



**PRISZM INCOME FUND**

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**ANNUAL INFORMATION FORM**

**For the year ended December 27, 2009**

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**March 23, 2010**

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## PRISZM INCOME FUND

### ANNUAL INFORMATION FORM For the year ended December 27, 2009

#### FORWARD LOOKING INFORMATION

Certain information contained or incorporated by reference in this Annual Information Form, including the information set forth as to the future financial or operating performance of Prizm Income Fund (the “**Fund**”), formerly Prizm Canadian Income Fund, or Prizm LP (together with its general partner, Prizm Inc., formerly KIT Inc., the “**Company**”), formerly KIT Limited Partnership, constitute “forward-looking statements.” This information is based on current expectations that are subject to significant risks and uncertainties that are difficult to predict. Actual results might differ materially from results suggested in any forward-looking statements due to factors such as the competitive nature of the quick-service restaurant industry, the ability of the Fund and Prizm LP to execute its growth and development strategy, the reliance of the Fund and Prizm LP on key personnel, the terms and conditions of Prizm LP’s franchise arrangements and risks associated with the structure of income trusts. The Fund and Prizm LP assume no obligation to update the forward-looking statements, or to update the reasons why actual results could differ from those reflected in the forward-looking statements other than as required by law. Additional information identifying risks and uncertainties is contained in the Fund’s filings with the Canadian securities regulators, which filings are available at [www.sedar.com](http://www.sedar.com).

#### TRADEMARKS

KFC™, Pizza Hut™, Taco Bell™, Original Recipe®, Extra Crispy™, Twister™, Colonel's Crispy Strips®, Popcorn Chicken™, Toonie Tuesday™ and the Colonel™ are trademarks and registered marks owned and marketed worldwide by Yum! Brands, Inc. (“**Yum!**”) or its affiliates. The other trademarks used in this Annual Information Form, if any, are the property of their respective owners.

#### GENERAL

The information in this Annual Information Form is given as of March 23, 2010 unless otherwise indicated. All dollar amounts are stated in Canadian currency unless otherwise stated.

## CORPORATE INFORMATION

### Priszm Income Fund

The Fund is an unincorporated open-ended limited purpose trust established under the laws of the Province of Ontario pursuant to a Declaration of Trust dated September 23, 2003, as amended from time to time (the “**Declaration of Trust**”). The Fund is administered by the trustees of the Fund (the “**Trustees**”) and by its administrator, Priszm Inc. (the “**Administrator**”) pursuant to an administration agreement among, *inter alia*, the Fund and Priszm Inc. dated November 10, 2003 (the “**Administration Agreement**”).

The Fund was created to acquire the KFC™ restaurant business of Priszm Brandz LP. The Fund holds indirectly an approximate 60% interest in Priszm LP through the ownership of regular units. The remaining approximately 40% interest in Priszm LP is held by Obelysk Inc. (formerly Scott’s Restaurants Inc.) (“**Obelysk**”) through its ownership of subordinated limited partnership units of Priszm LP (the “**Subordinated LP Units**”) and exchangeable limited partnership units of Priszm LP (the “**Exchangeable LP Units**”). The Subordinated LP Units and the Exchangeable LP Units were previously held by PBI LP (formerly Priszm Brandz LP), a wholly owned subsidiary of Obelysk. On January 10, 2005 PBI LP was wound up.

The trust units of the Fund (the “**Units**”) are listed for trading on the Toronto Stock Exchange (the “**TSX**”) under the symbol “QSR.UN”. The principal and head office of the Fund is located at 101 Exchange Avenue, Vaughan, Ontario L4K 5R6.

### Priszm Canadian Operating Trust

Priszm Canadian Operating Trust (the “**Trust**”) is an unincorporated, limited purpose trust established under the laws of the Province of Ontario pursuant to a Declaration of Trust dated September 24, 2003, as amended from time to time (the “**Trust Declaration of Trust**”). The Trust was created to acquire and hold 15,550,000 ordinary limited partnership units of Priszm LP (“**Ordinary LP Units**”) representing approximately 60% of the outstanding units of Priszm LP (the “**LP Units**”) and approximately 60% of common shares in the capital of Priszm Inc. (the “**GP Common Shares**”).

### Priszm LP

Priszm LP is a limited partnership formed under the laws of Manitoba. The business of Priszm LP is to develop, acquire, make investments in and conduct the business and ownership, operation and lease of assets and property in connection with the quick service restaurant (“**QSR**”) business in Canada, together with all activities ancillary or incidental thereto.

The Fund owns, directly or indirectly, approximately 60% of Priszm LP and Obelysk owns approximately 40% of Priszm LP. The general partner of Priszm LP is Priszm Inc. The principal and head office of Priszm LP is located at 101 Exchange Avenue, Vaughan, Ontario L4K 5R6.

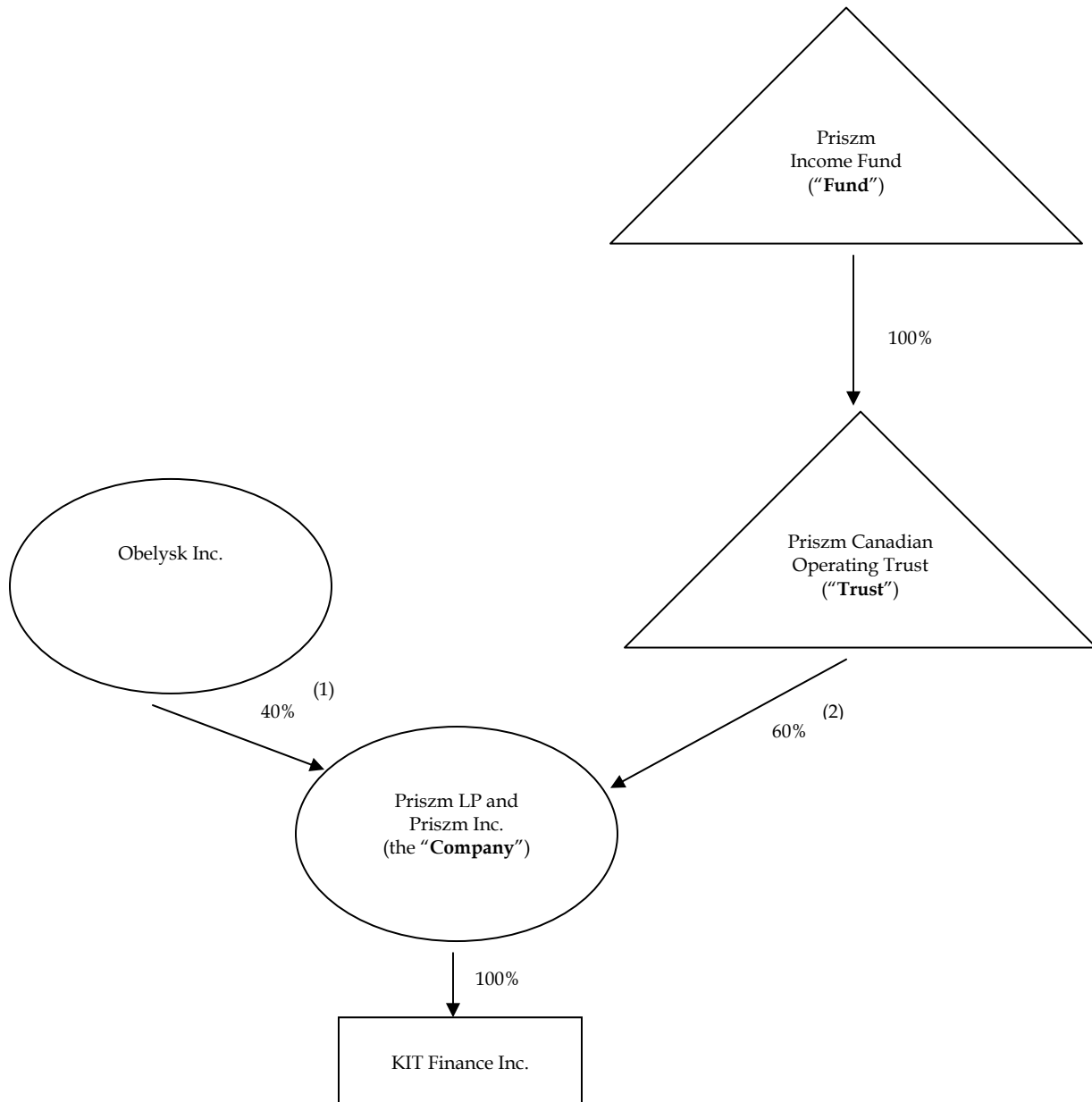
### **Priszm Inc.**

Priszm Inc. is a corporation established under the laws of Canada to act as the general partner of Priszm LP. The Fund indirectly owns approximately 60% of the outstanding common shares of Priszm Inc. and Obelysk directly owns approximately 40% of the outstanding common shares of Priszm Inc. The principal and head office of Priszm Inc. is located at 101 Exchange Avenue, Vaughan, Ontario L4K 5R6.

### **Obelysk**

Obelysk is a corporation established under the laws of the Province of Ontario. Obelysk is controlled by John I. Bitove, Director and Executive Chairman of Priszm Inc., the general partner of Priszm LP. Obelysk owns an approximately 40% interest in Priszm LP through its ownership of the Subordinated LP Units and the Exchangeable LP Units. The Subordinated LP Units and the Exchangeable LP Units are exchangeable for Units of the Fund, subject in the case of the Subordinated LP Units to the satisfaction of certain conditions or upon the occurrence of certain events.

The following chart illustrates the structure of the Fund and the indirect investment by the Fund in the Company:



**Notes:**

Subordinated LP Units and Exchangeable LP Units representing, collectively, approximately 40% of the LP Units and approximately 40% of the GP Common Shares.

Ordinary LP Units, representing approximately 60% of the LP Units and approximately 60% of the GP Common Shares.

## GENERAL DEVELOPMENT OF THE BUSINESS

The Fund was created to, among other things, acquire the KFC™ restaurant business and hold, directly or indirectly, investments in entities involved in the QSR business, including an approximate 60% interest in the Company. The Fund does not carry on business, does not have officers and is entirely dependent for its results on the operations, assets and performance of Prizm LP. The directors and officers of the Administrator are responsible for administering the Fund and its business in accordance with the Administration Agreement.

On November 10, 2003, the Fund completed an initial public offering (the “**Offering**”) of 15,000,000 Units by way of a prospectus dated October 31, 2003 (the “**Prospectus**”), at a price of \$10.00 per Unit for aggregate gross proceeds of \$150 million (net proceeds of \$136.8 million). Shortly after the closing of the Offering, the Fund issued an additional 550,000 Units for gross proceeds of \$5.5 million, pursuant to the exercise by the underwriting syndicate, including CIBC World Markets Inc., RBC Dominion Securities Inc., BMO Nesbitt Burns Inc., National Bank Financial Inc. and TD Securities Inc. (collectively the “**Underwriters**”) of their option to purchase additional Units solely to cover over allotments and for market stabilization purposes (the “**Over-Allotment Option**”). The Fund used the gross proceeds of the Offering (including proceeds received on the exercise of the Over-Allotment Option) to indirectly acquire, through the Trust and through a series of transactions, an approximate 60% interest in the Company.

On June 22, 2007, the Company completed an offering of \$30 million aggregate principal amount of debentures (the “**Initial Debentures**”) due June 30, 2012 (the “**Maturity Date**”) on a private placement basis. The Initial Debentures bear interest at a rate of 6.5 per cent per annum payable semi-annually in arrears.

The Company Restaurants are franchised from YUM Restaurants International (Canada) Company (the “**Franchisor**”). At the end of the 2009, the Franchisor reassumed responsibility for the marketing for the KFC brand which the Company had been performing, under contract and on behalf of the Franchisor, since the Fund’s inception in 2003. In addition, the Franchisor is responsible for executing the advertising and media plan, product development, food safety and quality assurance, the creation of training and operational standards, approval of asset and restaurant plans and, together with YUM!, the stewardship of the KFC™, Pizza Hut™ and Taco Bell™ brands in Canada and abroad.

The Company concluded negotiations with the Franchisor during 2009 to renew franchise agreements on 69 locations. The Franchisor provided an extension to the Company’s right to use the brands and trademarks in respect of those outlets for a further 10 years after requiring the Company to commit to investments in facility upgrades to an additional 75 stores during 2010. The remaining franchise

agreements that were put in place at the time of the Fund's establishment expire between 2010 and 2013 and also will only be renewed by the Franchisor upon completion of certain upgrade requirements and payment of renewal fees. The Company has 120 restaurants that meet the present brand standards for renewal, inclusive of the 69 renewed in 2009.

In 2009, the Company sold 5 locations as part of a previously announced restructuring, closed 7 underperforming locations, and re-opened one new KFC location that had previously been destroyed by a fire. Accordingly, the Company owned and operated a total of 438 restaurants, including 100 multi-branded restaurants at the end of 2009. Subsequently, the Company closed 1 more restaurant, and had 1 of its multi-branded restaurants destroyed by fire which will be re-built in 2010. As a result, as of March 23, 2010, the Company owned and operated a total of 436 restaurants (collectively, the "**Company Restaurants**") in seven Canadian provinces, of which 337 Company Restaurants are single-brand locations and the remaining 99 Company Restaurants are multi-brand locations.

At the end of 2009, the Company also sold its food processing facility located in Toronto for gross proceeds of \$11.5 million. The food processing facility produced and provided salads to KFC restaurants across Canada as well as to other third parties.

## **NARRATIVE DESCRIPTION OF THE BUSINESS**

The Fund is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario. The Fund's income is derived from its approximate 60% interest in the Company; as the Fund does not carry on business, the Fund is entirely dependent for its results on the performance of Prizm LP.

Prizm LP is one of the largest franchisees of KFC™ in the world by number of restaurants and its sales account for approximately 62% of all KFC™ product sales in Canada. As at March 23, 2010, Prizm LP owned and operated 436 KFC™ restaurants in seven Canadian provinces. A total of 337 of the Company Restaurants are single-brand restaurants. The remaining 99 Company Restaurants are multi-brand locations that combine a KFC™ host restaurant with a Taco Bell™, Pizza Hut™, or a combination thereof.

### **Industry Overview**

#### ***The Canadian Commercial Food Service Sector***

The Canadian commercial foodservice sector represents a significant portion of the Canadian foodservice industry and comprises operations whose primary

business is food and beverage services (e.g. restaurants and bars). The non-commercial foodservice sector represents a much smaller portion of the foodservice industry and includes those operators whose primary business is something other than food and beverage (e.g. hotels and movie theatres).

The Canadian commercial foodservice sector is comprised of four major segments based on the type of foodservice provider: full service restaurants (which includes casual dining, family-midscale dining and fine restaurants), quick service restaurants or QSRs, social and contract caterers, and pubs, taverns and night-clubs.

### ***The Quick Service Restaurant Market***

The QSR market is one of the largest segments of the Canadian commercial foodservice sector. QSRs target time and value conscious consumers who want convenient “grab and go” meals. QSRs are distinguished by the following characteristics:

*Convenience:* QSRs offer high speed of service and customer use and generally offer a high level of convenience. It is estimated that a typical customer of a QSR will spend approximately five minutes in the QSR (in the case of a take-out order) and twenty minutes in the QSR (in the case of dining in) from the time of ordering to departure. QSRs are typically located in places that are easy to access and convenient to customers' homes, places of work and commuter routes.

*Bundled meals and service:* The menus at most QSRs include a number of bundled or “combo” meals that expedite customer choice and service and enhance individual sale value.

*Value prices:* At a QSR, the average customer cheque expenditure for an individual meal is significantly less than the average customer cheque for a casual dining restaurant.

## **Business of the Company**

### ***Overview***

The Company is one of the largest franchisees of KFC™ in the world by number of restaurants and the largest operator of the KFC™ concept in Canada. The Company's sales account for approximately 62% of all KFC™ product sales in Canada. The KFC™ brand was introduced in Canada in the 1950's when it became the country's first QSR franchise chain. As one of the most recognized brands in the world, KFC™ is one of the world's largest “chicken-on-the-bone” QSR chain by number of restaurants. As of March 23, 2010, the Company had over 7,300 employees and the Company serves over 1 million customers a week through a

network of 436 restaurants that the Company owned and operated in seven Canadian provinces. A total of 337 of the Company Restaurants are single-brand restaurants. The remaining 99 Company Restaurants are multi-brand locations that combine a KFC™ host restaurant with one of either the Taco Bell™ or Pizza Hut™ concepts.

### *Strategy*

Management intends to maximize the equity value for unit holders by, among other things, focussing on the following:

*Same Restaurant Sales and Profit Growth* – The Company will continue to work with the Franchisor as the Franchisor develops and directs a marketing strategy to increase same restaurant sales growth and profitability. The Company will work with the Franchisor to ensure that this strategy include a combination of focused advertising, and tested new product introductions to maximize the opportunities and eliminate as much risk as possible prior to introduction. The Company will continue with enhanced training and improved execution through the proprietary CHAMPS training and standards program. The Company will also continue to improve operating efficiencies (as more particularly described below).

*Multi-branding* – Multi-branding refers to the practice of combining two brand concepts in one restaurant. The Company has 99 locations where a host KFC™ restaurant is combined with either a Taco Bell™ and/or Pizza Hut™ concept. The results of multi-branding have had a mixed success globally and in Canada. As such the Franchisor has been unclear as to its position on multi-branding going forward. Management believes that selective opportunities exist for profitable multi-branding investments in its single-brand KFC™ restaurants with one of the Taco Bell™ or Pizza Hut™ concepts provided the combined concepts are adequately supported with marketing, training, operational and other programs required for sustainable success.

*New Menu Items and Supply Chain Cost Reduction* – The Company's ability to introduce new and innovative products is dependant on the Franchisor. This is a critical area for any business in this industry and the Company will continue to encourage the Franchisor to develop products and marketing promotions that fit the Canadian market and Canadian asset base.

*Value* – The Company actively seeks to add value for its customers through abundant offerings and discounted menu items – a growing trend in the industry.

### *The KFC™ Concept*

KFC™ is the Company's largest brand, and the Company currently operates 337 single-brand and 99 multi-brand restaurants.

KFC™ was founded in Corbin, Kentucky by Colonel Harland D. Sanders, an early developer of the QSR business and a pioneer of the restaurant franchise concept. The Colonel perfected his secret blend of 11 herbs and spices for Kentucky Fried Chicken in 1939 and signed up his first franchisee in 1952. KFC™ is based in Louisville, Kentucky.

While product offerings vary throughout the worldwide system, traditional KFC™ restaurants offer fried “chicken-on-the-bone” products, primarily marketed under the name Original Recipe®. Other principal entree items include chicken sandwiches (including the Twister™ and Big Crunch ®), Colonel's Crispy Strips®, Popcorn Chicken™, Wrapstar® and other limited time menu items. KFC™ restaurants also offer a variety of side items, such as coleslaw, potato salad, macaroni salad and french fries, as well as desserts and beverages. Restaurant decor is characterized by the image of the Colonel™ and KFC™'s distinctive packaging includes the “Bucket” of chicken.

For the most part, menu items are combined and sold as packaged meals designed to serve anywhere from 1 to 12 people. “Family Packs”, designed for large groups, provide a convenient choice for consumers, as they package together a variety of foods to suit various tastes. KFC™ restaurants also offer a variety of individual “Combo” meals, which combine chicken with side items and a soft drink, or a sandwich with fries and a soft drink. In terms of revenue by specific menu items, large group meals represent over 40% of the Company's revenue. The Company Restaurants are typically open from 11:00 a.m. to 10:00 p.m., and therefore serve lunch, dinner and snacks.

### *Multi-branding*

Multi-branding refers to the practice of combining two brand concepts in one restaurant. As at March 23, 2010, the Company had 99 locations where a host KFC™ restaurant is combined with either a Taco Bell™ concept or a Pizza Hut™ concept. Multi-brand restaurant growth can be pursued at a far lower capital cost than building a new restaurant and in certain locations will not have the same inherent risk associated with adding additional locations.

### *The Taco Bell™ Concept*

Taco Bell™ specializes in Mexican-style food products, including various types of tacos, burritos, gorditas, chalupas and salads. Consumer research derived

from focus groups commissioned by the Company shows that the Taco Bell™ brand continues to have high regard, uniqueness and value scores.

### *The Pizza Hut™ Concept*

Pizza Hut™ is the only “national” pizza franchise chain in Canada and the brand has one of the largest sales volumes in Canada. Pizza Hut™ is positioned as the pizza chain known for “quality, innovative products and variety”. Pizza Hut™ also features beverages, breadsticks, appetizers and salads. A significant portion of Pizza Hut™ revenue is generated through pizza sales.

### *Restaurant Operations*

Management within each Company Restaurant varies by brand concept and restaurant size. Generally, each Company Restaurant is managed by one restaurant general manager (“RGM”), together with one or more assistant managers, depending on the operating complexity and sales volume of the Company Restaurant. Each Company Restaurant typically has between 10 and 35 hourly employees, most of who work part-time. The Franchisor issues detailed manuals for each concept covering all aspects of their respective operations, including food handling and product preparation procedures, safety and quality issues, equipment maintenance, facility standards and accounting control procedures. The restaurant management teams are responsible for day-to-day operation of each Company Restaurant and for ensuring compliance with operating standards.

CHAMPS (which stands for Cleanliness, Health, Accuracy, Maintenance, Product quality and Speed) is the Franchisor's system-wide program for training, measuring and rewarding employee performance against key customer measures. CHAMPS is intended to align the operating processes of all KFC™ franchisees around one set of standards. RGMs' efforts, including CHAMPS performance measures, are monitored by area managers. Area managers typically work with approximately ten to fifteen restaurants. The Company Restaurants are visited from time to time by various senior management to help ensure adherence to system standards and to mentor restaurant team members. CHAMPS data are provided on an ongoing basis to the Franchisor.

RGMs attend and complete training programs for their respective concept. These programs consist of initial training, as well as additional continuing development and training programs that may be offered or required from time to time. Initial RGM training programs emphasize leadership, business management, supervisory skills, product preparation and production, safety, quality control, customer service, labour management and equipment maintenance.

### ***Operations of Salad Production Facility***

Up until December 23<sup>rd</sup>, 2009, the Company owned and operated a salad production facility that produced coleslaw, macaroni salad and potato salad. The Company was the primary consumer of the salad production facility's products. In addition, other KFC™ franchises and some grocery stores purchased products from the salad production facility at market rates. The business was sold for gross proceeds of \$11.5 million on December 23<sup>rd</sup>, 2009.

### ***Capital Expenditures***

*On-going Maintenance Capital Expenditure Requirements.* Maintenance capital expenditures, which are capitalized by the Company, are those maintenance expenditures required for the renewal and betterment of existing restaurants. Included in maintenance capital expenditures are amounts for equipment replacement, rollouts of new products and signage.

*Additional Capital Expenditures Required for Growth Strategy and Upgrade Requirements under the Franchise Agreement (as defined below).* Commencing in 2009, the majority of the Company's Franchise Agreements, which cover the use of the KFC™, Taco Bell™ and Pizza Hut™ trademarks expire over a period of five years (approximately 85 per year). Under the terms of the Franchise Agreement the Company is able to extend its rights for an additional ten years upon payment of a renewal fee. At that time, the Franchisor has the right, and has indicated that it will exercise that right, to require significant upgrade investments. These facility investment amounts will vary depending upon the scope of the work required for individual assets to meet the Franchisor requirements.

The Company concluded negotiations with the Franchisor during 2009 to renew franchise agreements on 69 locations. The Franchisor provided an extension to the Company's right to use the brands and trademarks in respect of those outlets for a further 10 years after requiring the Company to commit to make investments in facility upgrades to an additional 75 stores during 2010. As of March 23, 2010, the Company had 120 restaurants that meet the Franchisor's present brand standards, inclusive of the 69 renewed in 2009. The Franchisor made the renewal of the additional 75 restaurants in 2010 conditional on a planned capital investment between \$15.0 and \$16.5 million during 2010 and payment of a renewal fee for each location being renewed. The total capital investment required after 2010 has not been determined and will be committed based on the expenditures providing a reasonable opportunity for return.

Management expects renewals of the Franchise Agreement for the Company Restaurants to be granted by the Franchisor in the ordinary course for the outlets that meet the renewal criteria. If the Company cannot come to an agreement with the Franchisor on the required capital or does not have sufficient cash to meet the

upgrade and renewal fee requirements under the Franchise Agreement then it may not be able to renew the franchise agreements for those restaurants that do not satisfy the upgrade and renewal fee requirements.

### *Properties*

The Company Restaurants are located in seven provinces of Canada. The Company's geographic diversification reduces its exposure to regional economic conditions that may affect a particular province or area.

With the exception of 3 properties which are owned, the Company leases all of its restaurant premises as well as its head office and the salad production facility. The average remaining term of each restaurant lease is approximately 12 years (assuming the exercise of all renewal options). These leases are held by various landlords, including Scott's Real Estate Investment Trust ("**Scott's REIT**") pursuant to their respective master lease agreements with the Company.

### *Marketing (Advertising and Promotions)*

Under the Franchise Agreement, the Company was required to spend at least 5% of its total revenues on marketing activities as directed by the Franchisor. Historically, these expenditures have been as follows:

- (i) approximately 1% of the Company's annual gross revenues has been paid to a KFC™ Co-Operative to develop national advertising and sales promotion materials and concepts to be implemented across Canada. The Company is kept informed of current advertising campaigns and promotions for the KFC™ brand around the world, and receives advertising and sales promotion materials for this 1% contribution;
- (ii) approximately 2.5% to 3% of annual gross revenues, depending on the region or province, has been spent on national, regional or provincial media buying cooperatives; and
- (iii) the remaining portion of the Company's advertising and marketing budget has been spent on local and regional advertising. Typically this portion of the advertising and promotions budget is spent in areas such as local radio and direct mail promotions.

At the end of the 2009, the Franchisor reassumed responsibility for the marketing for the KFC brand which the Company had been performing, under contract and on behalf of the Franchisor, since the Fund's inception in 2003.

### ***Suppliers and Distributors***

UPGC, Inc. (“UPGC”), a not for profit cooperative set up to act as a central procurement service, manages all of the purchasing for the Canadian franchisees of the KFC™, Taco Bell™ and Pizza Hut™ concepts in Canada, including the Company. UPGC handles all negotiations with suppliers and distributors, but does not take title to goods. UPGC's mandate is to negotiate the lowest cost on all product purchases.

Each franchisee of the Franchisor in Canada is eligible to be a shareholder of UPGC. By co-ordinating purchasing for franchisees of the Franchisor in Canada, UPGC is able to obtain lower costs for foods, packaging for supplies and related services and equipment than the franchisees could generally obtain individually.

UPGC is governed by a board of directors, a fixed number of whose members are elected by each of the Franchisor and by the franchisees of each of the KFC™, Taco Bell™ and Pizza Hut™ concepts, respectively. Pursuant to a shareholders' agreement, which is subject to renewal from time to time, the franchisees, including the Company, have agreed to purchase substantially all of the food supplies and equipment required for the operation of their franchised restaurants through the UPGC.

The Company has a long-term distribution arrangement with a reputable national distributor, which is one of the largest food distribution companies in Canada. This contract is based on a flat mark-up on food delivered to restaurants.

The Company Restaurants receive direct restaurant delivery from manufacturers for perishable items such as fresh chicken. The large scale of the Company's operations provides for economies of scale in purchasing most raw materials. The Company is one of the largest purchasers of chicken in Canada.

### ***Chicken Marketing Boards***

The Company purchases its fresh chicken based on the provincial “live” price. The “live” price is established provincially by various provincial chicken marketing boards, which are composed of chicken farmers and processors. Marketing boards are provincially based and prices vary by jurisdiction.

### ***Trademarks***

The Company has rights to use, among others, the KFC™, Taco Bell™ and Pizza Hut™ names, logos and products, in connection with operating the Company Restaurants pursuant to the terms of the Franchise Agreement. The Company has the right, pursuant to the Franchise Agreement, to use the trademarks, service marks, trade names and other similar rights owned by the Franchisor (or its

affiliates) and designated by the Franchisor from time to time for use in the operation of the Concepts.

### ***Employees***

The Company employs over 7,300 employees, a significant portion of who are part-time. Management believes that it provides working conditions and compensation that compare favourably with those of its principal competitors. Most of the Company's employees are paid on an hourly basis.

The Company has been effective in its efforts to reward and retain quality employees, as evidenced by its low turnover rate compared to experience within the industry.

Certain of the Company Restaurants are covered by collective bargaining agreements. Since July 10, 2000, the date that PBI LP acquired the Company Restaurants, no Company Restaurants have been added to the collective bargaining agreements and there have been no work stoppages. Management believes that the Company has good relationships with its employees' unions. The Company is currently negotiating a renewal to its collective agreement in the Province of British Columbia.

### ***Government Regulation***

The Company Restaurants are subject to licensing and regulation by a number of governmental authorities, which may include liquor, health, sanitation, safety, fire, building and other agencies in the provinces or municipalities in which QSRs are located. Developing new QSRs in certain locations requires licenses and land use approval, and could be delayed by difficulties in obtaining such licenses and approvals or by more stringent requirements of local government bodies with respect to zoning, land use and licensing.

Suppliers of food products to QSRs must comply with applicable federal and provincial regulations relating to the manufacture, preparation and labelling of food products.

In certain jurisdictions, QSRs are subject to various laws that prohibit or limit smoking on the premises and that impose fines for failure to adhere to such laws.

### ***Environmental/Social Policies:***

The Company has recycling programs at Company Restaurants, animal welfare procedures, collective bargaining agreement, and policies that contain commonly-used human rights and employment standards provisions.

The Company has adopted a written code of conduct entitled, "Principles of Business Conduct and Ethics", which was adopted in December 2003 (the "**Code of Conduct**"). The Code of Conduct contains numerous policies including, conflicts of interest, equal opportunity, harassment, and confidentiality.

The Board is responsible for monitoring ongoing compliance with the Code of Conduct and has directed Management to promptly report to the Board of Directors any violations of the Code of Conduct. In addition, compliance is monitored and enforced through the Board of Director's adoption of a "Whistleblower Policy", effective from March 28, 2006 (the "**Whistleblower Policy**"). The Board's adoption of the Whistleblower Policy further reinforces a culture of ethical business conduct.

In 2009 the Company initiated a test whereby recycled waste oil from its stores in Barrie would be used to fuel delivery vehicles.

The Company supports YUM!'s World Hunger Initiative as well as the S'Cool Life Fund, a foundation engaged in supporting local public school programs such as drama, music and sports. In 2009 the Company raised over \$140,000 for World Hunger and to date has raised over \$2 Million for S'Cool Life Fund.

The Company does not expect that any policy or legislation in these areas will have a material effect on the Company's finances or operations.

### ***Competition***

The Canadian commercial foodservice industry is intensely competitive with respect to price, food quality, brand recognition, service, location and concept. In addition, the Canadian commercial foodservice industry is often affected by changes in consumer tastes and national, regional or local economic conditions. Competition within the industry comes from both established competitors and potential new market entrants, including restaurant chains based in the United States and other regions of Canada.

The quick service, family/mid-scale and casual dining segments of the Canadian commercial foodservice industry are highly competitive. Each Company Restaurant competes with other commercial foodservice operations within the same geographical area. The Company's competition includes other restaurants, including quick service and take-out operations, coffee shops, street vendors, convenience food stores, delicatessens and supermarkets. Each Company Restaurant competes with other operations in its local market primarily through the quality, variety and value perception of food products offered. The number and location of outlets,

quality and speed of service, attractiveness of facilities, effectiveness of marketing and new product development are also important competitive factors.

### INFORMATION CONCERNING THE FUND

The Fund is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario pursuant to the Declaration of Trust. Reference is made to the Declaration of Trust for a complete description of the Units and Special Voting Units and the full text of its provisions.

#### Units and Special Voting Units

The beneficial interests in the Fund are divided into interests of two classes, described and designated as “Units” and “Special Voting Units”, respectively. An unlimited number of Units and Special Voting Units are issuable pursuant to the Declaration of Trust. Each Unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund whether of net income, net realized capital gains or other amounts and in the net assets of the Fund in the event of a termination or winding-up of the Fund. Except as set out under “Redemption Right” below, the Units have no conversion, retraction, redemption or pre-emptive rights.

The Special Voting Units are not entitled to any interest or share in the Fund, in any distribution from the Fund whether of net income, net realized capital gains or other amounts, or in the net assets of the Fund in the event of a termination or winding-up of the Fund. Special Voting Units may, however, be redeemed by the holder at any time for nominal consideration.

Special Voting Units may be issued in series and will only be issued in connection with or in relation to Exchangeable LP Units, Subordinated LP Units and, if the Trustees so determine, other securities exchangeable, directly or indirectly, for Units (“**Exchangeable Securities**”), in each case for the purpose of providing voting rights with respect to the Fund to the holders of such securities. Special Voting Units are issued in conjunction with, and will be attached to, the Exchangeable LP Units and Subordinated LP Units (or other Exchangeable Securities) to which they relate, and are evidenced only by the certificates representing such Exchangeable LP Units, Subordinated LP Units or other Exchangeable Securities. Special Voting Units are not transferable separately from the Exchangeable LP Units and the Subordinated LP Units (or other Exchangeable Securities) to which they are attached. Each Special Voting Unit entitles the holder thereof to that number of votes at any meeting of the holders of Special Voting Units (the “**Voting Unitholders**”) that is equal to the number of Units that may be obtained upon the exchange (direct or indirect) of the Exchangeable LP Unit, Subordinated LP Unit or other Exchangeable Security to which it is attached. Upon the exchange or conversion of an Exchangeable LP Unit

(or other Exchangeable Security) for Units, the Special Voting Unit that is attached to such Exchangeable LP Unit (or other Exchangeable Security) will immediately be cancelled without any further action of the Trustees, and the former holder of such Special Voting Unit will cease to have any rights with respect thereto.

Issued and outstanding Units and Special Voting Units may be subdivided or consolidated from time to time by the Trustees without the approval of Voting Unitholders.

### **Redemption Right**

Units are redeemable at any time on demand by the holders thereof upon delivery to the Fund of a duly completed and properly executed notice requesting redemption in a form approved by the Trustees specifying the number of Units to be redeemed. As the Units are issued in book-entry form, a Unitholder who wishes to exercise the redemption right will be required to obtain a redemption notice form from the Unitholder's investment dealer. As of the close of business on the date the Units are surrendered for redemption, all rights to and under the Units tendered for redemption shall (subject to the following) be surrendered and the holder thereof shall be entitled to receive a price per Unit (the "**Redemption Price**") equal to the lesser of:

- (a) 90% of the Market Price of the Units on the principal stock exchange on which the Units are listed (or, if the Units are not listed on any stock exchange, on the principal market on which the Units are quoted for trading) during the period of the last 10 trading days during which the Units traded on such stock exchange or market ending immediately prior to the date on which the Units were tendered for redemption; and
- (b) the Closing Market Price of the Units on the date on which the Units were tendered for redemption on the principal stock exchange on which Units are listed (or, if Units are not listed on any stock exchange, on the principal market on which the Units are quoted for trading).

For the purposes of determining the Redemption Price, "Market Price" will be the amount equal to the weighted average of the trading prices of the Units on the applicable market or exchange for each of the trading days on which there was a trade during the specified trading day period; provided that if there was trading on the applicable exchange or market for fewer than five of the trading days during the specified trading day period, "Market Price" will be the average of the following prices established for each of the trading days during the specified trading day period: the average of the last bid and ask prices for each trading day on which

there was no trading and the weighted average trading prices of the Units for each trading day on which there was trading. For the purposes of determining the Redemption Price, “**Closing Market Price**” will be: (i) an amount equal to the closing price of the Units on the applicable market or exchange if there was a trade on the specified date and the applicable market or exchange provides a closing price; (ii) an amount equal to the average of the highest and lowest prices of Units on the applicable market or exchange if there was trading on the specified date and the applicable market or exchange provides only the highest and lowest trading prices of Units traded on a particular day; or (iii) the average of the last bid and ask prices on the applicable market or exchange if there was no trading on the specified date.

The aggregate Redemption Price payable by the Fund in respect of any Units surrendered for redemption during any calendar month will be satisfied by way of a cash payment by the Fund no later than the last day of the calendar month following the calendar month in which the Units were tendered for redemption, provided that the entitlement of the holders of the Units of the Fund (the “**Unitholders**”) to receive cash upon the redemption of their Units is subject to the limitations that:

- (i) the total amount payable in cash by the Fund in respect of such Units and all other Units tendered for redemption in the same calendar month may not exceed \$50,000 (the “**Monthly Limit**”), provided that the Trustees may, in their sole discretion, waive such limitation in respect of all Units tendered for redemption in any calendar month;
- (ii) at the time such Units are tendered for redemption, the outstanding Units must be listed for trading on a stock exchange or traded or quoted on another market that, in the sole discretion of the Trustees, provides a representative fair market value price for the Units; and
- (iii) the normal trading of Units must not be suspended or halted on any stock exchange on which the Units are listed (or, if not listed on a stock exchange, on any market on which the Units are quoted for trading) on the date that the Units are tendered for redemption or for more than five trading days during the 10 trading day period prior to the date on which the Units are tendered for redemption.

If a Unitholder is not entitled to receive cash upon the redemption of Units as a result of the Monthly Limit, then the Redemption Price for each Unit tendered for redemption will, subject to any applicable regulatory approvals, be paid and satisfied by way of a distribution in specie of the assets of the Fund. If a Unitholder is not entitled to receive cash upon the redemption of Units as a result of the other

specified limitations, then each redeeming Unitholder will be entitled to receive a price per Unit (the “**In Specie Redemption Price**”) equal to the fair market value thereof as determined by the Trustees, which may be satisfied by way of a distribution in specie of the assets of the Fund. In each such case, a proportionate amount of the 1,555,000 Units held by the Fund (the “**Trust Units**”) and Series 1 unsecured subordinated demand notes (the “**Series 1 Trust Notes**”) held by the Fund having an aggregate value equal to the Redemption Price (or, as applicable, the In Specie Redemption Price) will be redeemed in consideration of the issuance to the Fund of Series 2 Trust Notes and Series 3 Trust Notes, respectively. The Series 2 Trust Notes and Series 3 Trust Notes will then be distributed to the redeeming Unitholder in full satisfaction of the Redemption Price (or, as applicable, the In Specie Redemption Price). Series 2 Trust Notes and Series 3 Trust Notes will be issued only in integral multiples of \$100. Where the principal amount of Series 2 Trust Notes or Series 3 Trust Notes to be received by a Unitholder includes a multiple of less than \$100, that number will be rounded to the next lowest integral multiple of \$100. The Fund will be entitled to all interest paid on the Trust Notes, if any, and distributions paid on the Trust Units on or before the date of the distribution in specie. Where the Fund makes a distribution in specie of securities of the Trust on the redemption of Units, the Fund will allocate to the redeeming Unitholder any capital gain or income realized by the Fund as a result of the redemption of the Trust Units and Series 1 Trust Notes in exchange for Series 2 Trust Notes and Series 3 Trust Notes, respectively, or as a result of the distribution of Series 2 Trust Notes or Series 3 Trust Notes to the Unitholder on the redemption of such Units.

### **Convertible Debentures**

On June 22, 2007, the Company completed an offering of \$30 million aggregate principal amount of debentures (the “**Initial Debentures**”) due June 30, 2012 (the “**Maturity Date**”) on a private placement basis. The Initial Debentures bear interest at a rate of 6.5 per cent per annum payable semi-annually in arrears on June 30 and December 31. Each debenture holder has the option to receive such interest either in the form of cash or Subordinate Voting Shares. At any time prior to June 30, 2012 and the business day immediately preceding the date fixed for redemption, the Initial Debentures will be convertible at a conversion price of \$12.28 (the “**Conversion Price**”) at the holders' option into Units which is equal to a conversion ratio of approximately 81.4332 Units per \$1,000 principal amount of debentures, subject to adjustment in certain circumstances.

The Initial Debentures are not redeemable before June 30, 2010, except in the event of the satisfaction of certain conditions after a change of control has occurred. At any time after June 30, 2010 and prior to June 30, 2011, the Initial Debentures may be redeemed in whole or in part from time to time at the option of the Company on

not more than 60 days' and not less than 30 days' prior notice at a price equal to the their principal amount plus accrued and unpaid interest thereon up to but excluding the redemption date, provided that the Current Market Price (as defined in the Trust Indenture) of the Units on the date on which the notice of redemption is given is in excess of 125% of the Conversion Price. At any time on and after June 30, 2011 and on or prior to the Maturity Date, the Initial Debentures may be redeemed in whole or in part from time to time at the option of the Company on not more than 60 days' and not less than 30 days' prior notice at a price equal to their principal amount plus accrued and unpaid interest thereon up to but not including the redemption date. On redemption or on maturity of the Initial Debentures, the Company may, at its option and subject to any applicable regulatory or shareholder approvals, elect to satisfy its obligation to pay all or a portion of the aggregate principal amount of the Initial Debentures by issuing and delivering Subordinate Units to such holders of Initial Debentures.

The Initial Debentures are direct unsecured obligations of the Company and are subordinated to the Senior Indebtedness (as defined in the Trust Indenture) of the Company. The Initial Debentures rank *pari passu* with each other series of debentures except for sinking Company provisions (if any) applicable to different series of debentures. The Trust Indenture does not restrict the Company from incurring additional indebtedness for borrowed money or from mortgaging, pledging or charging its properties to secure any indebtedness.

### **Limitation on Non Resident Ownership**

In order for the Fund to maintain its status as a mutual fund trust under the *Income Tax Act* (the "*Tax Act*"), the Fund must not be established or maintained primarily for the benefit of non-residents of Canada within the meaning of the *Tax Act*. Accordingly, the Declaration of Trust provides that at no time may non-residents of Canada be the beneficial owners of more than 49.9% of the Units. This 49.9% limitation is and will be applied with respect to the issued and outstanding Units of the Fund on both a non-diluted basis and a fully-diluted basis. The Trustees may require declarations as to the jurisdictions in which beneficial owners of Units are resident. If the Trustees become aware that the beneficial owners of 49% of the Units then outstanding are, or may be, non-residents of Canada or that such a situation is imminent, the Trustees or the transfer agent will make a public announcement thereof and thereafter the transfer agent and registrar will not accept a subscription for Units from or issue or register a transfer of Units to any person unless the person provides a declaration that he or she is not a non-resident of Canada within the meaning of the *Tax Act*. If, notwithstanding the foregoing, the Trustees determine that more than 49.9% of the Units are held by non-residents of Canada, the Trustees may direct the transfer agent and registrar of the Units to send

a notice to non-resident Unitholders, chosen in inverse order to the order of acquisition or registration or in any other manner the Trustees consider equitable and practicable, requiring them to sell their Units or a portion thereof within a specified period of not less than 60 days. If the Unitholders receiving such notice have not sold the specified number of Units or provided the Trustees with satisfactory evidence that they are not non-residents of Canada within the meaning of the *Tax Act* within such period, the Trustees may, on behalf of such persons, sell such Units and, in the interim, the voting and distribution rights attached to such Units shall be suspended. Upon such a sale, the affected holders shall cease to be holders of the Units and their rights shall be limited to receiving the net proceeds of such sale.

Special Voting Units may not be owned by a non-resident of Canada within the meaning of the *Tax Act*. In the event that a holder of Special Voting Units becomes a non-resident, such holder will be deemed to have exercised his or her right of redemption in accordance with the Declaration of Trust and such Special Voting Units will immediately be redeemed for nominal consideration.

## **RISK FACTORS**

An investment in Units involves a number of risks. In addition to the other information contained in this Annual Information Form and the Fund's other publicly filed disclosure documents, investors should give careful consideration to the following factors, which are qualified in their entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Annual Information Form. Any of the matters highlighted in these risk factors could have a material adverse effect on the Fund's and the Company's results of operations, business prospects or financial condition or on the distributions of cash to Unitholders.

### **Risks Related to the Business and the Quick Service Restaurant Industry**

#### ***The Restaurant Industry and its Competitive Nature***

The performance of the Fund is directly dependent upon the cash distributions the Fund receives from the Company. The amount of the cash distributions will be dependent upon cash flow from operations of the business of the Company, which is subject to a number of factors that affect the restaurant industry generally and the quick service segment of this industry in particular, including intense competition with respect to price, service, location and food quality.

If the Company is unable to successfully compete in the quick service segment of the restaurant industry, the Fund's results may be adversely affected.

The restaurant business is also affected by changes in demographic trends, traffic patterns, and the type, number, and location of competing restaurants. In addition, factors such as innovation, increased food, labour and benefits costs, and the availability of experienced management and hourly employees may adversely affect the restaurant industry in general and the Company in particular. Changing consumer preferences and discretionary spending patterns could force the Company to modify its restaurant concepts and menus, with concomitant increased costs, and could result in a reduction of revenue. Even if the Company was able to compete successfully with other restaurant companies with similar concepts, it may be forced to make changes in one or more of its concepts in order to respond to changes in consumer tastes or dining patterns. If the Company changes a restaurant concept, it may lose additional customers who do not prefer the new concept and menu, and it may not be able to attract a sufficient new customer base to produce the revenue needed to make the restaurants profitable. Similarly, the Company may have different or additional competitors for its intended customers as a result of such a concept change and may not be able to successfully compete against such competitors. The Company's success also depends on numerous factors affecting discretionary consumer spending, including economic conditions, disposable consumer income and consumer confidence. Adverse changes in these factors could reduce customer traffic or impose practical limits on pricing, either of which could reduce revenue and operating income.

#### *The Company's Dependence on the Franchisor*

The Company operates the Company Restaurants as a franchisee of the Franchisor and is highly dependent on the Franchisor for numerous aspects of its business. As a result of the nature of franchising and the Franchise Agreement with the Franchisor, the long-term success of the Company will depend, to a significant extent, on the continued vitality of the KFC™, Taco Bell™, and Pizza Hut™ concepts and in particular the ability and success the Franchisor has in ensuring those concepts are adapted to consumer demand and the competitive market of Canada; the ability of the Franchisor to identify and react to new trends in the Canadian restaurant industry, including the development of popular new Canadian-relevant menu items; the ability of the Company and the Franchisor to develop and pursue appropriate marketing strategies for the Canadian market in order to maintain and enhance the name recognition, reputation and market perception of KFC™ restaurants in Canada and to introduce and develop new products that directly apply to the growth of KFC in particular as well as Taco Bell and Pizza Hut in Canada; the goodwill associated with the KFC™, Taco Bell™, and Pizza Hut™ trademarks; the quality, consistency and management of the overall Franchisor system in Canada, the investment made by the Franchisor in its management and support of the system in Canada consistent with the support of similar franchises in Canada; and the continued efforts of the Franchisor to operate and support the

Canadian franchisees consistent with the responsibilities as a franchisor under applicable franchise legislation. There can be no assurance that the Franchisor and Yum! will be able to compete effectively with other QSRs.

Under the Franchise Agreement, the Company is required to comply with all of the standards and manuals issued by the Franchisor from time to time. The Company may only prepare market or sell products and services approved by the Franchisor and may only use suppliers and distributors who have been approved in writing by the Franchisor. The Franchisor may, by notice to the Company, at any time change or withdraw any approved product or add new approved products. The Franchisor may also at any time change any of the standards or manuals or introduce new standards or manuals. The Company is also required to pay to the Franchisor a monthly continuing fee and a monthly advertising fee. Should the Company fail to comply with the terms of the Franchise Agreement, the Franchisor could terminate all or any of the Franchise Agreements governing the Company Restaurants. The termination of the Franchise Agreement would have a material adverse impact on the Company.

The Franchise Agreement does not grant the Company any exclusive territory protection or other right in the contiguous space, area or market of any of the Company Restaurants. The Franchisor has the right terminate the Franchise Agreements individually or collectively upon breach of certain clauses in the agreements, subject to its obligation under applicable franchise legislation.

The Franchisor must approve the opening of any new restaurant by the Company, as well as any decision by the Company to add a second brand to an existing Company Restaurant. The Franchisor must also approve the closing of any of the Company's existing restaurants. The Franchisor is under no obligation to grant such approval.

### ***Growth of the Business of the Company***

The growth of the business of the Company is dependent upon its ability to: (i) sufficiently grow same restaurant sales through the product offerings and consumer experience as designed, developed and marketed by the Franchisor; (ii) implement its asset strategy; and (iii) retain qualified managers to manage Company Restaurants. The Company faces competition for locations and managers from its competitors and from the franchisors of other businesses. The Company's inability to successfully obtain qualified personnel could adversely affect its business development.

The quality of individual Company Restaurant operations may be diminished by many factors beyond the Company's control. Consequently, the Company, Management and RGMs may not successfully operate Company Restaurants in a

manner consistent with the Company's standards and requirements, or may not hire and train qualified managers and operators. If they do not, the image and reputation of the Company Restaurants may suffer, and gross revenue and results of operations of the Company Restaurants could decline.

### *Franchise Agreement*

The Company operates its restaurants under a master franchise agreement with the Franchisor. As previously discussed the franchise agreements governing the majority of the individual locations mature commencing in 2009 and over the ensuing four years. The ten year renewal term available to the Company requires payment of an additional fee to the franchisor as well as the Franchisor has required a substantial investment in facilities upgrades. During the fourth quarter of 2009 the Company renewed franchise agreements on 69 locations which already met the franchisor's present image standards. The Company has a further 51 locations in its portfolio that meet the franchisor's current image standard and the Company came to an agreement with the Franchisor to bring another 75 restaurants up to standard during 2010. The planned capital cost of these 2010 development projects would be between \$15 million and \$16.5 million.

In the franchise agreement amendment signed in the fourth quarter of 2009, the Franchisor further required that the cost of the 2011 upgrades would be in the same range as 2010 (\$15.0 million to \$16.5 million) but will be subject to approval by the Company's Trustees and Board of Directors and that the number of restaurants to be upgraded could be in the range of 55 to 80 restaurants. If the Trustees and Directors approve this investment, the Company will need to finance the investments required for 2011 and future years, either from internal or external sources, which may restrict other uses of Company cash funds. The performance of the business and in particular Same Store Sales and profits will significantly impact the ability to finance these expenditures. Failure to agree upon an investment plan for any location may result in the loss of franchise rights with respect to that location.

### *Income Tax Matters*

On June 12 2007 new tax legislation was substantively enacted creating a 'Distribution Tax' on publicly traded income trusts and other flow-through entities effective in the 2011 taxation year.

In light of this legislation the Fund, Company and management are in the process of evaluating the appropriate corporate structure. The change in the taxable status of the Company means that income taxes payable will reduce net earnings and will affect Distributable Cash by an equal amount. The Trustees and Board of Directors will review various strategic alternatives and may determine that a

different corporate/legal entity structure is more beneficial to Unitholders to drive value over the long-term. With the impact of the tax legislation in 2011, it is likely that there will be a change in structure sometime in 2010.

### ***Cash Flow for Franchise Obligations***

The Franchise Agreement requires that the Company from time to time upgrade, modify, renovate or replace all or part of the Company Restaurants or any of their fittings, fixtures or signage or any of the equipment, systems or inventory used in the Company Restaurant in order to maintain the Company Restaurants' compliance with the Franchisor's then current standards, which may require significant capital expenditures and/or periodic financial commitments by the Company. Furthermore, the Franchisor can, by notice, require the Company to take such upgrade and renovation actions with respect to one or more Company Restaurants at the time of renewal. The Company will continue to invest in capital programs that provide an effective return on investment. There can be no assurance that the Company will have sufficient cash to meet these obligations or will be able to obtain financing at commercially reasonable rates, or at all.

### ***Intellectual Property***

The ability of the Company to maintain or increase its operating results will depend on its ability to maintain "brand identity" through the use of intellectual property licensed from the Franchisor. If the Franchisor fails to enforce or maintain any of its intellectual property rights, or the Company fails to enforce its rights under the Franchise Agreement with the Franchisor, the Company may be unable to capitalize on its efforts to establish and maintain brand identity. All registered trademarks in Canada can be challenged pursuant to provisions of the *Trade-marks Act* (Canada), and other intellectual property can be the subject of similar challenges. If any intellectual property rights are ever successfully challenged, this may have an adverse impact on operating results of the Company. The Company will not own the intellectual property rights licensed under the Franchise Agreement, it will not have exclusive rights to use the intellectual property rights in Canada and it will not own or have any other rights to identical or similar trademarks and other intellectual property rights owned by parties not related to the Company in other jurisdictions. Third parties may use such trademarks and other intellectual property rights in Canada, and jurisdictions other than Canada, in a manner that diminishes the value of such trademarks and other intellectual property rights. If this occurs, the value of the intellectual property rights may suffer and the operating results of the Company could decline. Similarly, negative publicity or events associated with such trademarks and other intellectual property rights in Canada, and jurisdictions outside of Canada, may negatively affect the image and reputation of the Company Restaurants in Canada, resulting in a decline in operating results of the Company.

### ***Seasonality of the Business and Cash Receipts***

The seasonality of the demand for the Company's products and its cash receipts typically results in lower cash flow during the months of January, February and March and may impact on the ability of the Fund to make any cash distributions to Unitholders or fund the planned capital upgrades required by the Franchisor in the prescribed timeframes.

### ***Price and Supply Fluctuation***

Pricing support mechanisms instituted and maintained by various provincial marketing boards keep chicken prices at artificially high levels. Although these and other chicken pricing systems are the subject of international legal challenges, there can be no assurance that such mechanisms will not continue indefinitely. Further, there can be no assurance that prices of chicken will not be increased by the marketing boards in the future.

### ***Commodity Costs, Labour Shortages and Costs and Other Risks***

Dependence on frequent deliveries of fresh produce and groceries subjects food service businesses to the risk that shortages or interruptions in supply, caused by adverse weather or other conditions such as avian influenza could adversely affect the availability, quality and cost of ingredients. Specifically, certain ingredients such as chicken and related products constitute a large percentage of the total cost of the Company's food products. Increases in the cost of these specific ingredients could significantly increase the Company's cost of sales and correspondingly decrease the Company's operating income. In addition, unfavourable trends or developments concerning factors such as inflation, increased food, labour and employee benefit costs (including increases in hourly wage and minimum unemployment tax rates), regional weather conditions, interest rates and the availability of experienced management and hourly employees may also adversely affect the food service industry in general and the Company's results of operations and financial condition in particular.

The employees of approximately 43 of the 436 Company Restaurants are covered by collective bargaining agreements. Management believes that the Company has good relationships with its employees' unions. The Company is currently negotiating a renewal to its collective agreement in the Province of British Columbia. Failure to arrive at an agreement may lead to an interruption in business in the stores covered under this agreement.

### *Laws Concerning Employees*

The operations of the Company Restaurants are subject to employment and labour laws governing such matters as minimum wage, working conditions, overtime and tip credits. Significant numbers of the Company's food service and preparation personnel are paid at rates related to the minimum wage and, accordingly, further increases in the minimum wage could increase the Company's labour costs.

### *Potential Litigation, Class Actions and Other Complaints*

The Company 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 materially affect the sales by the Company Restaurants, regardless of whether such allegations are true or whether the Company is ultimately held liable. In addition, due to the nature of its business, the Company may be subject to class action suits, which may in turn subject the Fund to such litigation. QSR chains in the United States have been the subject of class action suits concerning obesity and there can be no assurance that the Company will not be subject to similar claims in Canada. Although Management believes such claims are without merit, litigation is expensive, time consuming and may divert Management's attention away from the operation of the business. The Company cannot be certain that its insurance coverage will be sufficient to cover one or more substantial claims.

### *The Company's Dependence on Key Personnel*

The success of the Company depends upon the personal efforts of a small group of employees and senior management. Although the Company believes it will be able to replace its key employees within a reasonable time should the need arise, the loss of key personnel could have a material short term adverse effect on the Company's financial performance. See "**Trustees and Directors**".

In addition, under the Company's Franchise Agreement, John I. Bitove has been designated as the "**Principal Operator**" of the Company Restaurants. In the event Mr. Bitove leaves the Company, any replacement operator must first be approved by the Franchisor. There can be no assurance that the Franchisor will approve a replacement operator proposed by the Company.

### *Government Regulation*

The Company is subject to various federal, provincial and local laws affecting its business. See "Narrative Description of the Business - Business of the Company - Government Regulation" above. Each Company Restaurant is subject to licensing and regulation by a number of governmental authorities, which may include

alcoholic beverage control, smoking laws, health and safety and fire agencies. Difficulties in obtaining or failures to obtain the required licenses or approvals, or loss thereof, could harm the operating results of the Company, or its ability to acquire additional restaurants.

### ***Restrictions on Change in Control***

The Franchise Agreement provides that the Company may not, directly or indirectly, without first obtaining the Franchisor's written approval, permit any sale, transfer, gift, charge or pledge by any party of any partnership units in Prizm LP or shares in the GP, issue any new partnership units in Prizm LP or shares in the GP to any party who is not a partner of Prizm LP or a shareholder of the GP, respectively, at the closing of the Offering, permit a change of control in the Company or permit any reconstruction, reorganization, amalgamation or other material change in the structure or financial condition of the Company. If the Company does not comply with these restrictions, then the Franchisor may, at its option, terminate the Franchise Agreement. The Franchisor may also, at its option, immediately terminate the Franchise Agreement by notice in writing to the Company in the event that a "take-over bid", as defined in the Securities Act (Ontario), is made for the Units of the Fund (or any other securities of the Fund that are outstanding from time to time) or the Trust Units of the Trust (or any other securities of the Trust that are outstanding from time to time), or in the event that a "change of control" (as defined in the Franchise Agreement) occurs with respect to either the Fund or the Trust, or in the event any reconstruction, reorganization, amalgamation or other material change in the structure of either the Fund or the Trust occurs. As a result of these limitations, and as a result of "change of control" restrictions in each of the Term Facility and the Operating Facility (each as hereinafter defined) the Franchisor and the lenders under the Term Facility and the Operating Facility respectively, will each be able to effectively restrict the ability of any Person to acquire control of the Company or the Fund without prior approval. (For the purposes of this Annual Information Form, "Person" means a natural person, partnership, limited partnership, limited liability partnership, corporation, joint stock company, trust, unincorporated association, limited liability company, joint venture or other entity or governmental or regulatory authority or entity.)

The Trust Indenture providing for the issuance of Debentures (the "**Trust Indenture**") provides that upon the occurrence of a change of control involving the acquisition of voting control or direction over 66-2/3% or more of the Units of the Fund, the Fund will be required to make an offer to purchase, within 30 days following the consummation of the change of control, all of the Debentures at a price equal to 101% of the principal amount thereof plus accrued and unpaid interest.

### ***Leases and Lease Renewal***

The Company Restaurants are comprised of 433 leased restaurants. The majority of leases are long term, with the average term being over 12 years (assuming the exercise of all renewal options). The leases often provide for a right of renewal, provided that the lessee remains in compliance with the terms of the lease. Notwithstanding compliance, there is no guarantee that the Company will be able to renew such leases on favourable terms. The potential loss of prime restaurant locations would have an adverse effect on the financial performance, financial results and operating results of the Company and the Fund. A total of 186 of the Company Restaurants are leased from Scott's REIT. A further 6 properties which are leased from Scott's REIT have been either assigned or sub-leased to other tenants, or are in the process of being marketed for assignment.

### ***Environmental Matters***

The Company (as operator and tenant of the real properties associated with the Company Restaurants) is subject to various federal, provincial and local laws and regulations relating to environmental matters. Under various environmental laws and regulations, a current or previous owner or operator of real property may be liable for the costs of removal or remediation of hazardous or toxic substances on, under or in such property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. Contamination for which the Company may be liable could include historic contamination and spills caused by former tenants or prior owners of the property or neighbouring property that generated or used contaminants in the course of their regular business operations. The Company is aware that 37 Company Restaurants are located on properties that may have been, or presently are, associated with petroleum product storage, dispensing or vending, and that 4 Company Restaurants are located on properties that have been assessed a moderate risk of soil and groundwater contamination following a preliminary site investigation. Environmental laws and regulations can change rapidly and the Company may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have a material adverse affect on the Company's business, financial condition or results of operation.

### ***Ability to Locate and Secure Acceptable Restaurant Sites***

The success of the Company Restaurants is significantly influenced by location. There can be no assurance that current locations will continue to be attractive, or additional locations can be located and secured, as demographic patterns change. It is possible that the current locations or economic conditions where Company Restaurants are located could decline in the future, resulting in

potentially reduced sales in those locations. There is also no assurance that further sites will produce the same results as past sites.

### ***Uninsured and Underinsured Losses***

The Company will use its discretion in determining amounts, coverage limits and deductibility provisions of insurance, with a view to maintaining appropriate insurance coverage on its assets at a commercially reasonable cost and on suitable terms. This may result in insurance coverage that, in the event of a substantial loss, would not be sufficient to pay the full current market value or current replacement cost of its assets.

### **Risks Related to the Structure of the Fund**

#### ***Dependence of the Fund on the Trust and the Company***

The cash distributions to the Unitholders are entirely dependent on the ability of the Trust to pay its interest obligations under the Trust Notes, and to make distributions on the Trust Units. Payments by the Trust depend, in turn, on the ability of the Company to satisfy its debt service obligations under the Term Facility and Prizm LP's ability to pay distributions on the Ordinary LP Units.

Distributions to the Unitholders are entirely dependent on the ability of the Company to pay its operating expenses and to pay distributions. The sole source of cash flow of the Company is the operation of the Company. In the conduct of the business of the Company, it pays expenses and incurs debt and obligations to third parties, including significant maintenance capital expenditures and upgrade and renovation expenditures required under the Franchise Agreement. These expenses, debts and obligations could impact the ability of the Company to produce positive operating results.

The Company is entirely dependent upon the operations and assets of the Company Restaurants to pay distributions to the Trust, and the Company's ability to do so is subject to the risks encountered by the Company in the operation of its business, including the risks relating to the QSR industry referred to above, and the results of operations and financial condition of the Company.

#### ***Term Facility, Debentures and Restrictive Covenants***

The Company has third party debt service obligations under a \$75.6 million term facility (the "**Term Facility**"), and the \$30 million Convertible Debentures. The degree to which the Company is leveraged could have important consequences to the holders of the Units, including that a portion of the Company's cash flow from operations will be dedicated to the payment of principal and interest, thereby

reducing funds available for distribution to the Fund. The Company's ability to make scheduled payments of principal and interest on, or to refinance, its indebtedness will depend on its future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control.

The Term Facility contains numerous restrictive covenants that limit the discretion of Management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of the Company to incur additional indebtedness, to create liens or other encumbrances, to pay distributions or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. A failure to comply with the obligations in the agreements in respect of the Term Facility could result in an event of default which, if not cured or waived, could permit acceleration of the relevant indebtedness. If the indebtedness under the Term Facility were to be accelerated, there can be no assurance that the Company's assets would be sufficient to repay in full that indebtedness.

The Company is increasingly dependent upon the availability of credit facilities as it heads into a period of significant financing activity, at a time when credit availability is curtailed due to the recent global economic contraction. The forecast investment required for franchise renewals and related capital is substantial. These obligations increase the Company's credit requirements in the near to mid-term. The performance of the business and in particular Same Store Sales and profits will significantly impact the ability to refinance the business.

The Company has two tranches of the Term Facility that had required payments of interest only during their 5 year term: \$73.6 million that matures in January 2011 and \$2.0 million maturing November 2011. At the end of 2009, the Company sold its food processing facility located in Toronto for gross proceeds of \$11.5 million. Upon further negotiation with the Company's lender, and in light of the performance of the business, the net cash proceeds from the sale of the Company's salad facility will be used solely to repay a portion of the long-term debt in 3 payments totalling \$10 million over the next 3 quarters. Upon making these payments the Company will have \$65.6 million in long-term debt. The Company has agreed to repay all obligations by December 31, 2010 and is precluded from making distributions or any further purchases under its normal course issuer bids. After the \$10 million pre-payment, the total refinancing amount in the near term is approximately \$96 million, including the \$30 million in Convertible Debentures which mature June 30, 2012.

Management is actively engaged in securing replacement credit facilities. While discussions are proceeding with numerous lenders and term sheets have been

presented, in the current economic environment and with recent operating performance of the business and the KFC brand in Canada, there is no certainty as to the amount and terms of credit that may be available. The Trustees are currently considering hiring an investment banking firm to assist in the refinancing effort and to further continue investigations into various capital reorganization options available to the Company including any changes to the business structure, driven by legislated change in income tax treatment which will apply to income trusts in 2011.

From March 26, 2009 the Company maintained a \$5 million operating facility, which expired and was allowed to lapse at January 31<sup>st</sup>, 2010, subsequent to year end. With the increased demands on cash, articulated above, the Company may find it needs an operating facility in the future to meet seasonal requirements. Due to total debt leverage it may be difficult to obtain such a facility.

### ***Cash Distributions are Not Guaranteed and Will Fluctuate***

Although the Fund distributes the income earned by the Fund less expenses of the Fund and amounts, if any, paid by the Fund in connection with the redemption of Units, there can be no assurance regarding the amounts of income to be generated by the Fund or the Company. The actual amount distributed in respect of the Units will depend upon numerous factors, including profitability, fluctuations in working capital, the sustainability of margins, capital expenditures, upgrade and renovation expenditures. Pursuant to the latest amendment to its long-term debt facility, the Company is precluded from making distributions.

### ***Nature of Units***

Securities such as the Units share certain attributes common to both equity securities and debt instruments. The Units do not represent a direct investment in the Trust or the Company and should not be viewed by investors as units in the Trust or the Company. As holders of Units, Unitholders do not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. The Units represent a fractional interest in the Fund. The Fund's only assets are the Series 1 Trust Notes and the Trust Units. The price per Unit is a function of anticipated distributable cash of the Fund.

### ***Restrictions on Potential Growth***

The payout by the Company of substantially all of its operating cash flow will make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of such funds could limit the future growth of the Company and the related cash flow to the Fund.

### ***The Fund May Issue Additional Units Diluting Existing Unitholders' Interests***

The Declaration of Trust authorizes the Fund to issue an unlimited number of Units and Special Voting Units for such consideration and on such terms and conditions as shall be established by the Trustees without the approval of any Unitholders. Additional Units will be issued by the Fund upon the exchange of the Exchangeable LP Units and Subordinated LP Units.

### ***Income Tax Matters***

On October 31, 2006, the Minister of Finance (Canada) announced a "Tax Fairness Plan" which, in part, proposed changes to the manner in which certain flow-through entities and the distributions from such entities are taxed. Bill C-52, the *Budget Implementation Act, 2007*, which received Royal Assent on June 22, 2007, contained rules relating to the tax treatment of SIFTS (the "SIFT Rules") which implement these proposals. Under the SIFT Rules, the Fund, as a publicly-traded income trust, is considered a SIFT and will be subject to trust level taxation as of January 1, 2011 at a rate substantially equivalent to the combined federal and provincial corporate tax rate on certain types of income. In addition, the taxable distributions received by Unitholders will be treated as dividends from a taxable Canadian corporation.

The SIFT Rules may become effective on a date earlier than January 1, 2011 if the Fund is considered to have undergone "undue expansion" during the period from November 1, 2006 to December 31, 2010, as described in the normal growth guidelines issued by the Department of Finance (Canada) on December 15, 2006, as amended (the "Normal Growth Guidelines").

The Normal Growth Guidelines indicate that the Fund will not lose the benefit of the deferred application of the new tax regime to 2011 if the equity capital of the Fund does not grow as a result of issuances of new equity (which includes Units, debt that is convertible into Units, and potentially other substitutes for such equity) before 2011 by an amount that exceeds the greater of \$50 million "de minimus" amount and an objective "safe harbour" amount based on the Fund's market capitalization as of the end of trading on October 31, 2006 (measured in terms of the value of the Fund's issued and outstanding publicly-traded Units, not including debt, options or interests that were convertible into Units, the ("October 31, 2006 Market Capitalization").

On December 4, 2008 and February 25, 2009, the Minister of Finance (Canada) announced an acceleration of both the \$50 million "de minimus" amounts and the safe harbour amounts for 2009 and 2010 such that after December 4, 2008, they became immediately available. The safe harbour rules remained cumulative such that after December 4, 2008, the maximum amount that could be issued by a SIFT

under the safe harbour rules is 100% of its October 31, 2006 Market Capitalization less the value of any units issued after October 31, 2006 (other than any issuances of units that would not be subject to the Normal Growth Guidelines).

The total amount of all previous equity issuances of the Fund, determined in accordance with the Normal Growth Guidelines, should not cause the Fund to exceed the "safe harbour" amounts for the period from November 1, 2006 to December 30, 2009. The Fund does not have any planned equity issuances that would cause the Fund to exceed the "safe harbour" amounts for the 2010 calendar year.

Although the Fund and the Company are of the view that all expenses to be claimed by them in the determination of their respective incomes under the *Income Tax Act* (Canada) (the "Tax Act") will be reasonable and deductible in accordance with the applicable provisions of the Tax Act and that the allocations of income and losses to be made for purposes of the Tax Act will be reasonable, there can be no assurance that the Tax Act or the interpretation of the Tax Act will not change, or that the Canada Revenue Agency ("CRA") will agree with the expenses claimed. If CRA successfully challenges the deductibility of expenses or the allocation of income and losses, the Company's allocation of taxable income and losses to the Trust, and indirectly the Fund and the Unitholders, will increase or change.

There can be no assurance that Canadian federal income tax law or the interpretation thereof, respecting the treatment of mutual fund trusts will not be changed in a manner which adversely affects the holders of Units. If the Fund ceases to qualify as a "mutual fund trust" under the Tax Act, income tax considerations would be materially and adversely different in certain respects.

The Fund will not be considered to be a mutual fund trust if it is established or maintained primarily for the benefit of non-residents of Canada ("Non-Residents") unless all or substantially all of its property is property other than "taxable Canadian property" as defined under the Tax Act. On September 16, 2004, the Minister of Finance (Canada) released draft amendments to the Tax Act. Under the draft amendments, the Fund would lose its status as a mutual fund trust if the aggregate fair market value of all Units held by one or more Non-Residents or partnerships that are not "Canadian partnerships" (as defined in the Tax Act) is more than 50% of the aggregate fair market value of all Units, where more than 10% (based on fair market value) of the Fund's property is "taxable Canadian property" or certain other types of property. To date, the Department of Finance (Canada) has not introduced these proposed changes in Parliament, and the Department of Finance (Canada) indicated on December 6, 2004 that the implementation of these proposals would be suspended pending further consultation with interested parties. In any event, the Fund's Declaration of Trust contains provisions intended to ensure that these tax proposals will not adversely effect the Fund.

The Declaration of Trust provides that an amount equal to the taxable income of the Fund will be payable each year to Unitholders in order to reduce the Fund's taxable income to zero. Where in a particular year, the Fund does not have sufficient distributable cash to distribute such an amount to Unitholders, the Declaration of Trust provides that additional Units must be distributed to Unitholders in lieu of cash payments. Unitholders will generally be required to include an amount equal to the fair market value of those Units in their taxable income, notwithstanding that they do not directly receive a cash payment.

Series 2 and Series 3 Trust Notes received as a result of an *in specie* redemption of Units are not qualified investments for trusts governed by Plans and their acquisition may give rise to adverse consequences to a Plan and/or an annuitant under the Plan.

### *Effect of Market Interest Rates on Price of Units*

One of the factors that may influence the price of the Units in public trading markets will be the annual cash-on-cash return from distributions by the Fund on the Units as compared to cash-on-cash returns on other financial instruments. Thus, an increase in market interest rates will result in higher cash-on-cash returns on other financial instruments, which could adversely affect the market price of the Units.

## **DISTRIBUTIONS**

The Fund suspended its distribution in 2009. In addition, in the latest amendment of its long-term debt facility the Company is precluded from making distributions. To the extent practicable, the Fund's policy is to pay monthly cash distributions on or about the 15th of each month to Unitholders of record on the last business day of the preceding month. The amount of the cash available for distribution will be equal to a pro rata share of the interest and principal repayments on the Trust Notes and the distributions (if any) on or in respect of the Trust Units owned by the Fund less:

- (i) administrative expenses and other obligations of the Fund;
- (ii) amounts which may be paid by the Fund in connection with any cash redemptions or repurchases of Units;
- (iii) satisfaction of debt service obligations of the Fund on account of both principal and interest; and
- (iv) any amount that the Trustees may reasonably consider to be necessary to provide for the payment of any costs or expenses, including any tax liability of the Fund, that have been or are

reasonably expected to be incurred in the activities and operations of the Fund (to the extent that such costs or expenses have not otherwise been taken into account in the calculation of the available distributable cash of the Fund).

The Fund may make additional distributions in excess of the aforementioned monthly distributions during the year, as the Trustees may determine. The distribution declared in respect of the month ending December 31 in each year will include such amount in respect of the taxable income and net realized capital gains, if any, of the Fund for such year as is necessary to ensure that the Fund will not be liable for ordinary income taxes under the *Tax Act* in such year.

Any income of the Fund that is unavailable for cash distribution will, to the extent necessary to ensure that the Fund does not have any income tax liability under Part I of the *Tax Act*, be distributed to Unitholders in the form of additional Units. Such additional Units will be issued pursuant to applicable exemptions under applicable securities laws, discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing.

Unitholders who are non-residents of Canada are required to pay all withholding taxes payable in respect of any distributions of income by the Fund, whether such distributions are in the form of cash or additional Units. Non-residents should consult their own tax advisors regarding the tax consequences of investing in the Units.

Under the terms of the Term Facility and the Trust Indenture, Prizm LP may not pay distributions (thereby indirectly affecting the ability of the Fund to pay distributions) if a default has occurred or if as a result of such payment a default would occur under the Term Facility or the Trust Indenture, respectively.

From November 10, 2003 to October 15, 2004 the Fund declared and paid cash distributions in the amount of 10 cents per Unit per month. On October 18, 2004 the Fund approved an increase in cash distributions to 10.5 cents per Unit per month and, on November 18, 2006, further increased cash distributions to 10.67 cents per Unit per month. In addition, the Fund declared a special dividend of \$0.06 per unit payable on January 15, 2007 to Unitholders of record on December 29, 2006. On October 18, 2007, as part of the Fund's plan to refocus and restructure its business, the Fund temporarily adjusted its distributions to Unitholders to 3 cents per Unit for each month of the fourth quarter of 2007 and withheld distributions on the Subordinated LP Units until the end of the third quarter of 2008. Commencing January 2008, the Fund increased its cash distributions to 10 cents per Unit per month. The Fund announced in July 2008 that, as part of its restructuring strategy and commitment to a longer term view of the business, sustainable growth and return on investment, it would adjust the monthly distribution from \$0.10 per Unit

to \$0.05 per Unit. As part of its objective to increase its cash position and strengthen its balance sheet in advance of its long-term loan maturity in 2011 and to fund future growth, the Trustees approved a change to Prizm's monthly distribution policy in July 2009 down to \$0.01 per unit. In November, 2009 the Fund announced a suspension of its monthly distribution in order that the Fund could increase its cash position to be in a position to meet the requirements of its lenders in future, fund the capital programs required by its franchise renewals with Yum! Restaurants International (Canada), strengthen its balance sheet and fuel future growth.

For fiscal year ended December 27, 2009, distributions have been declared and paid by the Fund per Unit in accordance with the following chart:

<u>Distribution Period</u>	<u>Distribution per Unit</u>	<u>Record Date</u>	<u>Payment Date</u>
January 2009	\$0.05	January 31, 2009	February 18, 2009
February 2009	\$0.05	February 28, 2009	March 12, 2009
March 2009	\$0.05	March 31, 2009	April 21, 2009
April 2009	\$0.05	April 30, 2009	May 20, 2009
May 2009	\$0.05	May 31, 2009	June 16, 2009
June 2009	\$0.05	June 30, 2009	July 15, 2009
July 2009	\$0.01	July 31, 2009	August 18, 2009
August 2009	\$0.01	August 31, 2009	September 15, 2009
September 2009	\$0.01	September 30, 2009	October 15, 2009
October 2009	\$0.01	October 30, 2009	November 16, 2009
November 2009	Nil	N/A	N/A
December 2009	Nil	N/A	N/A

## MARKET FOR SECURITIES

The Fund's Units are listed for trading on the Toronto Stock Exchange under the symbol "QSR.UN".

Date	Open	High	Low	Close	Volume
2009-Jan	\$2.00	\$2.30	\$1.83	\$2.20	285,300
2009-Feb	\$2.20	\$2.27	\$1.73	\$1.88	354,200
2009-Mar	\$1.98	\$2.15	\$1.60	\$1.91	631,500
2009-April	\$1.83	\$2.06	\$1.72	\$1.95	1,109,500
2009-May	\$1.95	\$2.04	\$1.76	\$1.97	936,800
2009-June	\$1.94	\$2.05	\$1.85	\$2.05	601,000
2009-July	\$2.02	\$2.05	\$1.07	\$1.15	2,726,300
2009-August	\$1.16	\$1.29	\$1.08	\$1.108	1,052,100
2009-September	\$1.09	\$1.39	\$1.02	\$1.30	1,465,800
2009-October	\$1.31	\$1.59	\$1.22	\$1.33	586,700
2009-November	\$1.30	\$1.40	\$0.81	\$1.00	1,226,500
2009-December	\$0.90	\$0.95	\$0.86	\$0.95	1,079,000

## TRUSTEES AND DIRECTORS

### Trustees of the Fund

The following table sets forth the names of the Trustees of the Fund, the date they became a Trustee and the number of voting securities beneficially owned, directly or indirectly, or over which control or direction is exercised by each of them as at the date hereof.

<u>Nominee as Trustees</u>	<u>Trustee Since</u>	<u>Voting Securities Beneficially Owned or Controlled</u> <sup>(1)</sup>
Borden D. Rosiak <i>Toronto, Ontario, Canada</i>	April 21, 2004	10,350 Units
Jay A.J. Peters <i>Burlington, Ontario, Canada</i>	October 3, 2008	10,000 Units
Stanley A. Thomas <i>Maple, Ontario, Canada</i>	September 24, 2003	137,750 Units <sup>(2)</sup>

#### Notes:

- (1) Individual nominees as Trustees have furnished information as to number of Units or Special Voting Units beneficially owned by them, directly or indirectly, or over which they exercise control or direction.
- (2) Mr. Thomas is also a holder of principal amount \$10,000 of the Fund's Series 2007 6.50% Convertible Unsecured Subordinated Debentures, which are convertible into Units at a conversion price of \$12.28 per Unit at the holder's option at any time prior to the close of business on the earlier of June 30, 2012 and the business day immediately preceding the date fixed for redemption, if any.

*Borden Rosiak* was the Chief Financial Officer of Crystallex International Corporation until he retired in January 2006. From 2000-2002, Mr. Rosiak served as Chief Executive Officer of Cameron Capital Corporation. Mr. Rosiak also serves as a director of another private company as well as a hospital foundation.

*Jay A.J. Peters* is the President of J. Peters & Company, a marketing and management consulting practice that focuses on clients in the retail, marketing services and consumer services industries. Prior to founding his own firm, Mr. Peters was Executive Vice President & Chief Marketing Officer of TLC Laser Eye Centers, President of Horizon International (a division of The Oshawa Group Ltd) and, for several years, he played a key leadership role in the growth of Wendy's Restaurants of Canada. Currently, Mr. Peters is also a director of Forzani Group Ltd. and a number of private and not-for-profit organizations.

*Stanley A. Thomas* was the President and Chief Operating Officer of Shoppers Drug Mart Inc. until he retired in 2001. Mr. Thomas is currently an investor, shareholder and director of several private companies and continues to serve the community on volunteer boards.

## Directors of the Administrator

The following table sets forth the names of current directors of the Administrator, the date they became a director and the number of voting securities beneficially owned, directly or indirectly, or over which control or direction is exercised by each of them as at the date hereof.

<u>Directors of the Administrator</u>	<u>Director Since</u>	<u>Voting Securities Beneficially Owned or Controlled</u> <sup>(1)</sup>
John I. Bitove <sup>(2)</sup> <i>Toronto, Ontario, Canada</i>	September 24, 2003	189,842 Units and 10,270,000 Special Voting Units
David Deno <i>Louisville, Kentucky, USA</i>	February 1, 2010	Nil
Borden D. Rosiak <sup>(3)(4)</sup> <i>Toronto, Ontario, Canada</i>	April 21, 2004	10,350 Units
Jay A.J. Peters <i>Burlington, Ontario, Canada</i>	October 3, 2008	10,000 Units
Stanley A. Thomas <sup>(3)(6)</sup> <i>Maple, Ontario, Canada</i>	September 24, 2003	137,750 Units

### Notes:

- (1) Individual Directors have furnished information as to number of Units and Special Voting Units beneficially owned by them, directly or indirectly, or over which they exercise control or direction.
- (2) Mr. Bitove is the majority owner of Obelysk Inc., which holds 10,270,000 Special Voting Units.
- (3) Mr. Deno replaced Lilly Di Massimo as a Director on February 1, 2010. He was also appointed as Vice Chair.
- (4) Trustee of the Fund.
- (5) Chair of the Audit Committee and member of the Compensation Committee and the Governance Committee.
- (6) Chair of the Compensation Committee and member of the Audit Committee and the Governance Committee.
- (7) Chair of the Governance Committee and member of the Audit Committee and the Compensation Committee.

*John I. Bitove* was appointed as the Chairman and Chief Executive Officer of the Administrator on November 10, 2003 and in April 2008 was appointed Executive Chairman. Mr. Bitove is also the Executive Chairman of Canadian Satellite Radio Holdings Inc., which operates XM Canada, a subscription-based satellite radio service, the Chairman and controlling shareholder of DAVE Wireless, and the asset and property manager of Scott's Real Estate Investment Trust ("**Scott's REIT**"), the owner of approximately 207 retail properties across Canada.

*David Deno* was appointed as a Director and the Vice Chair of the Administrator on February 1, 2010. David is currently the CFO of Best Buy International. Prior to

joining Best Buy Mr. Deno spent 25 years in the food and restaurant business in various senior finance and operations positions including PepsiCo, YUM! Brands and Burger King. Mr. Deno also serves on the boards of Peet's Coffee & Tea, Inc. and NXT Nutritionals Holdings, Inc.

Messrs. Bitove and Deno have held the principal occupation set forth above, or other executive offices within the same firm or its affiliates, for the past five years.

The information as to principal occupation for each of Messrs. Rosiak, Peters and Thomas is set out under the heading "Trustees and Directors - Trustees of the Fund".

### Executive Officers of the Administrator

The following table sets out the names of and certain additional information for each of the current executive officers of the Administrator.

<b>Name and Municipality of Residence</b>	<b>Title</b>	<b>Ownership or Control over Voting Securities</b>
John I. Bitove <sup>(1)</sup> Toronto, Ontario, Canada	Chairman and Chief Executive Officer, Administrator	189,842 Units and 10,270,000 Special Voting Units
Steve Boyack <sup>(2)</sup> Mississauga, Ontario, Canada	Chief Financial Officer, Administrator	15,000 Units
(resigned)		
Deborah Papernick Thornhill, Ontario Canada	Chief Financial Officer, Administrator	7,746 Units
Steve Langford <sup>(3)</sup> Toronto, Ontario, Canada	President, Administrator	23,041 Units
(resigned)		
Jim Robertson Newmarket, Ontario, Canada	Chief Operating Officer, Administrator	20,000 Units
Corey Goodman Toronto, Ontario, Canada	Chief Purchasing Officer Administrator	21,735 Units

(1) Mr. Bitove is the majority owner of Obelysk Inc., which holds and 10,270,000 Special Voting Units.

(2) Mr. Boyack resigned from his position as Chief Financial Officer of the Administrator effective October 2, 2009.

(3) Mr. Langford resigned from his position as President KFC/Taco Bell of the Administrator effective December 27, 2009.

*John I. Bitove* was appointed as the Chairman and Chief Executive Officer of the Administrator on November 10, 2003 and in April 2008 was appointed Executive Chairman. Mr. Bitove is also the Chairman and controlling shareholder of DAVE Wireless and the Executive Chairman of Canadian Satellite Radio Holdings Inc., which operates XM Canada, a subscription-based satellite radio service, and the asset and property manager of Scott's Real Estate Investment Trust ("**Scott's REIT**"), the owner of approximately 207 retail properties across Canada

**Jim Robertson:** Jim is the former Director of Operations for Tim Hortons in Quebec. He was hired as Vice President of Ontario Operations for Prizm in 2007 and promoted to Vice President of National Operations in 2008. He was promoted to Chief Operating Officer of the Administrator in 2009.

**Deborah Papernick:** Deborah is the Chief Financial Officer of the Administrator. Prior to that she served as Vice-President of Business Development and Strategy from April 2008 to October 2009. She previously served as Sr. Director of Financial Analysis of the Administrator since November 2003.

**Corey Goodman:** Corey is the Chief Purchasing Officer and Legal Counsel of the Administrator, a post he has held since May, 2008. He previously served as Vice-President of Development and Legal Affairs since November 2003.

Collectively, the Trustees of the Fund and the directors and officers of the Administrator, beneficially own, directly or indirectly, or exercise control or direction over a total of 10,647,423 Units and Special Voting Units, representing approximately 42% of the outstanding Units on a fully diluted basis, assuming the conversion of all Subordinated LP Units and Exchangeable LP Units into Units.

## **Governance of the Fund**

### ***Administration Agreement***

The directors and officers of the Administrator are responsible for administering the Fund and its business in accordance with the Administration Agreement.

Under the Administration Agreement, the Administrator agreed to provide or arrange for the provision of services required in the administration of the Fund, including those necessary to: (a) ensure compliance by the Fund with its continuous disclosure obligations under applicable securities legislation; (b) provide investor relations services; (c) provide or cause to be provided to Unitholders all information to which Unitholders are entitled under the Declaration of Trust; (d) convene meetings of Unitholders and distribute required meeting materials; (e) provide for

the calculation of distributions to Unitholders; (f) attend to all administrative and other matters arising in connection with any redemptions of Units; (g) ensure compliance with the Fund's limitations on non-resident ownership; and (h) provide general accounting, bookkeeping and administrative services to the Fund.

The administration of the Fund by the Administrator under the Administration Agreement may be terminated at any time by the Fund upon notice in writing to the Administrator and upon payment to the Administrator of all costs and expenses incurred by the Administrator in terminating contracts entered into by the Administrator with the approval of the Fund for the performance by the Administrator of its duties under the Administration Agreement. The Fund will pay all expenses incurred by the Administrator and attributable to the exercise of its duties in the administration of the Fund and no fee is payable to the Administrator for the services provided by it to the Fund under the Administration Agreement.

## MATERIAL CONTRACTS

The Fund has amended or entered into the material contracts summarized below since the beginning of the 2009 fiscal year. In addition to such material contracts, the (final) prospectus of the Fund dated October 31, 2003, as well as the Fund's other publicly filed disclosure documents, contain summaries of the Fund's other material contracts, and are hereby incorporated by reference.

**Fourth, Fifth, Six and Seventh Amending Agreements to Credit Agreement (the "Amended Credit Agreement"), dated March 26, 2009, April 28, 2009, November 9, 2009 and December 29, 2009 respectively, between KIT Finance Inc., Prizm Inc., and the National Bank of Canada as Lender and Administrative Agent.**

The Fund has obtained an operating facility of up to \$10,000,000 (decreasing to \$5,000,000 in March 2009) to be loaned to Prizm LP for certain permitted expenditures and investments of Prizm LP pursuant to a credit agreement dated as of December 21, 2006 among KIT Finance Inc., Prizm Inc., in its own capacity and in its capacity as general partner for and on behalf of Prizm LP, the financial institutions party thereto, as lenders, National Bank of Canada, as administrative agent, and National Bank Financial Inc., as lead arranger and sole bookrunner, as amended by a first amending agreement to credit agreement dated as of June 21, 2007, a second amending agreement to credit agreement dated as of February 29, 2008, a third amending agreement to credit agreement dated as of September 7, 2008, a fourth amending agreement to credit agreement dated as of March 26, 2009, a fifth amending agreement to credit agreement dated as of April 28, 2009, a sixth amending agreement to credit agreement dated as of November 9, 2009 and a seventh amending agreement to credit agreement dated as of December 29, 2009. The credit facility expired on January 31, 2010.

**Sixth and Seventh Amendments to Note Purchase and Private Shelf Agreement (the “Note Purchase and Private Shelf Agreement”), dated March 26, 2009 and December 22, 2009 respectively, between KIT Finance Inc., Prizm Inc., and Prudential Investment Management Inc.**

KIT Finance Inc. entered into a note purchase and private shelf agreement dated January 12, 2006 with Prudential Investment Management, Inc. (“**Prudential**”), each Prudential affiliate a party thereto, such other Prudential affiliates which become bound by certain provisions of the agreement as thereafter provided, and Prizm Inc., as amended by (i) Amendment No. 1 to the Note Purchase and Private Shelf Agreement, dated as of January 31, 2006, (ii) Amendment No. 2 to the Note Purchase and Private Shelf Agreement, dated as of July 11, 2006, (iii) Amendment No. 3 to the Note Purchase and Private Shelf Agreement, dated as of June 21, 2007, (iv) Amendment No. 4 to the Note Purchase and Private Shelf Agreement dated as of February 29, 2008, (v) Amendment No. 5 to the Note Purchase and Private Shelf Agreement dated as of September 7, 2008, and (vi) Amendment No. 6 to the Note Purchase and Private Shelf Agreement dated as of March 26, 2009, (vii) Waiver and Amendment No. 7 to the Note Purchase and Private Shelf Agreement dated as of December 22, 2009 whereby it has issued amended and restated series A senior secured notes due January 13, 2011 in an aggregate amount of \$73,596,400 and an amended and restated senior secured guaranteed note in the amount of \$2,036,700 due November 11, 2011.

**Eighth Amendment to Note Purchase and Private Shelf Agreement (the “Note Purchase and Private Shelf Agreement”), dated March 12, 2010, between KIT Finance Inc., Prizm Inc., and Prudential Investment Management Inc.**

KIT Finance Inc. entered into a note purchase and private shelf agreement dated January 12, 2006 with Prudential Investment Management, Inc. (“**Prudential**”), each Prudential affiliate a party thereto, such other Prudential affiliates which become bound by certain provisions of the agreement as thereafter provided, and Prizm Inc., as amended by (i) Amendment No. 1 to the Note Purchase and Private Shelf Agreement, dated as of January 31, 2006, (ii) Amendment No. 2 to the Note Purchase and Private Shelf Agreement, dated as of July 11, 2006, (iii) Amendment No. 3 to the Note Purchase and Private Shelf Agreement, dated as of June 21, 2007, (iv) Amendment No. 4 to the Note Purchase and Private Shelf Agreement dated as of February 29, 2008, (v) Amendment No. 5 to the Note Purchase and Private Shelf Agreement dated as of September 7, 2008, (vi) Amendment No. 6 to the Note Purchase and Private Shelf Agreement dated as of March 26, 2009, (vii) Waiver and Amendment No. 7 to Note Purchase and Private

Shelf Agreement dated as of December 22, 2009 and (viii) Amendment No. 8 to Note Purchase and Private Shelf Agreement dated as of March 12, 2010, whereby it has issued amended and restated series A senior secured notes due January 13, 2011 in an aggregate amount of \$73,596,400 and an amended and restated senior secured guaranteed note in the amount of \$2,036,700 due November 11, 2011, and has obtained a waiver in respect of certain financial covenants and an amendment to its long term debt and operating facilities for the fourth quarter of 2009.

**Master Franchise Agreement Amendment Agreement dated November 26, 2009 between Yum! Restaurants International (Canada) Company and Prizm LP.**

The Company entered into a Master Franchise Agreement dated effective November 10, 2003 (the "**Original Agreement**") with the Franchisor, whereby terms and conditions of the franchisor/franchisee relationship between the parties were established, as amended by the Master Franchise Agreement Amendment Agreement dated November 26, 2009 (the "**MFAAA**"). The MFAAA covers the renewal terms of 69 locations in 2009. For 2010, pursuant to the MFAAA the Franchisor and the Company agreed to a planned spend of a minimum of \$15 million to a maximum of \$16.5 million to complete the upgrade projects on 75 restaurants to satisfy renewal requirements. The Franchisor further required that the cost of the 2011 upgrades for renewal of franchise agreements would be in the same range but will be subject to approval by the franchisee's Trustees and the Board of Directors and that the number of restaurants to be upgraded could be in the range of 55 to 80 restaurants. Future franchise renewals may be dependent on the Company meeting the investment obligations as required by the Franchisor. The Franchisor may require locations and agreements that are not renewed to close. The Company may also elect to close restaurants upon franchise term expiry if management assesses that they have minimal or negative cash flow and/or if the capital requirements of the Franchisor do not provide an adequate return on investment. The Fund expects to close at least ten under-performing restaurants in 2010 and employs a practice of ongoing asset strategy review and as a result may choose to close more restaurants in 2010 and any number of restaurants in the future. The performance of the business and in particular Same Store Sales and profits will significantly impact the ability to be able to complete these expenditures.

## **AUDIT COMMITTEE**

### **Audit Committee Charter**

The charter of the Audit Committee is incorporated in this Annual Information Form by reference to the Fund's Annual Information Form dated March 8, 2006, which can be accessed through [www.sedar.com](http://www.sedar.com).

### **Composition of Audit Committee**

The audit committee of the Fund consists of Borden Rosiak (Chair), Stanley Thomas and Jay Peters. Each member of the audit committee is independent and does not receive, directly or indirectly, any compensation from the Fund other than for service as a member of the board of Trustees and its committees. All members of the audit committee are financially literate as defined under Multilateral Instrument 51-110 – Audit Committees. In considering the criteria for determining financial literacy, the board looks at the ability of a director to read and understand a balance sheet, an income statement and cash flow statement.

### **Relevant Education and Experience of Audit Committee Members**

In addition to each member's general business experience, the education and experience of each audit committee member that is relevant to the performance of his or her responsibilities as an audit committee member is as follows: Borden Rosiak, a Chartered Accountant who possesses a B.A. Sc, is the former Chief Financial Officer of Crystallex International Corporation. From 2000-2002, he served as Chief Executive Officer of Cameron Capital Corporation. Stanley Thomas, B.A., M.B.A., was the President and Chief Operating Officer of Shoppers Drug Mart Inc. until he retired in 2001. Mr. Thomas is currently an investor, shareholder and director of several private companies and continues to serve the community on volunteer boards. Jay A.J. Peters is the President of J. Peters & Company, a marketing and management consulting practice that focuses on clients in the retail, marketing services and consumer services industries. Mr. Peters is also a director of Forzani Group Ltd. and a number of private and not-for-profit organizations.

## Audit Fees

### *Audit Fees*

Audit fees payable to PriceWaterhouseCoopers LLP in 2009 and 2008 were:

	<i>Year Ended December 31, 2009</i>	<i>Year Ended December 31, 2008</i>
<i>Audit Fees</i>	<b>\$370,000</b>	<b>\$413,000</b>

### *Audit-Related Fees*

There were no Audit-Related fees payable to PriceWaterhouseCoopers LLP in 2009 and 2008.

### *Tax Fees*

Tax fees payable to PriceWaterhouseCoopers LLP in 2009 and 2008 were:

	<i>Year Ended December 31, 2009</i>	<i>Year Ended December 31, 2008</i>
<i>Tax Fees</i>	<b>\$30,000</b>	<b>\$26,000</b>

### *All Other Fees*

Other fees payable to PriceWaterhouseCoopers LLP in 2009 and 2008 were:

	<i>Year Ended December 31, 2009</i>	<i>Year Ended December 31, 2008</i>
<i>Other Fees<sup>(1)</sup></i>	<b>\$538,807<sup>(1)</sup></b>	<b>\$117,000</b>

#### Notes:

(1) Other fees for 2009 included fees paid in respect of consulting services in connection with the disposition of the Company's salad production facilities, IFRS consulting and project work associated with prospective changes to corporate structure.

## INTEREST OF EXPERTS

PricewaterhouseCoopers LLP are the auditors of the Fund and have advised that they are independent with respect to the Fund within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

## INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Except as otherwise disclosed in this Annual Information Form or below, the Trustees are not aware of any material interest of any Trustee of the Fund, or director or officer of the Administrator, or any Unitholder who beneficially owns more than 10% of the Units, or any known associate or affiliate of these persons, in any transaction since the beginning of the 2007 fiscal year or in any proposed transaction that has materially affected or would materially affect the Fund.

The Company does business with several related parties. The related parties are:

**Obelysk Inc.:** John I. Bitove, Executive Chairman of the Administrator and the principal operator of the Prizm Restaurants, is a controlling shareholder and current Chairman of Obelysk which holds an approximate 40% interest in the Company. At December 27, 2009 the Company leased 3 properties from Obelysk.

**Scott's Real Estate Investment Trust ("Scott's REIT"):** The Company leases 190 locations from Scott's REIT. Obelysk Inc. holds approximately a 24.4% ownership interest in the Scott's REIT.

**Canadian Satellite Radio Holdings Inc. ("CSRI"):** John I. Bitove, Executive Chairman of the Administrator and the principal operator of the Prizm Restaurants, is the Executive Chairman and a controlling shareholder of CSRI. The Company has entered into advertising arrangements with CSRI and purchases CSRI satellite radio service for use in 63 of its restaurant dining rooms.

**Data & Audio Visual Enterprises Wireless Inc. ("DAVE"):** John Bitove, Chairman of the Administrator, is the Chairman and controlling shareholder of DAVE.

The Company provides certain accounting, leasing, payroll and administrative services to Obelysk, Scott's REIT, DAVE and CSRI and receives and makes reimbursement of costs incurred by each party on the others behalf.

The Company has no other significant or regular activities with related parties.

The Fund has provided a limited recourse guarantee and a pledge agreement in respect of KIT Finance Inc.'s obligations under (i) senior secured notes due

January 13, 2011 and senior secured notes due November 11, 2011; and (ii) a credit agreement providing for the borrowing of \$10 million, with both such obligations secured by a pledge of the unsecured notes and units issued by Prizm Canadian Operating Trust to the Fund. Prizm Finance is an affiliate of the Fund within the meaning of applicable securities laws.

## **TRANSFER AGENTS AND REGISTRARS**

The transfer agent and register for the Fund is Computershare Investor Services Inc., with offices located in Toronto.

## **ADDITIONAL INFORMATION**

Additional information, including trustees', directors' and officers' remuneration and indebtedness, principal holders of the Fund's securities, and securities authorized for issuance under equity compensation plans, if applicable, is contained in the Fund's Management Information Circular prepared in connection with the Fund's annual meeting of Unitholders to be held on June 14, 2010. Additional financial information is provided in the Fund's financial statements and management discussion and analysis for its most recently completed financial year. A copy of any such documents and this Annual Information Form may be obtained from the Chief Financial Officer or the Director, Corporate and Legal Affairs of the Administrator, upon request, at 101 Exchange Avenue, Vaughan, Ontario L4K 5R6.

Additional information relating to the Fund may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Additional financial information is provided in the Fund's financial statements and MD&A for the year ended December 27, 2009 and can be found at [www.sedar.com](http://www.sedar.com).