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:*

   August 13, 2001

3. *Press Release:*

   The press releases attached as Schedules “A” and “B” were issued on August 13, 2001.

4. *Summary of Material Changes:*

   A Special Committee of independent directors has been formed to review the terms and conditions of the offer for common shares announced by Cara Operations Limited on August 13, 2001. On such date, Cara announced its intention to make a cash offer for up to 3 million Second Cup common shares at a price of $7.00 per share.

5. *Full Description of Material Changes:*

   See press releases attached as Schedules “A” and “B”.

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 23rd day of August, 2001.

THE SECOND CUP LTD.

"Alton McEwen"

Per:________________________________

Alton McEwen

SCHEDULE "A"

NEWS RELEASE TRANSMITTED BY CCN NEWSWIRE

FOR: THE SECOND CUP LTD.

TSE SYMBOL: SKL

AUGUST 13, 2001 - 19:52 EDT

Second Cup Forms Special Committee

TORONTO, ONTARIO--The Second Cup Ltd. (TSE:SKL) announced that at a meeting of its Board of Directors held earlier today, a Special Committee of independent directors was formed to review the terms and conditions of the offer for the common shares announced by Cara Operations Limited on August 13, 2001 and to report on these to Second Cup's board. The members of the Special Committee are Robert Haft, Hugh Segal and Roy Sugden.

These actions were taken in response to the August 13, 2001 announcement by Cara of its intention to make a cash offer for up to 3 million Second Cup common shares at a price of $7.00 per share.

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.

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FOR FURTHER INFORMATION PLEASE CONTACT:
Strategic Objectives Inc.
Catherine Heroux or Paul Keable
(416) 366-7735

SCHEDULE “B”

NEWS RELEASE TRANSMITTED BY CCN NEWSWIRE

FOR: CARA OPERATIONS LIMITED

TSE SYMBOL: CAO CAO.A

AUGUST 13, 2001 - 11:35 EDT

Cara Announces Bid To Increase Stake In Second Cup

TORONTO, ONTARIO--Cara Operations Limited (TSE:CAO, CAO.A) today announced its intention to make a cash offer to purchase up to 3 million of the outstanding common shares of The Second Cup Ltd. (TSE:SKL) at a price per share of $7.00. This price represents a premium of 16.7% to Second Cup's closing market price of $6.00 on Friday, August 10, 2001 on the Toronto Stock Exchange.

The 3 million shares represent approximately 53% of shares of Second Cup not currently held by Cara. There are currently approximately 9.36 million shares of Second Cup outstanding of which Cara currently holds approximately 3.66 million shares (39%). Upon completion of the offer, Cara will hold up to 6.66 million shares representing approximately 71% of the outstanding shares of Second Cup.

In accordance with applicable securities regulatory requirements, it is expected the Second Cup Board will establish a committee of independent directors which will supervise a valuation process, review the terms and conditions of the Cara offer and report on these to the Board of Directors of Second Cup.

Cara will mail its offer to all registered shareholders of Second Cup as soon as possible after the valuation has been completed and the independent committee has reported to the Board of Second Cup.

Gabe Tsampalieros, President and Chief Executive Officer of Cara, commented in announcing the bid: "We are making this offer to provide stability in the ownership of Second Cup and allow its management to focus solely on the Company's operations. In addition, the offer will provide a significant measure of liquidity for interested Second Cup shareholders."

With annual system sales in excess of $1.6 billion, Cara Operations Limited is one of Canada's leading foodservice companies, providing employment for more than 28,000 Canadians in its owned and franchised operations. Cara's wholly owned businesses include Harvey's, Swiss Chalet, Cara Air Terminal Restaurants, Cara Airport Services, Cara Health Services and Summit Food Service Distributors. Cara has a 61% ownership of Kelsey's International Inc. which operates the Kelsey's Neighbourhood Bar & Grill, Montana's Cookhouse Saloon and (as a franchisee) Outback Steakhouse restaurant brands. Cara is also the largest shareholder (38%) of The Spectra Group of Great Restaurants Inc. (TSE:SPA, SPA.A), a western-Canadian-based multi-concept restaurant operator, whose popular brands include the upscale casual chain of Milestones restaurants and the Bread Garden bakery/café concept.

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FOR FURTHER INFORMATION PLEASE CONTACT:
Cara Operations Limited
Gabe Tsampalieros
President and Chief Executive Officer
(905) 405-6600