shares. In addition, the significant shareholders shall be entitled to exceed their specified percentages where such excess is a result of the Company effecting an issuer bid or otherwise acquiring shares. Other exceptions from the limitations on the significant shareholders' ability to acquire shares include acquisitions:

(a) pursuant to any amalgamation, reorganization, arrangement or other transaction affecting the shares, provided that consequent upon the transaction the consideration per share which the shareholder is entitled to receive, directly or indirectly, is identical in amount and type to that paid to all other beneficial owners in Canada of shares;

(b) pursuant to any amalgamation, reorganization, arrangement or other transaction affecting the shares provided that (i) consequent upon the transaction the consideration per share which beneficial owners in Canada of shares other than the shareholder and his associates or its affiliates, as the case may be, and persons acting jointly or in concert with the shareholder are entitled to receive, directly or indirectly, is identical in amount and type and (ii) the amalgamation, reorganization, arrangement or other transaction has been completed in accordance with OSC Rule 61-501, if applicable, and approved at a meeting of shareholders for which a proxy circular was prepared and distributed to shareholders that described the material terms of the amalgamation, reorganization, arrangement or other transaction; or

(c) pursuant to the exercise of convertible securities beneficially owned or controlled by the shareholder and his associates or its affiliates, as the case may be, which were received by the shareholder and the shareholder's associates or affiliates, as the case may be, pursuant to a grant or issuance by the corporation from treasury subsequent to the date of this Agreement; provided that such convertible securities were granted or issued by the corporation to all beneficial owners in Canada of shares in proportion to the number of shares held and provided that this subsection (d) will not permit the acquisition of shares pursuant to the exercise of convertible securities which were acquired by the shareholder and the shareholder's associates or affiliates, as the case may be, by any means other than a grant or issuance by the corporation from treasury.

The Agreement will also not prevent the acquisition of shares on the exercise of stock options; on the acquisition of such stock options, the shareholders' specified percentages will increase to reflect such exercise(s).

The Agreement also provides that the size of Second Cup's board of directors will be reduced to eight members prior to or at Second Cup's next annual meeting, provided that if it the board determines it to be appropriate for the chief executive officer to sit on the board then the board shall consist of nine members. CARA shall be entitled to four nominees and the Bregmans shall be entitled to three nominees, subject in each case to reduction in the event that the shareholders' beneficial ownership of Second Cup shares is reduced; the remaining nominee shall be independent of the significant shareholders. Specifically, if CARA and its affiliates beneficially own or control less than 30% but not less than 15% of the outstanding shares, CARA will only be entitled to two nominees, if CARA and its affiliates beneficially own or control less than 15% but more than 10% of the aggregate number of shares, CARA will only be entitled to one nominee, and if CARA and its affiliates beneficially own or control less than 10% of the aggregate number of outstanding shares CARA will not be entitled to any nominees. Similarly, Michael Bregman shall be entitled to two nominees for so long as the Bregmans beneficially own or control more than 15%, provided that such entitlement shall reduce to one nominee in the event that the Bregmans beneficially own or control between 10-15%, and the Bregmans shall be entitled to no nominees in the event that their collective ownership of shares is less than 10%.

The parties have agreed on the slate of directors to be put forward by management at Second Cup's next shareholders' meeting.

The agreement also provides that Michael Bregman will be chairman of Second Cup's board for so long as he is a director until such time as either CARA beneficially owns in excess of 50% of the shares or the Bregmans collectively own less than 15% in the aggregate. The Agreement further provides that CARA shall be entitled to nominate a vice-chair of the board until such time as CARA ceases to beneficially own or control at least 15% of the aggregate number of outstanding shares.

The Agreement is terminable by either CARA or the Bregmans on fifteen days' notice. As long as the Agreement is in effect each of CARA and the Bregmans will be required to vote against any shareholder rights plan or other similar plan primarily designed to prevent or discourage take-over bids for Second Cup shares.

6. *Confidential Filing:*

Not applicable.

7. *Omitted Information:*

None.

8. *Senior Officer:*

Alton McEwen, the chief executive officer of the company is knowledgeable about the material changes in this report. Mr. McEwen can be reached at 416-975-5541.

9. *Statement of Senior Officer:*

The foregoing accurately discloses the material change referred to herein.

DATED at Toronto, Ontario this 13th day of July, 2001.

THE SECOND CUP LTD.

"*Alton McEwen*"

Per:________________________________
Alton McEwen

Schedule "A"

Press Release

TORONTO, ONTARIO--The Second Cup Ltd. (TSE: SKL) announced today that it has entered into an agreement with three of its significant shareholders, CARA Operations Limited, Michael Bregman and Louis Bregman.

Under the agreement, CARA and the Bregmans have agreed not to increase their beneficial ownership of Second Cup shares above specified percentages (38% for CARA and 22.43% for the Bregmans) without the prior written consent of the other parties to the agreement, subject to certain limited exemptions, other than by way of a formal take-over bid made to all holders of Second Cup shares. The agreement does not prevent a partial bid made to all shareholders for less than all of the Second Cup shares, and does not restrict sales of shares by the significant shareholders.

The agreement also provides that the size of Second Cup's board of directors will be reduced to eight members prior to or at Second Cup's next annual meeting, provided that if the board determines it to be appropriate for the chief executive officer to sit on the board then the board shall consist of nine members. CARA shall be entitled to four nominees and the Bregmans shall be entitled to three nominees, subject in each case to reduction in the event that the shareholders' beneficial ownership of Second Cup shares is reduced; the remaining nominee shall be independent of the significant shareholders. The parties have agreed on the slate of directors to be put forward by management at Second Cup's next shareholders' meeting. The agreement also provides that Michael

Bregman will be chairman of Second Cup's board for so long as he is a director until such time as either CARA beneficially owns in excess of 50% of the shares or the Bregmans collectively own less than 15% in the aggregate.

The agreement is terminable by either CARA or the Bregmans on fifteen days' notice. As long as the agreement is in effect each of CARA and the Bregmans will be required to vote against any shareholder rights plan or other similar plan primarily designed to prevent or discourage take-over bids for Second Cup shares.

The Second Cup Ltd. trades on The Toronto Stock Exchange under the symbol SKL. As the leading specialty coffee company in Canada, Second Cup offers the world's finest coffee through approximately 400 owner-operated cafes across the country and select marketing partners including Air Canada and Delta Hotels.

-30-

FOR FURTHER INFORMATION PLEASE CONTACT:

Strategic Objectives Inc.
Paul Keable
(416) 366-7735
(416) 366-2295 (FAX)
pkeable@strategic-objectives.com